6 September 2018

MELROSE INDUSTRIES PLC

UNAUDITED RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

Melrose Industries PLC today announces its interim results for the six months ended 30 June 2018.

Highlights

Proforma results assume that GKN plc ("GKN") was owned for the full six month period, adjusted results and statutory results only include GKN for the 73 day period from 19 April 2018 when it was acquired by Melrose.

	Proforma[1] results £m	Adjusted[2] results £m	Statutory results £m
Revenue	6,203	3,062	2,937
Operating profit/(loss)	501	280	(256)
Profit/(loss) before tax	401	240	(303)
Profit/(loss) after tax	307	184	(276)
Diluted earnings per share	6.3p	5.8p	(8.9p)
Average number of shares for diluted EPS (million)	4,858	3,045	3,045

- Melrose is trading in line with the Board's expectations for 2018
- The statutory loss occurred due to booking significant acquisition related charges but only including 73 days of trading from GKN
- The Board has declared an interim dividend of 1.55 pence per share (2017: 1.4 pence), an 11% increase on last year
- GKN offers an outstanding opportunity which is meeting the Board's expectations; no black holes found
- All GKN businesses are being managed successfully on a standalone basis, freed from head office bureaucracy and with medium and long-term improvement plans agreed
- Significant investment projects in development including:
  - a planned new global technology centre for Aerospace in the UK
  - substantial automotive factory improvements in Europe
  - state-of-the-art aerospace engine repair facility in Asia
- Whilst trading conditions in some Nortek businesses are competitive, new breakthrough technologies with exciting prospects have been developed
- Net debt is in line with expectations at £3.4 billion, with Group half year leverage being 2.4x EBITDA[3]

Christopher Miller, Chairman of Melrose Industries PLC, today said:

"Melrose is delighted with the acquisition of GKN, which has the significant potential for improvement which we identified when we made our offer. Plans have been agreed and are now being implemented to realise the full potential of GKN's world leading, but currently underdeveloped, businesses. This is an exciting opportunity for Melrose, its shareholders and all other stakeholders."

1. Proforma results, which are presented on an adjusted basis, are described in the glossary to the Interim Financial Statements and assume that GKN was owned for the full period
2. Considered by the Board to be a key measure of performance. The adjusted results are described in the glossary to the Interim Financial Statements
3. Last 12 months proforma[1] operating profit before depreciation and amortisation

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A conference call with webcast for institutional investors will be held at 12:30pm BST today. Institutional investors should register for the call and / or webcast. Please email melrosecall@montfort.london before 11am today.

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CHAIRMAN'S STATEMENT

I am pleased to report our interim results for the six months ended 30 June 2018.

RESULTS FOR THE GROUP

These interim results include statutory revenue for the Melrose Group of £2,937 million (2017: £1,086 million), an adjusted profit before tax of £240 million (2017: £131 million) and a statutory loss[1] before tax of £303 million (2017: statutory profit of £48 million).

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

GKN ACQUISITION

Having successfully navigated a high-profile offer period, we took control of GKN plc on 19 April 2018, shortly thereafter achieving the necessary threshold to delist the company on 21 May and completed all the minority shareholder protocols on 30 June. Accordingly, we now own 100% of GKN plc, which has been reregistered as a private limited company.

We moved quickly upon taking control to decentralise GKN and empower the operational management teams in accordance with the Melrose model. This is the first step in the important cultural change that, alongside our operational investments, we consider is key to securing the improvements we believe are achievable for the world class GKN businesses.

DIVIDEND

Your Board has declared an interim dividend of 1.55 pence per share (2017: 1.4 pence), which is an 11% increase on last year and will be paid on 12 October 2018 to shareholders on the register at the close of business on 14 September 2018. Your Board continues to align its dividend policy with the earnings of the Group and will use this basis to set future dividends, including for the final dividend for this year.

BOARD MATTERS

Following conversations with our key shareholders and recognising our elevation into the FTSE100 with the acquisition of GKN, your Board has determined that it is the appropriate time for the role of Chairman to become non-executive. Accordingly, to enable me to continue with Melrose in a full-time executive capacity, I will be handing over the role to Justin Dowley, our current Senior Independent Director, effective from 1 January 2019, to serve as our inaugural non-executive Chairman.

Well known to many shareholders already, Justin joined Melrose with a wealth of experience in 2011 and has made a highly valued contribution since. I look forward to working with him to achieve further success for all our stakeholders.

From January, I will be taking up the role of Executive Vice Chairman alongside David Roper and although I will have relinquished the Chairmanship to Justin, I remain fully committed to implementing the improvement opportunities we have identified in Nortek and GKN. The search for an additional non-executive director continues and we expect to be in a position to announce the successful candidate in the near future.

STRATEGY

The successful acquisition of GKN this year has been a powerful validation of the Melrose approach. Over many years we have generated superior returns for our shareholders, whilst protecting all stakeholders through the acquisition of high quality but underperforming manufacturing businesses, investing heavily to improve their operational performance before finding them the right new environment to guide them through the next stage of their development.

Throughout our ownership, we remain good and responsible stewards working for the benefit of all stakeholders, as shown most recently in the deal struck with the GKN pension scheme trustees in committing cash to better secure the future for their members, as we bring them back to properly funded schemes.

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[1] The statutory results include the full effect of GKN acquisition costs, but only the short period of GKN ownership since 19 April 2018. Equally, the comparative period for 2017 does not include results from the respective GKN businesses.

OUTLOOK

Whilst we are still in the early days of our GKN ownership, significant progress has already been made. We have significantly reduced central functions and agreed strategic plans with operational management, who are now focused on implementation. Our work with them to date has reinforced our belief in the scope for improvement in the GKN businesses as well as the timeline necessary for achieving it.

Similarly, improvements continue in the Nortek Air & Security and Other Industrial businesses, more of which is detailed in the Chief Executive's Review. Although tariffs and raw material inflation may create some headwinds, we continue to trade in line with the Board's expectations for 2018.

Christopher Miller
Chairman
6 September 2018

CHIEF EXECUTIVE'S REVIEW

Our successful acquisition of GKN plc has been the major event for the Company this year. Having tracked the business over a lengthy period, we made our approach in the belief that a change of control was necessary to reinvigorate the GKN businesses, reverse long-term underperformance versus peers and unlock their unachieved potential.

We knew this would require a change of culture and the re-energising of operations through significant targeted investment and efficiency measures and central to this would be properly motivated and engaged operational management teams.

Delivering on our promise of fast decision making, on taking control in April we immediately removed the GKN head office functions and set about decentralising its businesses in accordance with the usual Melrose approach. We engaged directly with the management teams of each of the businesses to agree their strategic plans to deliver the scale of improvement that is achievable for these world class businesses.

While our focus has been on applying the Melrose model across the GKN businesses, this has included progress on delivering the commitments we set out during the acquisition. Highlights since taking control include the approval of significant investment on research and development, including developing plans for a new Global Technology Centre near Filton and continued support for the Wing of the Future in collaboration with the National Composite Centre. We have also appointed the first independent chairman to the GKN UK pension schemes and have begun implementing our agreed funding plan so as to seek to safeguard the interests of pensioners and other members. In addition, we have set aside £10 million to establish a skills, innovation and productivity fund and expect to have invested this in the next twelve months.

We also took the opportunity to reorganise the monitoring and reporting structure of the Melrose Group into five new divisions: Aerospace, Automotive, Powder Metallurgy, Nortek Air & Security and Other Industrial. Although there is a public focus on our acquisition of GKN plc, we are also continuing with our investments and improvements in the Nortek Air & Security and Other Industrial businesses.

Further details of each division and their first half 2018 trading performance is set out below.

AEROSPACE

GKN Aerospace is a leading global multi-technology tier 1 aerospace supplier, with manufacturing locations in 14 countries and serving over 90% of the world's aircraft and engine manufacturers. It designs and manufactures innovative smart aerospace systems and components, with technologies used in aircraft ranging from the most used single aisle aircraft and the largest passenger planes in the world to business jets and the world's advanced 5th generation fighter aircraft.

On taking control, we supported management's new strategic plan to start to reorganise the business globally around its three core capabilities: Aerostructures, which accounts for more than half of GKN Aerospace's total revenue; Engine Systems, which accounts for approximately a third; and Special Technologies.

We inherited a business with challenges, particularly a loss-making business in North America with poor customer relationships. As a result, there has been an immediate concentration on 'fixing' key underperforming and historically underinvested Aerostructures sites in North America which is already delivering tangible results, both in terms of customer deliveries and stabilising key programmes. This process needs to continue and we are committed to delivering the necessary improvements including, where appropriate, rectifying long-term under investment in people, processes and capital equipment.

In the Engines business, GKN Aerospace is well placed on more than 20 major risk and revenue sharing partnerships and cutting-edge technology, such as additive manufacturing, driving confidence in its performance in the second half of 2018 and beyond. Special Technologies continues to push the boundaries of technology, including developing an innovative hydrophobic coating for cockpit windows, currently undergoing performance assessment with Airbus on flight-test aircraft.

Recognising that Asia will become the largest aerospace market by the mid-2030s, GKN Aerospace also further expanded into the region through a new fan blade repair centre in Malaysia, a new wiring facility in Pune, India, and the signing of a memorandum of understanding with Comac and AVIC in China for a new aerostructures joint venture. There have been a number of other material contract wins, such as the electrical

wiring interconnection systems and junction boxes for Boeing on the 777, 737 and P8A aircraft and the manufacture of inner core fairings for Rolls-Royce's Trent 1000 and 84,000lb-thrust Trent XWB engine programmes until 2026.

GKN Aerospace has also applied a renewed focus on technology, particularly in the UK where it is developing plans to build a Global Technology Centre near its Filton production facility. This centre will develop the next generation of composite and additive manufacturing technologies to 'Industry 4.0' standards, in support of a number of technology partnerships. GKN Aerospace will also be announcing in the coming weeks the insertion of new additive manufacturing technologies into the UK, focused on broadening the design, process and industrialisation of these exciting new technologies.

Looking at the wider market, aerospace continues to look strong in both the commercial and defence sectors, with key indicators including increasing air traffic, current aircraft orders and deliveries, oil prices and predicted aircraft requirements all looking positive. With significant improvements to come, the business is well-positioned to take advantage of these market conditions and we remain confident in GKN Aerospace's ability to deliver to expectations and to become the world class operating business that it should have always been.

AUTOMOTIVE

Our Automotive Division includes the GKN Driveline and GKN ePowertrain businesses, both leading automotive driveline technology and systems engineers utilising their global footprint to design, develop, manufacture and integrate an extensive range of driveline technologies for over 90% of the world's car manufacturers.

These businesses are market leaders in constant velocity joint systems, all-wheel drive and electric mobility and their technologies feature in everything from the smallest ultra low cost car to the most sophisticated and dynamic premium and motorsport vehicles, with capabilities spanning two-wheel drive, all-wheel drive, hybrid or pure electric vehicle architectures.

As with Aerospace, this business has world leading technologies and removing the previous central management functions is enabling a re-motivated operational management team and employees to respond in improving the performance of their business. These results for the first time disclose the investment in eDrive where it is hoped GKN can play a leading part in this exciting new move to electric vehicles. We look forward to the progress we expect to see over the coming months and years.

GKN Driveline

During 2018, the market leading GKN Driveline business has focused on driving its technology leadership, commercial excellence and rigorous plant operational efficiency. We have agreed a strategy with the business and margin improvement workstreams are now in progress, with further automation upgrades being implemented alongside capacity management, as well as an overdue £10 million investment to expand its state-of-the-art Polish facility.

The 2018 half year performance is in line with expectations due to a successful programme ramp up in the Americas and Europe. The business is reacting quickly to flex operations to mitigate some headwinds and significant effort is ongoing to secure contractual customer recovery mechanisms to cover material cost increases.

We have also initiated a joint indirect procurement initiative across this and the other core GKN businesses that will extend into 2019 and seeks to deliver significant savings and other permanent improvements.

While some improvements are already visible in the business and 2018 trading is anticipated to be in line with our expectations, the full benefit of this year's investments will be seen in 2019 and beyond.

GKN ePowertrain

GKN ePowertrain is an all-wheel drive ("AWD") systems integrator and pioneering electric powertrain ("eDrive") systems engineer with more than 725,000 electric axle drives produced to date. A pipeline of over £2.5 billion for eDrive continues to grow and we have approved a number of investments to ensure it can meet this

demand, including building a new facility in Japan, refurbishing an existing facility in Italy and opening a new facility in China intended to serve domestic customers, a key market for electric drive vehicles.

The presentation of the eTwinsterX and the front Twinster at this year's successful Wintertest was very well received by customers and commentators alike and demonstrated GKN ePowertrain's continued development of class leading technologies. We have invested further in its inverter and eMotor development, which is progressing well and it expects the first full proprietary system to be available from 2019.

On acquisition we uncovered a number of operational challenges for the business in North America. We have agreed the remediation plan with management to address these, which is being implemented along with a rigorous focus on cost control. GKN ePowertrain is well positioned with proven technology, strong customer relationships and solid growth prospects and we are continuing to invest in this opportunity.

POWDER METALLURGY

GKN Powder Metallurgy is the world's largest provider of powder metal solutions. Uniquely vertically integrated, it is a global leader in both precision powder metal parts for the automotive and industrial sectors as well as the production of powder metal.

Having consistently outperformed peers' sales growth in recent years, GKN Powder Metallurgy is also implementing a margin improvement plan to ensure its profitability better reflects its leading position. A better focus on improving this business will lead to an improved performance in the years to come.

A technology driven business, with widescale implementation of automated production processes and globally connected systems, it has unique additive manufacturing capability and design flexibility. With a culture of innovation and continuous improvement supported by three Global Innovation Centres and over 500 engineers, GKN Powder Metallurgy has a strong track record of mastering new technologies ahead of its peers.

GKN Powder Metallurgy continues to push into new geographies, establishing a new £17 million plant in Mexico with the first product expected to ship in 2019, as well as a clear acquisition strategy to further build on its leading position. The first hub of the planned additive manufacturing network in Bonn, Germany, is now fully operational, with further hubs planned in China and the US this year.

Since taking control in April, we have established that this business is performing well, with significant opportunities to grow sales and margins. It is expected to continue to outperform in core geographies including North America, Europe and China, as well as benefit from exciting acquisition prospects to expand. However, as indicated at the time of the acquisition, we intend to focus on the Aerospace and Automotive divisions over the longer term. While there is no requirement to divest the business and, as ever, there will be a focus on value creation, it is right, for the reasons set out above, to explore strategic options for this business now and we have appointed advisers accordingly.

NORTEK AIR & SECURITY

In order to better manage the Group following the acquisition of GKN, we will now monitor and report the former Nortek Air Management and Security businesses as a single division: Nortek Air & Security. The following is the 2018 interim update of the division's constituent parts: Global Heating Ventilation & Air Conditioning; Air Quality & Home Solutions; and Security & Smart Technology.

Global HVAC ('HVAC')

The HVAC leadership team continues to build on its improvements through three core initiatives: operational excellence; innovation; and sustainable profitable growth. Its Menen, Belgium, and Mercer, Pennsylvania, production facilities have been rationalised in accordance with its footprint strategy. Significant investments have continued in enhancing core product platforms and breakthrough technologies, including the launch of its StatePoint® technology for the fast growing data centre sector and its integrated CLEANSUITE® product family to capitalise on the retrofit and new construction opportunity in medical operating rooms.

HVAC has made a bright start to 2018 and we expect this to continue for the second half and beyond.

Air Quality & Home Solutions ('AQH')

Led by our chosen new management team, AQH's profitability continues to improve as a result of operational initiatives and strategic investments commenced in 2017. The consolidation of its Canadian footprint and US warehousing operations were completed in the first half of 2018, and benefits are being realised from recent automation investments at its production facility in Hartford, Wisconsin.

Sales growth was modest during the first half of 2018, but new product development remains on track, with launches expected over the next 12 months to coincide with the product line reviews of major US retailers. The business expects to continue to deliver in accordance with expectations for the full year.

Security & Smart Technology ('SST')

In the face of the increasingly competitive environments in both the growing 'DIY' and traditional security markets, SST has finalised its consolidation into a fully integrated business and moved to state-of-the-art Carlsbad, California headquarters, complete with a new R&D lab. It also acquired IntelliVision, an industry leading engineering, video and software analytics company that is expected to transform the business' technology platform as the business looks to increase smartness and connectivity of its product range through a seamless ecosystem of sensors and peripheral devices.

The first half performance of the business was materially impacted by the expected expiry of a significant volume contract with a key customer. This has nonetheless enabled the business to reshape its customer profile, improve its product mix and reduce its SKU count through discontinuation of low margin products. While market challenges are expected to continue into next year, the business is well positioned to meet them.

OTHER INDUSTRIAL

In conjunction with the creation of the new Nortek Air & Security Division, the existing Brush and Ergotron businesses have been consolidated with the GKN Off-Highway Powertrain and GKN Wheels & Structures businesses to form the Other Industrial Division. They continue to be run as separate businesses.

Brush

While the Hawker Siddeley Switchgear business has performed well in the first half of the year, the rest of the business continues to be adversely impacted by the overall challenges and uncertainties within the power generation market, which remains far below its previous peak in 2011.

The restructuring of its Brush Generator production is progressing well and is expected to be materially complete by the end of 2018, with costs and benefits in line with expectations. Nonetheless, trading conditions remain extremely challenging and consequently all parts of the business remain under review to ensure the correct actions are taken for the long-term future of the business.

Ergotron

Despite experiencing some market and operational challenges over the past year, Ergotron remains a high quality, design-focused business. Ergotron has a robust pipeline of new products launching in the back half of 2018 and early 2019 that will drive its growth and capture market share, especially in the fast-growing healthcare market as well as the office market.

Operationally, there has been a continued focus on cost reduction initiatives in all areas of Ergotron's business to maintain margins. The improvements made through Ergotron's strategic focus on key product categories and sales channels, supported by a fresh marketing approach, means the business is well positioned for future developments.

GKN Off-Highway Powertrain ('OHP')

OHP is a leading supplier of engineered power transmission products, systems and service solutions to the world's leading off-highway and industrial equipment manufacturers driving efficiency in the agriculture, construction, mining and industrial markets, as well as providing aftermarket services for powertrain solutions.

Sales increased ahead of the market growth rate during the first half and a number of productivity and efficiency initiatives have been implemented, including further automation. With strong conditions in the agriculture and

construction industries and a solid second half order book, the business is confident about its ability to deliver on its full year expectations.

GKN Wheels & Structures (‘W&S’)

The W&S business is a leading global manufacturer of off-highway wheels for agricultural, construction, mining and industrial use, as well as metallic structures for automotive and off-highway vehicles. Having invested £30 million over the last three years, committed prior to our ownership, in its European and North American facilities, W&S has some of the most advanced manufacturing facilities in the world.

Market conditions have continued to improve since a turning point last year and the full benefit from improvement initiatives is expected to flow from next year.

Simon Peckham
Chief Executive
6 September 2018

FINANCE DIRECTOR'S REVIEW

The acquisition of GKN plc ("GKN") on 19 April 2018 significantly increased the size of the Melrose Group. Consequently, the results for the six month period ended 30 June 2018 include 73 days of trading for GKN and cannot be compared in a meaningful way to the six month period ended 30 June 2017, which did not include any trading for GKN.

ACQUISITION OF GKN

Melrose acquired GKN on 19 April 2018. Under the terms of the acquisition GKN shareholders received 1.69 new Melrose shares and 81 pence in cash for every GKN share. In addition GKN shareholders received the final GKN dividend of 6.2 pence per share which was paid in May 2018 during Melrose ownership.

Transaction costs of £126 million, 1.2% of the enterprise value, along with associated acquisition related taxes of £53 million were incurred by Melrose in respect of the acquisition of GKN. The transaction costs included bank facility arrangement fees of £54 million which have been included within net debt to be amortised over the life of the facility and £1 million relating to the transaction cost of issuing new shares, being offset against share premium. The remaining £71 million of acquisition costs which related to general transaction fees, along with the associated acquisition taxes, are included within the Income Statement.

In accordance with IFRS 3, the consideration paid to acquire GKN in the Interim Financial Statements is calculated using the share price at the date of acquisition of £2.35 and only includes approximately 85% of the total amount paid, being the percentage of acceptances received from GKN shareholders by 19 April 2018. The remaining 15% of shares that were acquired in the period from 19 April 2018 to 30 June 2018 are treated as the purchase of non-controlling interests and are shown as a movement in equity.

Details of the banking facilities entered into to allow Melrose to acquire GKN are discussed later in this review.

GROUP SEGMENTAL SPLIT

Acquiring GKN transformed the Melrose Group, and as a consequence a new operating structure has been implemented. In accordance with IFRS 8, it is deemed appropriate that the Melrose Group now consists of five reportable segments summarised as follows:

Segments	Businesses
Aerospace	Engine Systems, Aerostructures, Special Technologies
Automotive	GKN Driveline, GKN ePowertrain, Cylinder Liners
Powder Metallurgy	GKN Powder Metallurgy
Nortek Air & Security	Air Quality & Home Solutions ("AQH"), Heating, Ventilation & Air Conditioning ("Global HVAC"), Security & Smart Technology ("SST")
Other Industrial	GKN Off-Highway Powertrain, GKN Wheels & Structures, Ergotron, Brush

MELROSE GROUP RESULTS

The statutory IFRS results, which are shown on the face of the Income Statement, include 73 days of trading for GKN and also include 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 Melrose'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").

Adjusted results, which were previously referred to, and are defined the same way as, underlying results, are shown below the statutory results on the Income Statement. 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 monitored and measured on a day-to-day basis and achieves consistency and comparability between reporting periods.

Proforma results, which include the adjusted results of the GKN businesses as if they had been acquired on 1 January 2018 and are calculated using the ongoing interest charge, the tax rate of the enlarged business and the diluted number of shares in issue at 30 June 2018, are also presented.

STATUTORY RESULTS

The statutory results for the period ended 30 June 2018 include revenue of £2,937 million (2017: £1,086 million), an operating loss of £256 million (2017: profit of £58 million), a statutory loss before tax of £303 million (2017: profit of £48 million) and diluted earnings per share ("EPS") being a loss of 8.9p (2017: profit of 2.0p).

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

ADJUSTING ITEMS

The following items have been classified as adjusting items in these Interim Financial Statements:

Restructuring and other associated costs arising from significant strategy changes totalled £128 million (2017: £25 million), including £5 million (2017: £nil) of losses incurred following the announcement of the closure of certain businesses. Restructuring costs are adjusting items due to their size and non-trading nature.

As expected, following the announcement on 1 February 2018 of the intended closure of its Dutch turbogenerator facility and the downsizing of its turbogenerator production in the UK, Brush incurred £63 million (2017: £2 million) of restructuring costs and asset write downs in the period. Restructuring costs in the period also included £44 million in respect of the early actions that are underway within the GKN businesses and the ceasing of GKN head office functions. In addition, restructuring costs within Nortek Air & Security were £16 million (2017: £23 million), which included footprint rationalisation within the HVAC business.

Acquisition and disposal costs incurred in the period include £71 million (2017: £2 million) of general transaction fees and £53 million of associated transaction taxes, predominantly in respect of the acquisition of GKN. These costs also include a small amount relating to the £26 million bolt-on acquisition of IntelliVision Inc., by the Security & Smart Technology business. These items are excluded from adjusted results due to their non-trading nature.

Melrose policy is to hedge account where possible. However, hedge accounting has not historically been applied to the GKN businesses, and this is under review. The movement in the value of derivative financial instruments (primarily forward foreign currency exchange contracts) taken out to mitigate the potential volatility of future cash flows on long-term foreign currency customer and supplier contracts, along with foreign exchange movements on the associated financial assets and liabilities, is shown as an adjusting item. The charge in the period was £123 million and is excluded from adjusted results because of its volatility and size.

Finished goods and work in progress which are present in a business when acquired, in accordance with IFRS 3, are required to be uplifted in value to closer to their selling price. As a result, in the early months of an acquisition, reduced profits are generated as this inventory is sold. This one-off effect in the period was a charge of £113 million (2017: £nil) and is excluded from adjusted results due to its size and non-recurring nature.

The amortisation of intangible assets acquired in business combinations of £38 million (2017: £41 million) is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. Where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not adjusted.

The charge for the Melrose equity-settled Incentive Plan, including its associated employer's tax charge, is excluded from adjusted results due to its size and volatility. The shares that would be issued, based on the Plan'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.

The revenue from the Group's share of equity accounted investments ("EAIs") is shown within adjusted revenue. In addition, the profits and losses of EAIs, which are shown after interest and tax in the statutory results, are adjusted to show the operating profit before interest and tax, which is consistent with the operating

profits of the subsidiaries of the Group. The revenue and profit of EAIs are adjusted because they are considered to be significant in size and are important in assessing the performance of the business.

Any items recognised as fair value items on an acquisition, which have been settled for a more favourable amount than first anticipated, are released as an adjusting item to avoid positively distorting adjusted results.

To enable the acquisition of GKN, a new bank facility was negotiated which replaced the old Group bank facility. As a result, the unamortised debt fees of the old facility, totalling £7 million, have been written off. This charge is shown as an adjusting item because of its one-off, non-trading nature.

ADJUSTED RESULTS

Adjusted results are the statutory results excluding the items described above. The adjusted measures are used partly to 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. This is also one measure used to value individual businesses as part of the "Buy, Improve and Sell" Melrose strategy model.

The adjusted results in the period ended 30 June 2018 included revenue of £3,062 million (2017: £1,088 million), an operating profit of £280 million (2017: £141 million), a profit before tax of £240 million (2017: £131 million) and adjusted diluted EPS of 5.8p (2017: 4.9p). The following table reconciles the statutory operating result to adjusted operating profit:

	2018 £m	**2017 £m**
Operating (loss)/profit	(256)	58
Restructuring costs	128	25
Acquisition and disposal costs, including associated transaction taxes	124	2
Movement in derivatives and associated financial assets and liabilities	123	-
Reversal of one-off uplift in the value of inventory in GKN businesses	113	-
Amortisation of intangible assets acquired in business combinations	38	41
Melrose equity-settled compensation scheme charges	10	17
Interest and tax on the Group's share of equity accounted investments	3	-
Release of fair value items	(3)	(2)
Adjustments to statutory operating (loss)/profit	536	83
Adjusted operating profit	**280**	**141**

The performance of each of the reportable segments is shown in note 3 of the Interim Financial Statements and the reasons for the performance are discussed in the Chief Executive's Review.

Central costs were £13 million (2017: £12 million), which included £8 million (2017: £8 million) of Melrose corporate costs, £3 million (2017: £nil) of central costs relating to the 73 day ownership of GKN and £2 million (2017: £4 million) of costs relating to the Nortek cash based long-term incentive plan.

PROFORMA GROUP RESULTS

In addition to the statutory and adjusted results described above, a proforma result for the enlarged Group, which is presented on an adjusted basis as if GKN had been owned for the full six month period, is shown below:

	Proforma 2018 £m
Revenue	6,203
Operating profit	501
Profit before tax	401
Diluted EPS	6.3p

Proforma results are described in the glossary to these Interim Financial Statements. These results are an important measure of ongoing performance in the current Group.

FAIR VALUE EXERCISE

Melrose is currently undertaking an extensive review of the GKN assets, liabilities and accounting policies. This requires a significant number of GKN site visits and the results of this review will be finalised and recognised in the second half of the year.

At 30 June 2018 provisional fair value adjustments have been processed in respect of capital market bonds and derivative instruments, the defined benefit pension schemes, freehold property valuations, leasehold property commitments, uncertain tax positions, the IFRS 3 uplift to inventory and the valuation of certain equity accounted investments.

Acquisition related intangible assets and their associated deferred tax liabilities, previously reported by GKN, have been removed from the Balance Sheet shown at 30 June 2018. A valuation of the intangible assets that existed at 19 April 2018 is underway and will be completed in the second half of the year.

TAX

The effective tax rate on adjusted profit in the period was 23% (2017: 27%). The rate has decreased primarily due to the reduction in the US Federal tax rate as part of the Tax Cuts and Jobs Act, passed on 22 December 2017. The tax rate applicable to GKN profits in the period of ownership is similar to the Melrose tax rate prior to the acquisition of GKN.

The Group paid £22 million of tax in the period (2017: £10 million).

As disclosed by GKN previously, the Group, along with a number of other companies, is seeking recovery of corporate tax and associated interest assessed on foreign dividends, which, in the Group's view, was in breach of EU law. The case continues to progress through the UK courts and the ultimate outcome of the case remains insufficiently certain to recognise an asset on the Balance Sheet at 30 June 2018. Should the Group's claim be successful, it would be able to recognise additional deferred tax assets in the UK and will receive cash payments from HMRC.

Deferred tax liabilities at 30 June 2018 are unusually low because, as mentioned in the fair value exercise section of this review, GKN's intangible assets and associated deferred tax liabilities have been removed and will be replaced in the second half of the year once the valuation of intangible assets at acquisition has been finalised.

EARNINGS PER SHARE ("EPS") AND NUMBER OF SHARES IN ISSUE

Under the terms of the acquisition of GKN, 2,469 million new Melrose shares were issued to acquire approximately 85% of the shares on 19 April 2018. Subsequently, a further 448 million new Melrose shares were issued at various dates between 19 April and 30 June 2018 to acquire the remaining 15% of GKN. The number of Melrose shares in issue has risen from 1,941 million at the beginning of the period to 4,858 million at 30 June 2018 and the weighted average number of shares in issue in the period was 3,045 million.

In accordance with IAS 33, the statutory basic and diluted EPS numbers are disclosed on the face of the Income Statement. In the period ended 30 June 2018 the diluted EPS was a loss of 8.9p (2017: a profit of 2.0p).

The adjusted diluted EPS for the period ended 30 June 2018 was 5.8p (2017: 4.9p) and the proforma diluted EPS, which is presented on an adjusted basis, as if GKN had been owned for the full six month period, was 6.3p.

ADOPTION OF IFRS 15 – IMPACT ON GKN AEROSPACE

IFRS 15: "Revenue from Contracts with Customers" was adopted on 1 January 2018 and for Melrose, at that date, the impact was not material. However, IFRS 15, which requires revenue to be allocated to performance obligations identified in a contract, had a significant impact on GKN within the Aerospace division.

The main changes in revenue recognition for GKN Aerospace following the adoption of IFRS 15 are as follows:

- An element of future variable consideration, relating to risk and revenue sharing partnerships in respect of certain engine programmes, is now allocated to the sale at point of delivery for the Original Equipment. Previously this element of revenue would have been recognised during the aftermarket stage of the engine programme. This has the effect of bringing forward the recognition point for revenue and profit on certain programmes, creating a contract asset for unbilled revenue, and separating the recognition of revenue and profit from the receipt of cash.

- Revenue from agreements with certain customers was previously recognised on delivery of product, however, due to the contractual right to compensation for costs and a margin in the event of termination, is now recognised over time as progress is made in satisfying the performance obligation. Whilst the profit associated with these contracts is relatively small, the impact on the Balance Sheet was the reclassification of a significant amount of inventory to contract assets.

- Participation fees paid to engine manufacturers have been reclassified in the Balance Sheet from intangible assets to contract assets, within other debtors. The balance will now be recognised as a reduction in revenue across the performance obligations rather than as a cost of sale.

- Indirect payments to airlines and leasing companies, where they concern the pro rata reimbursement of costs for an engine programme to the consortium leader, are now recognised as a reduction in revenue rather than as a cost of sale.

The overall impact of IFRS 15 in the Aerospace division has been to recognise a contract asset, which was £606 million at 30 June 2018, and is forecast to reduce annual revenue by approximately £80 million, mainly as a result of the netting of expenses against revenue that were previously shown within cost of sales, and to increase annual adjusted operating profit by £15 million, mainly as a result of the earlier recognition of variable consideration from risk and revenue sharing partnerships.

None of the other businesses have been materially impacted by the adoption of IFRS 15.

CASH GENERATION AND MANAGEMENT

Group net debt at 30 June 2018, translated at closing exchange rates, was £3,373 million (31 December 2017: £572 million) and does not include the fair value uplift in respect of the capital market borrowings acquired with GKN on 19 April 2018.

The movement in net debt in the period is summarised as follows:

Movement in Group net debt	**2018 £m**	**2017 £m**
At 1 January	**(572)**	**(542)**
Net debt acquired with GKN	(1,159)	-
Cash consideration for GKN (81 pence per share)	(1,362)	-
Payment of GKN 2017 final dividend	(107)	-
Acquisition costs and related transaction tax costs	(161)	(3)
Acquisition of IntelliVision	(26)	-
Cash flow from trading (after all costs including tax)	92	(117)
Dividend paid to Melrose shareholders	(54)	(36)
Foreign exchange and other non-cash movements	(24)	29
At 30 June	**(3,373)**	**(669)**

The increase in Group net debt in the period includes £1,159 million of net debt acquired with GKN. These borrowings are described later in this review.

An analysis of the cash generation performance for the period, which includes 73 days of GKN ownership in 2018 is shown in the table below:

Cash flow from trading (after all costs including tax)	2018 £m	2017 £m
Adjusted operating cash flow (pre capex)	**265**	**111**
Net capital expenditure	(87)	(21)
Net interest and net tax paid	(50)	(16)
Defined benefit pension contributions	(21)	(2)
Incentive scheme payments (including associated employer's tax)	-	(147)
Restructuring	(50)	(30)
Dividend income from equity accounted investments	64	-
Net other	(29)	(12)
Cash flow from trading (after all costs including tax)	**92**	**(117)**

The total cash outflow from operating and investing activities included cash spent on restructuring of £50 million (2017: £30 million). In addition, net capital expenditure was £87 million (2017: £21 million), representing 1.2x depreciation.

PROVISIONS

Total provisions at 30 June 2018 were £409 million (31 December 2017: £209 million). This is a significant increase from the previous year, which is to be expected given the acquisition of GKN and the £142 million of provisions acquired with the business. The following table details the movement in provisions in the period:

	Total £m
At 31 December 2017	**209**
Acquisition of GKN	142
Net charge to adjusted operating profit	27
Net charge shown as an adjusting item in the Income Statement	103
Spend against provisions	(80)
Other (including foreign exchange)	8
At 30 June 2018	**409**

The net charge to adjusted operating profit of £27 million primarily relates to warranty, product liability and workers' compensation, which are matched by similar cash payments in the year. In addition, the net charge of £103 million, included as adjusting items, primarily related to restructuring provisions recognised in the year, in particular within Brush, the GKN businesses and the footprint rationalisation within the Global HVAC businesses.

Included within other movements in provisions are foreign exchange movements and the unwind of discounting on certain provisions.

PENSIONS

The acquisition of GKN has significantly increased the IAS 19 net deficit in the Balance Sheet as at 30 June 2018, with £1,238 million of the £1,229 million Group deficit, relating to the acquired business.

At 30 June 2018 total plan assets of the Melrose Group's defined benefit pension plans were £3,418 million (31 December 2017: £525 million) and total plan liabilities were £4,647 million (31 December 2017: £543 million).

The most significant pension plans in the Group are the GKN UK 2012 and 2016 plans. The net accounting deficit on these plans was £458 million at 30 June 2018. These plans had gross assets at 30 June 2018 of £2,632 million and liabilities of £3,090 million.

The values of the Group plans were updated at 30 June 2018 by independent actuaries to reflect the latest key assumptions. A summary of the assumptions used are shown in note 12 to the Interim Financial Statements.

During the GKN acquisition process, Melrose committed to contribute £150 million to the GKN UK plans in the first twelve months of ownership, and ongoing annual contributions of £60 million. In addition, Melrose committed to contribute £270 million upon the disposal of Powder Metallurgy, 10% of any proceeds from disposals of GKN businesses and 5% of any proceeds from non-GKN businesses to the GKN UK pension plans. These commitments cease when the funding target which has been agreed with Trustees is achieved, being gilts plus 25 basis points for the GKN UK 2016 plan and gilts plus 75 basis points for the GKN UK 2012 plan.

FINANCIAL RISK MANAGEMENT

Following the acquisition of GKN the financial risks the Group faces have been reviewed and are unchanged. Policies have been implemented to appropriately deal with each risk. The most significant financial risks are considered to be liquidity risk, finance cost risk, exchange rate risk, contract and warranty risk and commodity cost risk. These are discussed in turn below.

Liquidity risk management

The Group’s net debt position at 30 June 2018 was £3,373 million (31 December 2017: £572 million).

A new multi-currency facility was entered into on 17 January 2018 to assist with the acquisition of GKN, which replaced the previous facility of US $1.25 billion. This new facility consists of a £1.5 billion term loan that runs for three years and six months and was sized to allow the flexibility to redeem the GKN bonds, and a five year multi-currency revolving credit facility, denominated as Sterling £1.1 billion, US $2.0 billion and €0.5 billion. At 30 June 2018, £385 million of the term loan was drawn, along with £1,634 million and US $684 million of the multi-currency revolving credit facility.

As with previous facilities the new facility has two financial covenants. There is a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half yearly, in June and December. The first covenant test for the new bank facility will be at 31 December 2018.

The EBITDA covenant test is set at a maximum 3.5x leverage for each of the half yearly measurement dates for the remainder of the term of the facility. The interest cover covenant is set at a minimum 4.0x throughout the life of the facility.

Following the acquisition of GKN on 19 April 2018 the net debt position of the Group increased significantly. At acquisition GKN net debt had unexpectedly increased by £270 million from 31 December 2017, predominantly because of the payment of £129 million of defence costs and a working capital outflow of £182 million which included the unwind of a creditor stretch placed on suppliers. Net debt acquired with GKN had a book value of £1,159 million.

The GKN net debt at acquisition included capital market borrowings, comprising a £350 million 6.75% annual unsecured bond maturing in October 2019, a £450 million 5.375% semi-annual unsecured bond maturing in September 2022 and a £300 million 3.375% annual unsecured bond maturing in May 2032. The coupon rate on the £300 million bond, maturing in 2032 will increase to 4.625% from May 2019. These bonds remain within the Group at 30 June 2018.

In addition, a series of cross currency swaps were acquired with GKN and were recorded as a £109 million liability at the date of acquisition. These cross currency swaps convert the £350 million 2019 bond into US $578 million with annual interest of 6.80% and the £450 million 2022 bond into US $373 million and €284 million with annual interest of 5.70% and 3.87% respectively.

There are a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group. These uncommitted facilities have been lightly used.

Cash, deposits and marketable securities amounted to £426 million at 30 June 2018 (31 December 2017: £16 million) and are offset to arrive at the Group net debt position of £3,373 million (31 December 2017: £572 million). The combination of this cash and the size of the new facility allows the Directors to consider that the Group has sufficient access to liquidity for its current needs.

The Board takes careful consideration of counterparty risk with banks when deciding where to place cash on deposit.

Finance cost risk management

The bank margin on the new bank facility depends on the Group leverage, and ranges from 0.75% to 2.0% on the term loan, and 0.95% to 2.25% on the revolving facility; as at 30 June 2018 the margin was 1.4% on the term loan and 1.65% on the revolving facility (31 December 2017: 1.35% on the Melrose committed bank debt).

The Group holds interest rate swap instruments to fix the cost of LIBOR in addition to the three GKN bonds. The profile of the interest rate swaps has been designed to hedge, after taking into account the GKN bonds, up to 70% of the interest exposure on the projected gross debt as it reduces over the five year term. Under the terms of the swap arrangements and excluding the bank margin, the Group will pay a weighted average fixed cost of c.2% until the swaps terminate on 17 January 2023.

The interest on the interest rate swaps is payable annually in arrears on 1 July. The bank margin is payable monthly. Interest on the cross currency swaps is payable annually in October for the 2019 bond and semi-annually for the 2022 bond, in March and September.

The average cost of the debt for the new enlarged Group is expected to be c.3.5% over the next 12 months.

Exchange rate risk management

The Group trades in various countries around the world and is exposed to movements in a number of foreign currencies. The Group therefore carries exchange rate risk that can be categorised into three types, transaction, translation and disposal related risk as described in the paragraphs below. The Melrose policy is designed to protect against the majority of the cash risks but not the non-cash risks.

The most common exchange rate risk is the transaction risk the Group takes when it invoices a sale in a different currency to the one in which its cost of sale is incurred. The Melrose policy has been to address this risk by taking out forward cover against approximately 60% to 80% of the anticipated cash flows over the following twelve months, placed on a rolling quarterly basis and for 100% of each material contract. To reflect the long-term nature of the contracts within the Aerospace and Automotive divisions, the period of cover is higher in these two divisions. This policy does not eliminate the cash risk but does bring some certainty to it.

The translation rate risk is the effect on the Group results in the period due to the movement of exchange rates used to translate foreign results into Sterling from one period to the next. No specific exchange instruments are used to protect against the translation risk because it is a non-cash risk to the Group, unless foreign currency is converted to Sterling. However, where the Group has net debt, the hedge of having a matching debt facility funding these foreign currency trading units protects against some of the balance sheet and banking covenant translation risk.

Lastly, and potentially most significantly for Melrose, exchange risk arises when a business that is predominantly based in a foreign currency is sold. The proceeds for those businesses may be received in a foreign currency and therefore an exchange risk may arise on conversion of foreign currency proceeds into Sterling, for instance to pay a dividend or Capital Return to shareholders. Protection against this risk is considered on a case-by-case basis.

Exchange rates used for currencies most relevant to the enlarged Group in the period are:

US Dollar	Six month average rate	73 day average (GKN businesses)	Closing rate
2018	1.38	1.35	1.32
2017	1.26	N/A	1.30
Euro			
2018	1.14	1.14	1.13
2017	1.16	N/A	1.14

For reference, in respect of the Melrose Group, an indication of the short-term exchange rate risk on adjusted operating profit, which shows both translation exchange rate risk and unhedged transaction exchange rate risk, is as follows:

Sensitivity to translation and unhedged transaction exchange rate risk	Increase in adjusted operating profit £m
For every 10 per cent strengthening of the US Dollar against Sterling	81
For every 10 per cent strengthening of the Euro against Sterling	21

The long-term exchange rate risk on adjusted operating profit, which ignores any hedging instruments, is as follows:

Sensitivity to translation and full transaction exchange rate risk	Increase in adjusted operating profit £m
For every 10 per cent strengthening of the US Dollar against Sterling	128
For every 10 per cent strengthening of the Euro against Sterling	19

The exchange rate risk on Group debt is as follows:

Sensitivity to translation exchange rate risk	(Increase) in debt £m
For every 10 per cent strengthening of the US Dollar against Sterling	(169)
For every 10 per cent strengthening of the Euro against Sterling	(56)

Contract and warranty risk management

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

Commodity cost risk management

The cumulative expenditure on commodities is important to the Group and the risk of base commodity costs increasing is mitigated, wherever possible, by passing on the cost increases to customers or by having suitable purchase agreements with suppliers which fix the price over a future period. These risks are minimised through sourcing policies, including the use of multiple suppliers, where possible, and procurement contracts where prices are agreed for up to one year to limit exposure to price volatility. On occasions, Melrose does enter into financial instruments on commodities when this is considered to be the most efficient way of protecting against price movements.

PRINCIPAL RISKS AND UNCERTAINTIES

An explanation of the principal risks and uncertainties faced by the Group, prior to the acquisition of GKN, are set out on pages 44 to 49 of the Annual Report for the year ended 31 December 2017. In summary these risks include the acquisition of new businesses and improvement strategies, the timing of disposals of businesses, economic and political risk, the risk of loss of key management, risks associated with legal, regulatory and environmental law compliance, information security and cyber threat, foreign exchange rate risk, pension risk and liquidity risk. These risks have the potential to affect the Group's results and financial position during the remainder of 2018.

Furthermore, following the acquisition of GKN, a significant workstream has commenced in order to assess the principal risks and uncertainties faced by the enlarged Group. This assessment will be completed in the second half of the year and details will be included in the Group's Annual Report for the year ended 31 December 2018. An explanation of the risks and uncertainties within the GKN businesses is set out on pages 32 to 39 of the GKN plc Annual Report for the year ended 31 December 2017. In summary these risks relate to highly competitive markets, supply chain, customer concentration, operating in global markets, laws, regulations and corporate reputation, technology and innovation, people capability, product quality, contract risk, programme management, health and safety, information systems resilience and pension funding.

Geoffrey Martin
Group Finance Director
6 September 2018

CAUTIONARY STATEMENT

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

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

RESPONSIBILITY STATEMENT

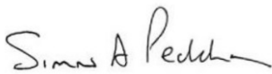
We confirm to the best of our knowledge:

a) The condensed financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting";

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
6 September 2018

Geoffrey Martin
Group Finance Director
6 September 2018

INDEPENDENT REVIEW REPORT TO MELROSE INDUSTRIES PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. 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.

Directors’ responsibilities

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

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
6 September 2018

Melrose Industries PLC
Condensed Consolidated Income Statement

Continuing operations	Notes	**6 months ended 30 June 2018 Unaudited £m**	6 months ended 30 June 2017 Unaudited £m	Year ended 31 December 2017 £m
Revenue	3	**2,937**	1,086	2,092
Cost of sales		**(2,431)**	(743)	(1,439)
Gross profit		**506**	343	653
Share of results of equity accounted investments	8	**12**	-	-
Net operating expenses		**(774)**	(285)	(660)
Operating (loss)/profit	3	**(256)**	58	(7)
Finance costs		**(51)**	(10)	(22)
Finance income		**4**	-	1
(Loss)/profit before tax		**(303)**	48	(28)
Tax	5	**27**	(10)	4
(Loss)/profit after tax for the period		**(276)**	38	(24)
Attributable to:				
Owners of the parent		**(270)**	38	(24)
Non-controlling interests		**(6)**	-	-
		(276)	38	(24)
Earnings per share				
- Basic	6	**(8.9)p**	2.0p	(1.2)p
- Diluted	6	**(8.9)p**	2.0p	(1.2)p

Adjusted Results

	Notes	6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
Adjusted revenue	3	**3,062**	1,088	2,095
Adjusted operating profit	3,4	**280**	141	279
Adjusted profit before tax	4	**240**	131	258
Adjusted profit after tax	4	**184**	95	191
Adjusted basic earnings per share	6	**5.8p**	5.0p	9.9p
Adjusted diluted earnings per share	6	**5.8p**	4.9p	9.8p

Melrose Industries PLC
Condensed Consolidated Statement of Comprehensive Income

	Notes	**6 months ended 30 June 2018 Unaudited £m**	6 months ended 30 June 2017 Unaudited £m	Year ended 31 December 2017 £m
(Loss)/profit after tax for the period		**(276)**	38	(24)
Items that will not be reclassified subsequently to the Income Statement:				
Net remeasurement gain on retirement benefit obligations		**166**	7	12
Income tax charge relating to items that will not be reclassified	5	**(25)**	-	(1)
		141	7	11
Items that may be reclassified subsequently to the Income Statement:				
Currency translation on net investments		**210**	(78)	(133)
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations		**-**	-	(1)
(Losses)/gains on cash flow hedges		**(50)**	6	9
Transfer to Income Statement on cash flow hedges		**(3)**	(2)	(4)
Income tax credit/(charge) relating to items that may be reclassified	5	**9**	(1)	(1)
		166	(75)	(130)
Other comprehensive income/(expense) for the period		**307**	(68)	(119)
Total comprehensive income/(expense) for the period		**31**	(30)	(143)
Attributable to:				
Owners of the parent		**19**	(30)	(143)
Non-controlling interests		**12**	-	-
		31	(30)	(143)

Melrose Industries PLC
Condensed Consolidated Statement of Cash Flows

Continuing operations	Notes	**6 months ended 30 June 2018 Unaudited £m**	6 months ended 30 June 2017 Unaudited £m	Year ended 31 December 2017 £m
Net cash from/(used in) operating activities	13	**6**	(99)	32
Investing activities				
Disposal of businesses		**-**	-	11
Disposal costs		**(1)**	-	-
Net cash disposed		**-**	-	(1)
Purchase of property, plant and equipment		**(80)**	(20)	(48)
Proceeds from disposal of property, plant and equipment		**3**	-	2
Purchase of computer software and capitalised development costs		**(10)**	(1)	(3)
Acquisition of subsidiaries, net of cash acquired[1]		**(1,009)**	-	(9)
Dividends received from equity accounted investments		**64**	-	-
Interest received		**4**	-	1
Net cash used in investing activities		**(1,029)**	(21)	(47)
Financing activities				
Purchase of non-controlling interests		**(179)**	-	-
Costs of issuing shares		**(1)**	-	-
Repayment of borrowings		**(803)**	-	-
New bank loans raised		**2,515**	156	56
Costs of raising debt finance		**(54)**	-	-
Repayment of finance leases		**-**	-	(1)
Dividends paid	7	**(54)**	(36)	(63)
Net cash from/(used in) financing activities		**1,424**	120	(8)
Net increase/(decrease) in cash and cash equivalents		**401**	-	(23)
Cash and cash equivalents at the beginning of the period		**16**	42	42
Effect of foreign exchange rate changes		**9**	(1)	(3)
Cash and cash equivalents at the end of the period	13	**426**	41	16

[1] Comprises consideration of £1,316 million, net of cash and cash equivalents acquired of £307 million (note 9).

As at 30 June 2018, the Group had net debt of £3,373 million (31 December 2017: £572 million). A reconciliation of the movement in net debt is shown in note 13.

Melrose Industries PLC
Condensed Consolidated Balance Sheet

	Notes	**30 June 2018 Unaudited £m**	30 June 2017 Unaudited £m	31 December 2017 £m
Non-current assets				
Goodwill and other intangible assets		**8,018**	2,451	2,238
Property, plant and equipment		**3,065**	254	219
Interests in equity accounted investments		**488**	-	-
Deferred tax assets		**508**	29	49
Derivative financial assets		**25**	7	4
Other receivables and investments		**382**	3	2
		12,486	2,744	2,512
Current assets				
Inventories		**1,566**	303	276
Trade and other receivables		**2,720**	365	332
Derivative financial assets		**20**	5	10
Current tax assets		**59**	-	-
Cash and cash equivalents		**426**	41	16
Assets held for sale		**-**	28	-
		4,791	742	634
Total assets	3	**17,277**	3,486	3,146
Current liabilities				
Trade and other payables		**2,759**	394	367
Interest-bearing loans and borrowings		**1**	1	-
Derivative financial liabilities		**100**	-	1
Current tax liabilities		**103**	5	7
Provisions	10	**226**	99	92
Liabilities directly associated with assets held for sale		**-**	18	-
		3,189	517	467
Net current assets		**1,602**	225	167
Non-current liabilities				
Trade and other payables		**565**	2	2
Interest-bearing loans and borrowings		**3,700**	709	588
Derivative financial liabilities		**261**	-	-
Deferred tax liabilities		**322**	110	69
Retirement benefit obligations	12	**1,229**	22	18
Provisions	10	**183**	141	117
		6,260	984	794
Total liabilities	3	**9,449**	1,501	1,261
Net assets		**7,828**	1,985	1,885
Equity				
Issued share capital		**333**	133	133
Share premium account		**8,138**	1,493	1,493
Merger reserve		**109**	112	109
Other reserves		**(2,330)**	(2,330)	(2,330)
Hedging reserve		**(36)**	7	8
Translation reserve		**134**	(10)	(66)
Retained earnings		**1,438**	2,580	2,538
Equity attributable to owners of the parent		**7,786**	1,985	1,885
Non-controlling interests		**42**	-	-
Total equity		**7,828**	1,985	1,885

Melrose Industries PLC
Condensed Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Other reserves £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2017	129	1,493	112	(2,330)	4	68	2,686	2,162	-	2,162
Profit for the period	-	-	-	-	-	-	38	38	-	38
Other comprehensive income/(expense)	-	-	-	-	3	(78)	7	(68)	-	(68)
Total comprehensive income/(expense)	-	-	-	-	3	(78)	45	(30)	-	(30)
Dividends paid	-	-	-	-	-	-	(36)	(36)	-	(36)
Equity-settled share-based payments	-	-	-	-	-	-	4	4	-	4
Incentive scheme related	4	-	-	-	-	-	(119)	(115)	-	(115)
At 30 June 2017 (unaudited)	133	1,493	112	(2,330)	7	(10)	2,580	1,985	-	1,985
Loss for the period	-	-	-	-	-	-	(62)	(62)	-	(62)
Other comprehensive income/(expense)	-	-	-	-	1	(56)	4	(51)	-	(51)
Total comprehensive income/(expense)	-	-	-	-	1	(56)	(58)	(113)	-	(113)
Dividends paid	-	-	-	-	-	-	(27)	(27)	-	(27)
Equity-settled share-based payments	-	-	-	-	-	-	6	6	-	6
Deferred tax on share-based payments	-	-	-	-	-	-	34	34	-	34
Incentive scheme related	-	-	(3)	-	-	-	3	-	-	-
At 31 December 2017	133	1,493	109	(2,330)	8	(66)	2,538	1,885	-	1,885
Loss for the period	-	-	-	-	-	-	(270)	(270)	(6)	(276)
Other comprehensive (expense)/income	-	-	-	-	(44)	200	133	289	18	307
Total comprehensive (expense)/income	-	-	-	-	(44)	200	(137)	19	12	31
Acquisition of GKN[1]	169	5,631	-	-	-	-	-	5,800	376	6,176
Purchase of non-controlling interests	31	1,014	-	-	-	-	(914)	131	(346)	(215)
Implementation of IFRS 9 and IFRS 15[2]	-	-	-	-	-	-	(2)	(2)	-	(2)
Dividends paid	-	-	-	-	-	-	(54)	(54)	-	(54)
Equity-settled share-based payments	-	-	-	-	-	-	7	7	-	7
At 30 June 2018 (unaudited)	**333**	**8,138**	**109**	**(2,330)**	**(36)**	**134**	**1,438**	**7,786**	**42**	**7,828**

[1] Relates to purchase of approximately 85% of the issued share capital of GKN plc. The amount recognised within the share premium account for the acquisition of GKN of £5,631 million is net of £1 million for costs associated with issuing shares.
[2] The Group adopted IFRS 9 and IFRS 15 on 1 January 2018. See note 2 for details.

Notes to the condensed interim financial statements

1. Corporate information

The interim financial information for the six months ended 30 June 2018 has been reviewed by the auditor, but not audited. The information for the year ended 31 December 2017 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 2018, 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 2017 Annual Report and financial statements on pages 107 to 114 other than as noted below.

The Group's 2017 Annual Report and financial statements can be found on the Group's website www.melroseplc.net. These interim financial statements should be read in conjunction with the 2017 information. The annual financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). These interim financial statements have been prepared in accordance with IAS 34: "Interim Financial Reporting" as adopted by the European Union.

Following the acquisition of GKN plc ("GKN") on 19 April 2018 (see note 9), the Group has adapted certain accounting policies to align them with the nature of the operations acquired with GKN. In addition, the Group implemented the new accounting standards, IFRS 15: "Revenue from Contracts with Customers" and IFRS 9: "Financial Instruments", which came into effect on 1 January 2018.

Accounting policies adapted to accommodate the nature of operations acquired with GKN:

Equity accounted investments

A joint venture is an entity which is not a subsidiary undertaking but where the interest of the Group is that of a partner in a business over which the group exercises joint control with its partners over the financial and operating policies. In all cases voting rights are 50% or lower. Associated undertakings are entities that are neither a subsidiary nor a joint venture, but where the Group has a significant influence. The results, assets and liabilities of equity accounted investments are accounted for using the equity method of accounting. The Group's share of equity includes goodwill arising on acquisition.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bring the asset into operation, and any borrowing costs on qualifying assets. Qualifying assets are defined as an asset or programme where the period of capitalisation is more than 12 months. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Where assets are in the course of construction at the balance sheet date, they are classified as capital work in progress. Transfers are made to other asset categories when they are available for use, at this point depreciation commences.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold land	nil
Freehold buildings and long leasehold property	over expected economic life not exceeding 50 years
Short leasehold property	over the term of the lease
Plant and equipment	3-15 years

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying values of property, plant and equipment are reviewed annually for indicators of impairment, or if events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists an impairment test is performed and, where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds or costs and the carrying amount of the item) is included in the Income Statement in the period that the item is derecognised.

2. Summary of significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value and are measured using a first in, first out or weighted average cost basis. Cost includes all direct expenditure and appropriate production overhead expenditure incurred in bringing goods to their current state under normal operating conditions. Net realisable value is based on estimated selling price less costs expected to be incurred to completion and disposal. Provisions are made for obsolescence or other expected losses where necessary.

Government refundable advances

Government refundable advances are reported in "Trade and other payables" in the Balance Sheet. Refundable advances include amounts advanced by a government, accrued interest and directly attributable costs. Refundable advances are provided to the Group to part-finance expenditures on specific development programmes. The advances are provided on a risk sharing basis, i.e. repayment levels are determined subject to the success of the related programme. Balances are held at amortised cost and interest is calculated using the effective interest rate method.

New accounting policies adopted on 1 January 2018:

Revenue

The Group adopted IFRS 15: "Revenue from Contracts with Customers" on 1 January 2018 using the "cumulative effect" transition arrangement. This allows for comparative information to remain unchanged and the initial financial impact to be recognised in retained earnings. The transitional impact of IFRS 15 was immaterial at a £1 million increase in net assets. The GKN IFRS 15 impact forms part of the acquired business and therefore is not included in the transitional impact within these interim financial statements. Within the acquisition balance sheet (see note 9), contract assets are included within "trade and other receivables". There was no net impact on revenue during the period, as the reclassification of certain costs offset other changes. There was a £6 million increase in operating profit, mostly from the 73 day period post acquisition of GKN, which principally relates to recognition of variable consideration.

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts. It is based on the transfer of control of goods and services to customers. In summary:

- Revenues are recognised either on point of transfer of control or recognised over time on an activity basis using the costs incurred as the measure of the activity to allocate the transaction price; and
- Costs are recognised as they are incurred.

The nature of agreements into which the Group enters means that certain of the Group's arrangements with its customers have multiple-elements that can include any combination of:

- Sale of products and services;
- Risk and revenue sharing partnerships (RRSPs);
- Design and build; and
- Construction contracts.

Contracts are reviewed to identify each performance obligation relating to a distinct good or service and the associated consideration. The Group allocates revenue to multiple-element arrangements based on the identified performance obligations within the contracts in line with the policies below. A performance obligation is identified if the customer can benefit from the good or service on their own or together with other readily available resources and can be separately identified within the contract. This review is performed by reference to the specific contract terms.

Sale of products and services

This revenue stream accounts for the overwhelming majority of Group sales. Contracts in the Automotive, Powder Metallurgy, Nortek Air & Security and Other Industrial segments operate almost exclusively on this basis, and it also covers a high proportion of the Aerospace segment revenues.

Invoices for goods are raised and revenue is recognised when control of the goods is transferred to the customer. Dependent upon contractual terms this may be at the point of despatch, acceptance by the customer or, in Aerospace, certification by the customer. The revenue recognised is the transaction price as it is the observable selling price per product.

Cash discounts, volume rebates and other customer incentive programmes are based on certain percentages agreed with the Group's customers, which are typically earned by the customer over an annual period. These are allocated to performance obligations in line with the above and are recorded as a reduction in revenue at the point of sale based on the estimated future outcome. Due to the nature of these arrangements an estimate is made based on historical results to date, estimated future results across the contract period and the contractual provisions of the customer agreement.

Many businesses in the Powder Metallurgy and Automotive segments recognise an element of revenue via a surcharge or similar raw material cost-recovery mechanism. The surcharge invoiced or credited is generally based on prior period movement in raw material price indices applied to current period deliveries. Other cost recoveries are recorded according to the customer agreement. In those instances where recovery of such increases is guaranteed, irrespective of the level of future deliveries, revenue is recognised, or due allowance made, in the same period as the cost is incurred.

2. Summary of significant accounting policies (continued)

Revenue (continued)

Risk and revenue sharing partnerships (RRSPs)
This revenue stream affects a small number of businesses, exclusively in the Aerospace segment. Revenue is recognised under RRSPs for both the sale of product as detailed above and sales of services, which are recognised by reference to the stage of completion based on the performance obligations in the contract. In most RRSP contracts, there are two separate phases where the Group earns revenue: sale of products principally to engine manufacturers; and aftermarket support.

The assessment of the stage of completion is dependent on the nature of the contract and the performance obligations within it.

Under the requirements of IFRS 15, each element of revenue is required to be allocated to a performance obligation based on the terms within the contract. The value of revenue is based on the standalone selling price for each element of the contract.

Revenue is recognised at the point control passes to the customer. For products and services, this has been identified as the point of despatch, acceptance by the customer or certification by the customer. Where the amount of revenue to be recognised is not due from the customer under the terms of the contract, it will be recognised as a contract asset for the unbilled receivable. Revenue is not recognised where recovery is not probable due to potential significant reversals in the future. This can be affected by assessment of future volumes which are impacted by technology development, fuel price and competition.

Participation fees are payments made to engine manufacturers and original equipment manufacturers relating to RRSPs and long-term agreements. They are recognised as contract assets to the extent they can be recovered from future sales. Where participation fees have been paid under the RRSP, the balance is recognised as a revenue reduction under IFRS 15, and therefore this amount is included within the assessment of the value of revenue per performance obligation for the associated contracts.

Design and build
This revenue stream affects a discrete number of businesses, primarily in the Aerospace segment but also on a smaller scale in the Automotive segment. Generally, revenue is only recognised on the sale of product as detailed above, however, on occasions cash is received in advance of work performed to compensate the Group for costs incurred in design and development activities. Where such amounts are due under the contract, the Group performs an assessment as to whether an identified performance obligation has been met. Where this has not occurred and control has not passed these amounts are factored into the revenue allocated across the performance obligations within the contract. Where the performance obligation has not been satisfied amounts received are recognised as a contract liability.

Due to the nature of design and build contracts, there can be significant “learning curves” while the Group optimises its production processes. During the early phase of these contracts, all costs including any start-up losses are taken directly to the Income Statement, as they do not meet the criteria for fulfilment costs.

Construction contracts
Where multiple performance obligations are identified revenue is required to be recognised as each performance obligation is met. This requires an assessment of revenue to identify the allocation across the performance obligations, based on the standalone selling price for each obligation.

In cases where one of the following criteria is met revenue can be recognised over time:

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as it performs;
- The Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group’s performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

Due to the nature of the criteria above, only certain contracts in the Group qualify for over time recognition. On this basis revenue is recognised using the input method, which uses costs incurred and the assessed margin across the contract. The margin and associated revenue is calculated based on the estimated transaction price and expected total costs, with considerations made for the associated contract risks.

If the above criteria are not met, revenue is recognised at a point in time when control transfers to the customer which, in line with the sale of goods and services above, is the point of delivery or customer acceptance dependent on the terms of the contract.

Variable consideration, such as price or scope amendments, is included based on the expected value or most likely amount, to the extent that it is highly probable that the revenue will not significantly reverse in the future. Variations in contract work, claims and incentive payments are included in revenue from construction contracts based on an estimate of the expected value the Group expects to receive. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached an advanced stage such that it is virtually certain that the customer will accept the claim. Incentive payments are included when a contract is sufficiently advanced that it is probable that the performance standards triggering the incentive will be achieved.

Other income is recognised in the income statement when it can be reliably measured and its collectability is reasonably assured.

2. Summary of significant accounting policies (continued)

Financial instruments

The Group adopted IFRS 9: "Financial Instruments" on 1 January 2018. IFRS 9 replaces the elements of IAS 39 relating to; a) classification and measurement of financial assets and liabilities, b) impairment of financial assets, and c) hedge accounting. The Group has elected not to restate the comparatives but instead record any adjustments identified in retained earnings in line with the transition arrangement within the standard. Following management's review, a £3 million reduction in net assets was identified. The GKN IFRS 9 impact forms part of the acquired business and therefore is not included in the transitional impact within these financial statements.

The Group has reviewed the classification of its financial instruments and has concluded the following:

- There is no change in the classification of derivative financial instruments that were classified as "fair value through profit or loss" and did not qualify for hedge accounting, as under IFRS 9 they fail the contractual cash flow characteristics test in IFRS 9 (4.1.2(b)) and (4.1.2A(b));
- Financial instruments designated in cash flow hedge and fair value hedge relationships under IAS 39 continue to qualify for hedge accounting under IFRS 9; and
- Financial assets previously classified within the "loans and receivables" category are now classified in the "amortised cost" category.

The introduction of IFRS 9 has resulted in changes to the accounting policies in the following areas:

- Trade and other receivables;
- Derivative financial instruments;
- Amounts due from equity accounted investments; and
- Contract receivables.

Classification and measurement

All of the above assets are classified as either those which are measured at fair value, through profit or loss or other comprehensive income, and those measured at amortised cost.

Financial assets are initially recognised at fair value. For those which are not subsequently measured at fair value through profit or loss, this includes directly attributable transaction costs. Trade and other receivables, contract receivables and amounts due from equity accounted investments are subsequently measured at amortised cost. All available for sale financial assets are subsequently measured at fair value, with fair value gains and losses being presented within other comprehensive income.

The Group subsequently measures derivative financial instruments at fair value. Gains and losses on derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement. Where a derivative financial instrument is designated as a cash flow hedge, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are reclassified from reserves into the cost of the underlying transaction and recognised in the Income Statement when the underlying transaction affects the Income Statement. The ineffective portion of any change in the fair value of the instrument is recognised in profit or loss immediately. Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the underlying asset or liability attributable to the hedge risk, and gains and losses on the derivative financial instrument, are recognised in the Income Statement.

Derivatives embedded in non-derivative host contracts are recognised at their fair value when the nature, characteristics and risks of the derivative are not closely related to the host contract. Gains and losses arising on the remeasurement of these embedded derivatives at each balance sheet date are recognised in the Income Statement.

Impairment of financial assets

For trade and other receivables, contract receivables and amounts due from equity accounted investments, the simplified approach under IFRS 9 is applied. The simplified approach requires that at the point of initial recognition the expected loss across the life of the receivable must be recognised. These balances do not contain a significant financing element, therefore the simplified approach relating to expected lifetime losses is applicable. The credit risk has been assessed for all trade receivables and no material additional risk was identified.

Cash and cash equivalents are also subject to IFRS 9's impairment requirements, however no impairment loss was identified.

Hedge accounting

There have been no changes in the accounting policies relating to hedging.

2. Summary of significant accounting policies (continued)

Alternative performance measures

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

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

Adjusted revenue includes the revenue from the Group's share of equity accounted investments.

Adjusted profit measures exclude 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.

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

- Impairment charges that are considered to be significant in nature and/or value to the trading performance of the business;
- Amortisation of intangible assets that are acquired in a business combination;
- Significant restructuring costs and other associated costs 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 costs;
- The charge for the Melrose equity-settled compensation scheme, including its associated employer's tax charge;
- The release of fair value items booked on acquisitions;
- Movement in derivative financial instruments, including revaluation of associated monetary working capital balances;
- Removal of interest and tax on equity accounted investments to reflect operating results; and
- Reversal of a fair value adjustment to inventory recorded on acquisition.

Further to the items above, adjusted profit before tax excludes:

- Acceleration of unamortised debt issue costs written off as a consequence of Group refinancing.

In addition to the items above, adjusted profit after tax excludes:

- Net effect of significant new tax legislation changes; and
- The tax effects of adjustments to profit/(loss) before tax.

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

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

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

Adoption of new accounting standards

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. IFRS 16: "Leases" is effective from 1 January 2019. It will require all leases to be recognised on the Balance Sheet. Currently, IAS 17: "Leases" only requires those categorised as finance leases to be recognised on the Balance Sheet, with leases categorised as operating leases expensed through the Income Statement. The impact of IFRS 16 will be to recognise a lease liability and a corresponding asset in the Balance Sheet for leases currently classified as operating leases. This will also result in a reclassification between operating costs and finance costs. The Directors are continuing to evaluate the full impact of the adoption of this standard and it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed, which is planned to be undertaken in the second half of the year. It is expected that the adjustment will be material following the acquisition of GKN.

Going concern

The Group's business activities in the period, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review.

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these interim financial statements.

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, which has been deemed to be the Group’s Board, in order to allocate resources to the segments and assess their performance.

The Group’s reportable operating segments have been reconsidered following the acquisition of GKN in April 2018. The Group now reports under a revised segment structure and comparative results have been restated accordingly. The operating segments are as follows:

Aerospace – comprises GKN’s aerospace operations: a multi-technology tier one supplier of air frame and engine structures, including Aerostructures, Engine Systems and Special Technologies.

Automotive – comprises GKN’s Driveline, All Wheel Drive, eDrive and Cylinder Liners businesses but excludes Off-Highway Powertrain; a global technology and systems engineer which designs, develops, manufactures and integrates an extensive range of driveline technologies.

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

Nortek Air & Security – comprises the Group’s Air Management and Security & Smart Technology businesses, previously reported as separate segments. Air Management includes the Air Quality & Home Solutions business (“AQH”) and the Global Heating, Ventilation & Air Conditioning business (“Global HVAC”). AQH is a leading manufacturer of ventilation products for the professional remodelling and replacement markets, residential new construction market and DIY market. Global HVAC manufactures and sells split-system and packaged air conditioners, heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets along with custom designed and engineered products and systems for non-residential applications. Security & Smart Technology manufactures and distributes products designed to provide convenience and security primarily for residential applications and audio visual equipment for the residential audio video and professional video market.

Other Industrial – comprises the Group’s Ergotron and Brush businesses, previously reported separately as the Ergonomics and Energy segments respectively, as well as GKN’s Wheels and Structures and Off-Highway Powertrain businesses.

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

Prior year comparatives have been restated following the change in the Group’s segment structure. Reportable segment results include items directly attributable to a segment as well as those which can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm’s length basis in a manner similar to transactions with third parties.

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

The following tables present the results and certain asset and liability information regarding the Group’s operating segments and central cost centres for the six month period ended 30 June 2018 and comparative periods.

a) Segment revenues

6 months ended 30 June 2018

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Adjusted revenue	714	1,019	254	720	355	-	3,062
Equity accounted investments	(1)	(123)	-	-	(1)	-	(125)
Revenue	**713**	**896**	**254**	**720**	**354**	-	**2,937**

3. Segment information (continued)

a) Segment revenues (continued)

6 months ended 30 June 2017 - restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Adjusted revenue	-	-	-	854	234	-	1,088
Equity accounted investments	-	-	-	-	(2)	-	(2)
Revenue	**-**	**-**	**-**	**854**	**232**	**-**	**1,086**

Year ended 31 December 2017 - restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Adjusted revenue	-	-	-	1,600	495	-	2,095
Equity accounted investments	-	-	-	-	(3)	-	(3)
Revenue	**-**	**-**	**-**	**1,600**	**492**	**-**	**2,092**

b) Segment operating profit

6 months ended 30 June 2018

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	49	70	28	104	42	(13)	280
Items not included in adjusted operating profit:[1]							
Restructuring costs	(12)	(11)	(1)	(16)	(69)	(19)	(128)
Acquisition and disposal costs	-	-	-	-	-	(124)	(124)
Amortisation of intangible assets acquired in business combinations	-	-	-	(26)	(12)	-	(38)
Reversal of uplift in value of inventory	(45)	(42)	(11)	-	(15)	-	(113)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(10)	(10)
Release of fair value items	-	-	-	3	-	-	3
Movement in derivatives and associated financial assets and liabilities	-	-	-	-	-	(123)	(123)
Interest and tax on equity accounted investments	-	(3)	-	-	-	-	(3)
Operating (loss)/profit	**(8)**	**14**	**16**	**65**	**(54)**	**(289)**	**(256)**
Finance costs							(51)
Finance income							4
Loss before tax							**(303)**
Tax							27
Loss for the period							**(276)**

[1] For further details on adjusting items, refer to note 4.
[2] Corporate adjusted operating loss of £13 million, includes £2 million of costs in respect of divisional long-term incentive plans and £3 million of costs relating to the GKN central cost centre.

3. Segment information (continued)

b) Segment operating profit (continued)

6 months ended 30 June 2017 – restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	-	-	-	112	41	(12)	141
Items not included in adjusted operating profit:[1]							
Restructuring costs	-	-	-	(23)	(2)	-	(25)
Acquisition and disposal costs	-	-	-	-	-	(2)	(2)
Amortisation of intangible assets acquired in business combinations	-	-	-	(28)	(13)	-	(41)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(17)	(17)
Release of fair value items	-	-	-	2	-	-	2
Operating profit/(loss)	**-**	**-**	**-**	**63**	**26**	**(31)**	**58**
Finance costs							(10)
Profit before tax							**48**
Tax							(10)
Profit for the period							**38**

[1] For further details on adjusting items, refer to note 4.
[2] Corporate adjusted operating loss of £12 million, includes £4 million of costs in respect of divisional long-term incentive plans.

Year ended 31 December 2017 – restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	-	-	-	215	87	(23)	279
Items not included in adjusted operating profit:[1]							
Impairment of Brush assets	-	-	-	-	(145)	-	(145)
Restructuring costs	-	-	-	(27)	(8)	-	(35)
Acquisition and disposal costs	-	-	-	-	-	(6)	(6)
Amortisation of intangible assets acquired in business combinations	-	-	-	(56)	(26)	-	(82)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(24)	(24)
Release of fair value items	-	-	-	5	1	-	6
Operating profit/(loss)	**-**	**-**	**-**	**137**	**(91)**	**(53)**	**(7)**
Finance costs							(22)
Finance income							1
Loss before tax							**(28)**
Tax							4
Loss for the year							**(24)**

[1] For further details on adjusting items, refer to note 4.
[2] Corporate adjusted operating loss of £23 million, includes £8 million of costs in respect of divisional long-term incentive plans.

3. Segment information (continued)

c) Segment total assets and liabilities

30 June 2018

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate[1] £m	Total £m
Total assets	5,927	4,995	1,919	2,111	1,571	754	**17,277**
Total liabilities	2,054	1,881	190	468	508	4,348	**9,449**

[1] Assets include £426 million in respect of Group cash. Liabilities include £3,682 million in respect of interest-bearing loans and borrowings.

30 June 2017 - restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Total assets	-	-	-	2,191	1,220	75	**3,486**
Total liabilities	-	-	-	565	209	727	**1,501**

31 December 2017 - restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Total assets	-	-	-	2,030	1,047	69	**3,146**
Total liabilities	-	-	-	484	173	604	**1,261**

d) Segment capital expenditure and depreciation

6 months ended 30 June 2018

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Capital expenditure[1]	14	43	10	23	6	-	**96**
Depreciation[1]	22	26	9	12	6	-	**75**

[1] Including computer software and development costs.

6 months ended 30 June 2017 - restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Capital expenditure[1]	-	-	-	19	2	-	**21**
Depreciation[1]	-	-	-	12	6	-	**18**

[1] Including computer software and development costs.

3. Segment information (continued)

d) Segment capital expenditure and depreciation (continued)

Year ended 31 December 2017 - restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Capital expenditure[1]	-	-	-	48	4	-	**52**
Depreciation[1]	-	-	-	23	12	-	**35**

[1] Including computer software and development costs.

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 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 other receivables and investments and non-current derivative financial assets) by geographical location are detailed below:

	Revenue[1] from external customers			Non-current assets		
	6 months ended 30 June 2018 £m	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m	**30 June 2018 £m**	30 June 2017 £m	31 December 2017 £m
UK	**272**	53	105	**5,793**	180	130
Europe	**651**	53	124	**1,484**	168	109
North America	**1,619**	930	1,768	**3,376**	2,323	2,207
Other	**395**	50	95	**918**	34	11
Total	**2,937**	1,086	2,092	**11,571**	2,705	2,457

[1] Revenue is presented by destination.

4. Reconciliation of adjusted profit measures

Adjusted profit measures are alternative performance measures used by the Board to monitor the trading performance of the Group.

a) Operating profit

Continuing operations	Notes	**6 months ended 30 June 2018 £m**	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Operating (loss)/profit		**(256)**	58	(7)
Restructuring costs	a	**128**	25	35
Acquisition and disposal costs	b	**124**	2	6
Amortisation of intangible assets acquired in business combinations	c	**38**	41	82
Reversal of uplift in value of inventory	d	**113**	-	-
Melrose equity-settled compensation scheme	e	**10**	17	24
Release of fair value items	f	**(3)**	(2)	(6)
Movement in derivatives and associated financial assets and liabilities	g	**123**	-	-
Interest and tax on equity accounted investments	h	**3**	-	-
Impairment of Brush assets	i	**-**	-	145
Total adjustments to operating (loss)/profit		**536**	83	286
Adjusted operating profit		**280**	141	279

a. Restructuring and other associated costs arising from significant strategy changes totalled £128 million (2017: £25 million), including £5 million (2017: £nil) of losses incurred following the announcement of the closure of certain businesses. Restructuring costs are adjusting items due to their size and non-trading nature.

   Following the announcement on 1 February 2018 of the intended closure of its Dutch turbogenerator facility and downsizing of its turbogenerator production in the UK, Brush incurred £63 million (2017: £2 million) of restructuring costs and asset write downs in the period. Restructuring costs in the period also included £44 million in respect of the early actions that are underway within the GKN businesses, including the ceasing of GKN head office functions. In addition, restructuring costs within Nortek Air & Security were £16 million (2017: £23 million) and included footprint rationalisation within the Global HVAC business.

b. Acquisition and disposal costs incurred in the period include £71 million (2017: £2 million) of general transaction fees and £53 million of associated transaction taxes, predominantly in respect of the acquisition of GKN. These costs also include a small amount relating to the £26 million bolt-on acquisition of IntelliVision Inc., by the Security & Smart Technology business. These items are excluded from adjusted results due to their non-trading nature.

c. The amortisation of intangible assets acquired in business combinations is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. Where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not adjusted.

d. Finished goods and work in progress which are present in a business when acquired, in accordance with IFRS 3, are required to be uplifted in value to closer to their selling price. As a result, in the early months of an acquisition, reduced profits are generated as this inventory is sold. This one-off effect in the period was a charge of £113 million (2017: £nil) and is excluded from adjusted results due to its size and non-recurring nature.

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

f. Certain items previously recorded as fair value items on acquisitions, have been settled for a more favourable amount than first anticipated. The release of any excess fair value item is shown as an adjusting item to avoid positively distorting adjusted results.

g. The movement in the value of derivative financial instruments (primarily forward foreign currency exchange contracts) taken out to mitigate the potential volatility of future cash flows on long-term foreign currency customer and supplier contracts, along with foreign exchange movements on the associated financial assets and liabilities, is shown as an adjusting item. The charge in the period was £123 million and is excluded from adjusted results because of its volatility and size.

h. The revenue from the Group's share of equity accounted investments ("EAIs") is shown within adjusted revenue. In addition, the profits and losses of EAIs, which are shown after interest and tax in the statutory results, are adjusted to show the operating profit before interest and tax, which is consistent with the operating profits of the subsidiaries of the Group. The revenue and operating profit of EAIs are adjusted because they are considered to be significant in size and are important in assessing the performance of the business.

i. The results for the year ended 31 December 2017 included an impairment charge totaling £145 million in respect of the carrying value of assets held within the Brush business. The charge included £31 million in respect of the net assets of Brush China which was closed in November 2017, £19 million in respect of property, plant and equipment elsewhere in the Brush Group and £95 million in relation to goodwill. The impairment charge was excluded from adjusted results due to its non-trading nature and size.

4. Reconciliation of adjusted profit measures (continued)

b) Profit before tax

Continuing operations	Note	**6 months ended 30 June 2018 £m**	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
(Loss)/profit before tax		**(303)**	48	(28)
Adjustments to operating (loss)/profit per above		**536**	83	286
Adjustments to finance costs	j	**7**	-	-
Total adjustments to (loss)/profit before tax		**543**	83	286
Adjusted profit before tax		**240**	131	258

j. Following the acquisition of GKN, existing bank facilities at that time were repaid and replaced by a new bank facility and all unamortised bank fees were written off. These charges are shown as adjusting items because of their size and non-trading nature.

c) Profit after tax

Continuing operations	Notes	**6 months ended 30 June 2018 £m**	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
(Loss)/profit after tax		**(276)**	38	(24)
Adjustments to (loss)/profit before tax per above		**543**	83	286
Net effect of new tax legislation in the US	k	-	-	(27)
Tax effect of adjustments to (loss)/profit before tax	5	**(83)**	(26)	(44)
Total adjustments to (loss)/profit after tax		**460**	57	215
Adjusted profit after tax		**184**	95	191

k. The net tax credit arising from the new US tax legislation enacted in December 2017, including an estimated repatriation charge and changes to closing deferred tax items due to a reduction in the Federal tax rate from 35% to 21%, was included as an adjusting item because of its size and nature.

5. Tax

Continuing operations	**6 months ended 30 June 2018 £m**	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Analysis of the (credit)/charge in the period:			
Current tax	**30**	5	13
Deferred tax	**(57)**	5	(17)
Total income tax (credit)/charge	**(27)**	10	(4)

The effective tax rate in respect of adjusted profit before tax for the half year is 23.3% (2017: 27.5%). The adjusted tax charge has been calculated by applying the expected tax rate for the full year to the adjusted profit before tax of £240 million (2017: £131 million), giving an adjusted tax charge of £56 million (2017: £36 million).

The adjusted tax charge of £56 million (2017: £36 million) excludes a total tax credit of £83 million (2017: £26 million) in respect of adjusting items. This represents a deferred tax credit on intangible asset amortisation of £10 million (2017: £15 million), a tax credit on equity accounted investments of £3 million (2017: £nil) and a tax credit on other adjusting items of £70 million (2017: £11 million). This gives a total statutory tax credit of £27 million (2017: charge of £10 million).

In addition to the amount credited to the Income Statement, a charge of £16 million (2017: £1 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax credit of £9 million (2017: charge of £1 million) in respect of movements on cash flow hedges and a tax charge of £25 million (2017: £nil) in respect of the remeasurement of retirement benefit obligations.

6. Earnings per share

Earnings attributable to owners of the parent	**6 months ended 30 June 2018 £m**	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Earnings for basis of earnings per share	**(270)**	38	(24)

	6 months ended 30 June 2018 Number	6 months ended 30 June 2017 Number	Year ended 31 December 2017 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	**3,045**	1,896	1,919
Further shares for the purposes of diluted earnings per share (million)[1]	**-**	45	22
Weighted average number of ordinary shares for the purposes of diluted earnings per share (million)	**3,045**	1,941	1,941

[1] The results for the 6 months ended 30 June 2018 and the year ended 31 December 2017 are a loss and therefore in accordance with IAS 33: "Earnings per share" there is no dilution. However, the dilutive number of shares for both periods are used for the purpose of calculating adjusted diluted earnings per share.

Earnings per share	**6 months ended 30 June 2018 pence**	6 months ended 30 June 2017 pence	Year ended 31 December 2017 pence
Basic earnings per share	**(8.9)**	2.0	(1.2)
Diluted earnings per share	**(8.9)**	2.0	(1.2)

On 19 April 2018, 2,469 million ordinary shares were issued as a result of the acquisition GKN. Further issues of share capital totalling 448 million took place between 19 April 2018 and 30 June 2018 in order to purchase the remaining non-controlling interests of GKN. The total number of ordinary shares in issue therefore increased from 1,941 million at 31 December 2017 to 4,858 million at 30 June 2018.

Adjusted earnings	**6 months ended 30 June 2018 £m**	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Adjusted earnings[1] for the basis of adjusted earnings per share	**177**	95	191

[1] Adjusted earnings for the 6 months ended 30 June 2018 comprises adjusted profit after tax of £184 million (see note 4c), net of an allocation to non-controlling interests of £7 million.

Adjusted earnings per share

	6 months ended 30 June 2018 pence	6 months ended 30 June 2017 pence	Year ended 31 December 2017 pence
Adjusted basic earnings per share	**5.8**	5.0	9.9
Adjusted diluted earnings per share	**5.8**	4.9	9.8

7. Dividends

	6 months ended 30 June 2018 £m	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Final dividend for the year ended 31 December 2016 of 1.9p	**-**	36	36
Interim dividend for the year ended 31 December 2017 of 1.4p	**-**	-	27
Final dividend for the year ended 31 December 2017 of 2.8p	**54**	-	-
Total dividends paid	**54**	36	63

An interim dividend of 1.55 pence per ordinary share (2017: 1.4 pence) totalling £75 million (2017: £27 million) was declared by the Board and in accordance with IAS 10: "Events after the reporting period" has not been included as a liability as at 30 June 2018.

8. Share of results of equity accounted investments

	6 months ended 30 June 2018 £m	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Revenue	**125**	2	3
Operating profit	**15**	-	-
Net finance costs	**-**	-	-
Profit before tax	**15**	-	-
Tax	**(3)**	-	-
Share of results of equity accounted investments	**12**	-	-

9. Acquisition of businesses

On 19 April 2018 the Group acquired approximately 85% of the issued share capital and obtained control of GKN plc for consideration of £7,091 million. The remaining 15% of share capital was acquired during the subsequent period, prior to 30 June 2018, at a cost of £1,260 million which has been treated as a purchase of a non-controlling interest.

GKN is a global engineering business which designs, manufactures and services systems and components for original equipment manufacturers, specialising in the aerospace and automotive markets.

The Group is currently reviewing the assets and liabilities acquired. Due to the proximity of the acquisition to 30 June 2018, as well as the size of the acquired business, assessment of the fair value of the assets and liabilities acquired has not yet been completed. In accordance with IFRS 3: "Business combinations", the acquisition Balance Sheet of GKN at 19 April 2018 remains provisional as of 30 June 2018 and is based on the information received to date. It is expected that there will be significant further adjustment to the fair values recognised in the table below.

	GKN £m	**IntelliVision £m**	**Provisional fair value £m**
Property, plant and equipment	2,718	-	2,718
Intangible assets, computer software and development costs	487	9	496
Interests in equity accounted investments	527	-	527
Inventories	1,336	-	1,336
Trade and other receivables	2,600	1	2,601
Cash and cash equivalents	307	-	307
Trade and other payables	(2,821)	-	(2,821)
Derivative financial instruments	(137)	-	(137)
Provisions	(142)	-	(142)
Deferred tax	177	-	177
Retirement benefit obligations	(1,367)	-	(1,367)
Current tax liabilities	(32)	-	(32)
Interest-bearing loans and borrowings	(1,430)	-	(1,430)
Non-controlling interests	(376)	-	(376)
Net assets attributable to the parent	**1,847**	**10**	**1,857**
Total consideration	7,091	26	7,117
Provisional goodwill	5,244	16	5,260
Total consideration satisfied by:			
Cash consideration	1,290	26	1,316
Shares issued to GKN shareholders	5,801	-	5,801

Acquisition costs charged through the Income Statement amount to £124 million (note 4), which includes £53 million of associated transaction taxes. GKN contributed £2,134 million to adjusted revenue and £158 million to adjusted operating profit for the 73 day period between the date of acquisition and the Balance Sheet date. The amounts recognised in relation to GKN for the period from the 19 April to 30 June 2018 include revenue and profit and the associated impact on working capital, based on an estimate of activity from 19 April to 30 April 2018. If the acquisition of GKN had been completed on the first day of the financial year, Group adjusted revenues would have been approximately £6,203 million and Group adjusted operating profit would have been approximately £501 million.

The Group is currently performing a programme of GKN site visits at all significant locations to assess the fair value of assets and liabilities acquired and appropriately align accounting policies. This exercise is expected to complete in the second half of 2018. Included in the table above, interest-bearing loans and borrowings, derivative financial instruments, retirement benefit obligations, certain interests in equity accounted investments, tax balances and the uplift of inventory have been recognised at fair value in accordance with the requirements of IFRS 3. These amounts remain provisional at 30 June 2018. A review of the property, plant and equipment has been performed, and while this has not been finalised, the initial value has been reflected above. All intangible assets, except for computer software and development costs, have been recognised at nil value. The fair value of computer software and development costs will be assessed in the second half of the year. Given the magnitude of GKN's acquired intangible assets and associated deferred tax liability, the values have been removed from the acquisition balance sheet until the Group's valuation is complete and accordingly no amortisation has been recognised in the period. The Group expects to finalise its valuation of all intangible assets during the second half of the year.

On 27 April 2018 the Group acquired 100% of the issued share capital and obtained control of IntelliVision Inc. ("IntelliVision") for consideration of £26 million. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table above. Fair values are provisional as at 30 June 2018 and are based on information received to date. Should additional information come to light that would require adjustment to the fair values recognised in the table above, these will be recorded if material.

10. Provisions

	Surplus leasehold property costs £m	Environmental and litigation £m	Warranty related costs £m	Restructuring £m	Other £m	Total £m
At 1 January 2018 - restated	14	88	73	20	14	209
Acquisition of business	18	34	32	32	26	142
Utilised	(2)	(19)	(13)	(45)	(1)	(80)
Net charge to operating profit[1]	(2)	10	14	102	6	130
Unwind of discount	-	-	-	-	1	1
Exchange differences	-	2	2	1	2	7
At 30 June 2018	**28**	**115**	**108**	**110**	**48**	**409**
Current	4	44	59	109	10	226
Non-current	24	71	49	1	38	183
	28	115	108	110	48	409

[1] Includes £103 million of restructuring charges and other adjusting items and £27 million recognised in adjusted operating profit.

The Group's provision categories have been restated following the acquisition of GKN which has resulted in certain reclassifications between provision categories.

The provision for surplus leasehold property costs represents the estimated net payments due over the term of the leases together with any dilapidation costs. This is expected to result in cash expenditure over the next one to eight years.

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

The provision for warranty related costs represents the best estimate of the expenditure required to settle the Group's obligations, based on past experiences. Warranty terms are, on average, between one and five years.

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

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

Where appropriate, provisions have been discounted using a discount rate of 3% (31 December 2017: 3%).

11. Financial instruments

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values as at 30 June 2018, 30 June 2017 and 31 December 2017:

	Current £m	Non-current £m	Total £m
30 June 2018			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	426	-	426
Net trade receivables	1,897	-	1,897
Contract assets	233	373	606
Classified as fair value:			
Derivative financial assets:			
Foreign currency forward contracts	13	9	22
Interest rate swaps	4	7	11
Embedded derivatives	3	9	12
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(1)	(3,700)	(3,701)
Government refundable advances	(8)	(72)	(80)
Other financial liabilities	(2,740)	(479)	(3,219)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(90)	(97)	(187)
Cross currency swaps	(8)	(159)	(167)
Embedded derivatives	(2)	(5)	(7)
30 June 2017			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	41	-	41
Net trade receivables	329	-	329
Classified as fair value:			
Derivative financial assets:			
Foreign currency forward contracts	5	-	5
Interest rate swaps	-	7	7
Net assets held for sale	10	-	10
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(1)	(709)	(710)
Other financial liabilities	(388)	(2)	(390)
31 December 2017			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	16	-	16
Net trade receivables	298	-	298
Classified as fair value:			
Derivative financial assets:			
Foreign currency forward contracts	6	-	6
Interest rate swaps	4	4	8
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	-	(588)	(588)
Other financial liabilities	(359)	(2)	(361)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(1)	-	(1)

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

The Directors consider the book value of net assets held for sale approximates to their fair value.

12. Retirement benefit obligations

During the period, the Group acquired various pension schemes as part of the acquisition of GKN. Plans acquired include both funded and unfunded arrangements. The UK pension schemes are funded, with the scheme assets held in trustee-administered funds, the German and other European plans are generally unfunded, with pension payments made from company funds as they fall due, rather than from scheme assets. The US schemes include a combination of funded and unfunded pension and medical plans.

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

30 June 2018

	Brush UK plans £m	Nortek plans £m	GKN Europe plans £m	GKN UK plans[1] £m	GKN US plans £m	GKN RoW plans £m	**Total £m**
Fair value of plan assets	261	253	29	2,632	206	37	**3,418**
Present value of defined benefit obligations	(232)	(273)	(668)	(3,105)	(316)	(53)	**(4,647)**
Net surplus/(deficit)	29	(20)	(639)	(473)	(110)	(16)	**(1,229)**

[1] Includes a net deficit in respect of the GKN UK 2012 plan, the GKN UK 2016 plan and post-employment medical plans.

30 June 2017

	Brush UK plans £m	Nortek plans £m	GKN Europe plans £m	GKN UK plans £m	GKN US plans £m	GKN RoW plans £m	**Total £m**
Fair value of plan assets	255	267	-	-	-	-	**522**
Present value of defined benefit obligations	(238)	(306)	-	-	-	-	**(544)**
Net surplus/(deficit)	17	(39)	-	-	-	-	**(22)**

31 December 2017

	Brush UK plans £m	Nortek plans £m	GKN Europe plans £m	GKN UK plans £m	GKN US plans £m	GKN RoW plans £m	**Total £m**
Fair value of plan assets	263	262	-	-	-	-	**525**
Present value of defined benefit obligations	(255)	(288)	-	-	-	-	**(543)**
Net surplus/(deficit)	8	(26)	-	-	-	-	**(18)**

Valuations of material plans have been updated at 30 June 2018 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values. The major assumptions were as follows:

	Rate of increase in pensions in payment % p.a.	Discount rate % p.a.	RPI inflation % p.a.	CPI inflation % p.a.
30 June 2018				
Brush UK plans	3.1	2.9	3.1	2.0
GKN Europe plans	1.8	1.9	1.8	n/a
GKN UK – 2012 plan	3.0	2.9	3.1	2.0
GKN UK – 2016 plan	3.0	2.7	3.1	2.0
GKN US plans	n/a	4.2	n/a	n/a
30 June 2017				
Brush UK plans	3.2	2.6	3.2	2.1
31 December 2017				
Brush UK plans	3.2	2.5	3.2	2.1

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 2018.

13. Notes to the Cash Flow Statement

Continuing operations	**6 months ended 30 June 2018 £m**	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Reconciliation of adjusted operating profit to cash generated from operating activities			
Adjusted operating profit[1]	**280**	141	279
Adjustments for:			
Depreciation of property, plant and equipment	**62**	16	31
Amortisation of computer software and development costs	**13**	2	4
Share of operating profits of equity accounted investments	**(15)**	-	-
Restructuring costs paid and movements in other provisions	**(63)**	(42)	(74)
Defined benefit pension contributions paid	**(21)**	(2)	(4)
Change in inventories	**(22)**	(23)	(8)
Change in receivables	**(42)**	(15)	8
Change in payables	**(26)**	(10)	(16)
Acquisition costs and associated transaction taxes	**(106)**	(3)	(8)
Tax paid	**(22)**	(10)	(16)
Interest paid	**(32)**	(6)	(16)
Incentive scheme tax related payments	**-**	(147)	(148)
Net cash from/(used in) operating activities	**6**	(99)	32

[1] See note 4 for reconciliation of operating (loss)/profit to adjusted operating profit.

Net debt reconciliation

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

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

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

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Interest-bearing loans and borrowings – due within one year	**(1)**	(1)	-
Interest-bearing loans and borrowings – due after one year	**(3,700)**	(709)	(588)
Less:			
Cash and cash equivalents	**426**	41	16
	(3,275)	(669)	(572)
Adjustments:			
Impact of cross currency swaps	**(167)**	-	-
Fair value adjustments	**69**	-	-
Net debt	**(3,373)**	(669)	(572)

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

	At 31 December 2017 £m	Cash flow £m	Acquisitions £m	Other non-cash movements £m	Effect of foreign exchange £m	**At 30 June 2018 £m**
External debt	(587)	(1,712)	(1,417)	49	(15)	**(3,682)**
Finance leases	(1)	-	(13)	(4)	(1)	**(19)**
Impact of cross currency swaps	-	-	(109)	(58)	-	**(167)**
	(588)	(1,712)	(1,539)	(13)	(16)	**(3,868)**
Fair value adjustments	-	-	73	(4)	-	**69**
Cash and cash equivalents	16	1,750	(1,349)	-	9	**426**
Net debt	(572)	38	(2,815)	(17)	(7)	**(3,373)**

Alternative Performance Measures ("APMs")

In response to the Guidelines on APMs issued by 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 Alternative Performance Measures) provide additional information on the performance of the business and trends to stakeholders.

These APMs may not be directly comparable with similarly titled profit measures reported by other companies and they are not intended to be a substitute for, or superior to, IFRS measures. These measures are consistent with those disclosed in the Group's 2017 Annual Report and financial statements, apart from adjusted revenue following the acquisition of GKN. Proforma measures provide a base for the Group, following the acquisition of GKN, to enable comparisons in future periods. For further information on the below, including definition and purpose, please see pages 152 to 155.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Income Statement measures		
Proforma revenue	Revenue	Adjusting items (note 3) and full period impact of acquisitions

Revenue	6 months ended 30 June 2018 £m
Revenue	2,937
Adjusting items (note 3)	125
Adjusted revenue	3,062
Full period impact of acquisitions	3,141
Proforma revenue	**6,203**

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Proforma operating profit	Operating profit/(loss)[1]	Adjusting items (note 4) and full period impact of acquisitions

Operating profit	6 months ended 30 June 2018 £m
Operating loss	(256)
Adjusting items (note 4)	536
Adjusted operating profit	280
Full period impact of acquisitions	221
Proforma operating profit	**501**

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Proforma profit before tax	Profit/(loss) before tax	Adjusting items (note 4) and full period impact of acquisitions

Profit before tax	6 months ended 30 June 2018 £m
Loss before tax	(303)
Adjusting items (note 4)	543
Adjusted profit before tax	240
Full period impact of acquisitions	161
Proforma profit before tax	**401**

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Proforma profit after tax	Profit/(loss) after tax	Adjusting items (note 4) and full period impact of acquisitions

Profit after tax	6 months ended 30 June 2018 £m
Loss after tax	(276)
Adjusting items (note 4)	460
Adjusted profit after tax	184
Full period impact of acquisitions	123
Proforma profit after tax	**307**

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Adjusted revenue	Revenue	Adjusting items (note 3)
Adjusted operating profit	Operating profit/(loss)[1]	Adjusting items (note 4)
Adjusted EBITDA	Operating profit/(loss)[1]	Adjusting items (note 4), depreciation and amortisation

Adjusted EBITDA	6 months ended 30 June 2018 £m	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Adjusted operating profit	**280**	141	279
Depreciation	**62**	16	31
Amortisation	**13**	2	4
Adjusted EBITDA	**355**	159	314

EBITDA on a proforma basis of £1,398 million includes adjusted operating profit before depreciation and amortisation for the last 12 months, assuming that GKN had been owned for the full 12 month period. This proforma EBITDA is used in calculation of banking covenants.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Adjusted profit before tax	Profit/(loss) before tax	Adjusting items (note 4)
Adjusted profit after tax	Profit/(loss) after tax	Adjusting items (note 4)
Adjusted tax rate	Effective tax rate	Adjusting items (note 4), adjusting tax items and the tax impact of adjusting items (note 5)

Adjusted tax rate	6 months ended 30 June 2018 £m	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Tax credit/(charge)	**27**	(10)	4
Adjusting tax items	**-**	-	(27)
Tax impact of adjusting items	**(83)**	(26)	(44)
Adjusted tax charge	**(56)**	(36)	(67)
Adjusted profit before tax	**240**	131	258
Adjusted tax rate	**23.3%**	27.5%	25.9%

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Adjusted basic earnings per share	Basic earnings per share	Adjusting items (notes 4 and 6)
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (notes 4 and 6)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Proforma diluted earnings per share	Diluted earnings per share	Adjusting items and full period impact of acquisitions (notes 4 and 6)

Proforma diluted earnings per share	6 months ended 30 June 2018 £m
Proforma profit after tax	**307**
Attributable to:	
Owners of the parent	304
Non-controlling interests	3
Diluted number of shares at 30 June 2018 (million)	**4,858**
Proforma diluted earnings per share	**6.3p**

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Balance Sheet measures		
Working capital	Inventories, trade and other receivables less trade and other payables	Not applicable
Net debt	Cash and cash equivalents less interest-bearing loans and borrowings	Reconciliation of net debt (note 13)
Bank covenant definition of net debt at average rates	Cash and cash equivalents less interest-bearing loans and borrowings	Net debt per note 13 adjusted for finance leases and the impact of foreign exchange

Net debt	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Net debt as reported (note 13)	**3,373**	669	572
Finance leases	**(19)**	(1)	(1)
Bank covenant definition of net debt at closing rates	**3,354**	668	571
Impact of foreign exchange	**(24)**	15	23
Bank covenant definition of net debt at average rates	**3,330**	683	594

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Cash Flow measures		
Adjusted operating cash flow (pre capex)	Net cash from operating activities	Changes in working capital items

Adjusted operating cash flow	6 months ended 30 June 2018 £m	6 months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Adjusted EBITDA	**355**	159	314
Change in inventories	**(22)**	(23)	(8)
Change in receivables	**(42)**	(15)	8
Change in payables	**(26)**	(10)	(16)
Adjusted operating cash flow (pre-capex)	**265**	111	298

APM	Closest equivalent statutory measure	Reconciling items to statutory measure
Other measures		
Capital expenditure (capex)	Additions to non-current assets	Not applicable
Capital expenditure to depreciation ratio	None	Not applicable
Dividend per share	None	Not applicable

[1] Operating profit/(loss) is not defined within IFRS but is a widely accepted profit measure being profit/(loss) before finance costs, finance income and tax.