5 September 2019

MELROSE INDUSTRIES PLC

UNAUDITED RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

Melrose Industries PLC today announces its interim results for the six months ended 30 June 2019.

Highlights

	Adjusted[1] results		Statutory results	
Continuing operations	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Revenue	**6,002**	2,971	**5,700**	2,847
Operating profit/(loss)	**539**	284	**(11)**	(325)
Profit/(loss) before tax	**429**	244	**(128)**	(372)
Profit/(loss) after tax	**330**	188	**(150)**	(330)
Diluted earnings per share	**6.7p**	6.0p	**(3.1)p**	(10.6)p

Group

- Melrose is trading in line with expectations for 2019, with the three main divisions of GKN on track to achieve previously announced targets
- Adjusted[1] operating profit was £539 million, which excluding the uplift from loss-making contracts was £494 million. The statutory operating loss was £11 million; of the £550 million adjusting items, only £79 million are cash
- Net debt leverage at 2.3x EBITDA is better than expectations due to stronger cash generation
- Adjusted free cash inflow[2] from continuing operations of £256 million
- A new target to improve GKN's working capital efficiency, releasing additional future free cash of £400 million within our ownership period
- An interim dividend of 1.7 pence per share (2018: 1.55 pence) is declared, up 10%

Divisions

- Aerospace performance is significantly better than prior year period; adjusted[1] operating profit growth[3] of 37% and adjusted[1] operating margin improvement of 2.0 percentage points
- Aerospace increasing to 34% of Group adjusted[1] profits, becoming the largest division and profit driver in Melrose
- Record year of investment in Aerospace technology and a major announcement to create the 'One GKN Aerospace' organisation, to improve performance further
- Automotive and Powder Metallurgy are maintaining profit well in an automotive industry downturn, due to decisive cost reductions
- Significant investment made into class leading eDrive technology
- Nortek businesses' adjusted[1] operating profit has grown by approximately 40% during our ownership
- Nortek Air & Security has strong fundamentals, HVAC has signed a significant new contract for its industry leading new proprietary StatePoint Technology®

- Security & Smart Technology is challenged by US tariffs and market headwinds
- Many operational improvement programmes and capital investment projects are underway to help improve performance further, while good progress is being made on resolving the GKN loss-making contracts

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

"These results show the initial fruits of the 'improve' stage of Melrose's ownership of GKN and, with the overall GKN margin increasing positively, we are excited about what is possible. The performance is in line with expectations and leverage is better than expected. At the same time, this has been a year of record investment in Aerospace technology and substantial eDrive development. The Melrose Board is confident that our businesses will deliver significant upside for shareholders."

1. Considered by the Board to be a key measure of performance. The adjusted results are described in the glossary to the Interim Financial Statements
2. Adjusted free cash inflow excludes the one-off pension contributions, restructuring spend and cash used in discontinued operations
3. Growth is calculated at constant currency against 2018 results, excluding the impact of loss-making contracts in both periods for consistency

ENDS

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CHAIRMAN'S STATEMENT

I am pleased to report our interim results for the six months ended 30 June 2019, which are in line with expectations for the full year.

RESULTS FOR THE CONTINUING GROUP

These interim results include statutory revenue for the Melrose Group of £5,700 million (2018: £2,847 million), an adjusted profit before tax of £429 million (2018: £244 million) and a statutory loss before tax of £128 million (2018: statutory loss of £372 million).

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

TRADING

Having owned the GKN businesses for just over a year, we are pleased with how they have responded to our initial investments and initiatives. GKN Aerospace revenue grew strongly in the period with decisive operational improvements also made, delivering a significant increase in profit. While the global automotive sector downturn is affecting the GKN Automotive and GKN Powder Metallurgy businesses, we are pleased with their performance against the challenging market backdrop.

We remain focused on technology and efficiency across our businesses and there are substantial operational improvements available. We are working with our management teams to secure these improvements, whilst ensuring strong cash management. Even with investments in technology at record levels, we have kept leverage at 2.3x EBITDA and well within expectations.

The Nortek acquisition continues to be a success as our investments start to deliver good returns, with profit for the Nortek businesses up by approximately 40% in our ownership and the Air businesses performing well. Unfortunately, the Security & Smart Technology business continues to face material and persistent market headwinds and tariff pressure, resulting in us taking the actions outlined in these results.

Further details of these results are contained in the Chief Executive's Review and the Finance Director's Review and I would like to thank all employees for their efforts in helping to produce this strong performance.

DIVIDEND

Your Board declared an interim dividend of 1.7 pence per share (2018: 1.55 pence), which is a 10% increase on last year and will be paid on 11 October 2019 to shareholders on the register at the close of business on 13 September 2019. 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

The Board has commenced a search for an additional non-executive director with a view to further increasing the strength and diversity of the Board.

STRATEGY

Melrose targets generating superior returns for our shareholders whilst protecting the interests of all stakeholders through the acquisition of high quality but under-performing manufacturing businesses, investing heavily to improve their operational performance before identifying an appropriate purchaser who will look to guide them through their next phase of development.

The acquisition of GKN last year is the latest example of this strategy in action and we are pleased to see the GKN businesses already responding positively to the Melrose approach.

OUTLOOK

With these good results and actions underway, we remain confident the Group will trade in line with our expectations for this year, despite some macro challenges presented by tariffs and the automotive sector downturn. We are on track to improve the performance of our businesses, driven by continued and significant investment in operational improvement projects, and backed by stronger cash management and cost control, customer delivery and management accountability. We are positive about the prospects for the rest of 2019 and beyond.

J Dowley

Justin Dowley
Chairman
5 September 2019

CHIEF EXECUTIVE'S REVIEW

The first half of 2019 has been a busy period. We have focused with our operational management teams on implementing targeted investments, faster decision-making and improving customer delivery, which will achieve the improvements that underline our divisional profit margin targets. We have made a strong start in addressing the £600 million of loss-making contracts of the GKN businesses identified on acquisition, and we are seeing positive change take hold. This has been an important area of focus for us and we will update shareholders further in the full year accounts. Following the success of a major procurement savings initiative, we have commenced a thorough working capital review across the GKN businesses, to unlock £400 million of additional future cash within our ownership period. For the GKN group this has not been an area previously focused upon.

At GKN Aerospace, sales were up by 7% compared to the first half of last year. This is a strongly performing sector and is now the biggest contributor to Melrose's Group profits. There is an opportunity to improve this division so that it achieves its potential. Having worked hard to address the inherited customer relationship issues through improved performance and delivery, the business is now in a position to implement the global operating model announced this week. This will overcome the previously fragmented structure and move it to a truly global integrated business "One GKN Aerospace". We see this as a key stepping stone in the ongoing improvement and performance of this division.

During the period, GKN Automotive has been dealing with the global market downturn, which we expect to continue into the second half. Prompt steps have been taken to control costs, which has included the recently announced closure of one of its German production facilities. GKN Powder Metallurgy has also been affected by the automotive sector downturn and, like GKN Automotive, its management team has been quick to take the necessary steps to reengineer its business and protect profits.

In the Nortek Air & Security division, the Air businesses have performed well, but we have struggled with a number of factors affecting the Security & Smart Technology business. A combination of significant tariff pressure, difficult market conditions and the scheduled expiry of a major customer contract has impacted trading performance in this particular business. This has led us to review its underlying value in accordance with the appropriate accounting standards. It is important to put this into context with the overall improved performance of the Nortek businesses, including an approximate 40% increase in profit for the original Nortek Group since its acquisition. Overall, there has been a substantial increase in shareholder value at Nortek.

At the same time, our commitment to invest in the technological development of our businesses has accelerated during the first half of 2019, including breaking ground at the new £32 million GKN Aerospace Global Technology Centre in Filton, UK; commencing work on the initial projects in the five year, £300 million investment programme in GKN Automotive's eDrive technology; building out the additive manufacturing capabilities for GKN Powder Metallurgy; and supporting Nortek HVAC in their production ramp up for the world-leading data centre climate control system StatePoint Technology®.

The sale of Walterscheid Powertrain Group was also completed in the period, further streamlining the Group. Details of the first half trading performance for each continuing business are set out below.

AEROSPACE

GKN Aerospace made strong progress in the first half of 2019, with sales and operating margins significantly improved. A number of its North American facilities have returned to profitability after receiving continued investment to sustainably improve their processes, workforce and performance. This has set a strong foundation from which to drive necessary margin improvements.

Efforts to improve its European Aerostructures and Engine Systems operational performance are going well. As part of a wholesale strategic review, the Special Technologies business announced its intention to close its Kings Norton site, while investing approximately £50 million in its other sites, including Luton and Portsmouth. These investments will bolster the business's position in developing world-leading niche technologies, including fuel and flotation tanks, advanced canopies and cabin windows, and electro-thermal ice-protection systems.

Additive manufacturing remains a key focus, with a new world-leading pilot production cell at Oak Ridge National Laboratory in the USA and two new additive manufacturing programmes in Bristol, UK. These initiatives will further enhance GKN Aerospace's strong market position within additive manufacturing and composite manufacturing, as demonstrated by the production of the first demonstrator wing components for Airbus's Wing of Tomorrow research programme.

AUTOMOTIVE

GKN Automotive completed its leadership team change during the first half of 2019 and continued to strive to offset difficult market conditions and industry-wide pressure on sales, through a disciplined focus on commercial excellence and cost improvement. We are very pleased with the financial performance of this business in the first half. Revenue declines were in line with market trends and have been met with an improvement in operating margins against 2018.

Whilst adverse market conditions have masked the financial performance improvement, we are confident that the much stronger business we anticipated at acquisition will emerge as market conditions improve. In the circumstances, this is the most creditable performance of all the GKN businesses. Our management team has continued to grow a strong pipeline of new business, including four new eDrive programmes that are expected to progressively ramp up over the next 12 months.

As with all of the GKN businesses, the pursuit and gradual realisation of operating margin increases have promoted an increased focus on working capital, which has led to an improved cash flow position for the business.

We currently expect second half trading to be similar to the first half of 2019. As with GKN Aerospace, this business has significant upside potential and its new management team is well positioned to realise this.

POWDER METALLURGY

The division performed well in challenging automotive market conditions, with the business taking prompt action to ensure it achieved its margin and cash generation targets. Continuous improvement plans delivered the expected positive results, while over £100 million new business wins were booked in the period. In addition, the business acquired and integrated a small bearings business in Italy, which increased its already strong presence in the industrial sector in Europe and we continue to support its focused acquisition strategy.

Progress has been made in reorganising GKN Powder Metallurgy's footprint, as well as enhancing customer development initiatives and collaboration in order to identify and introduce new powder metallurgy and additive manufacturing applications to new energy vehicles.

We expect end markets to remain challenging but for operational improvements to partly offset this. We are now executing on our strategy to develop cutting edge additive technology in this business, refocus on operating margin improvement and improve the operations of the business.

NORTEK AIR & SECURITY

The performance of Nortek Global HVAC ("HVAC") in this period has been good, with end markets largely positive and we are very pleased with its development. The high point has been the development of world leading technology in StatePoint Technology®, as a result of considerable investment in people and technology over the last two years.

The HVAC leadership team has continued to drive margin expansion and new product development. They have focused on capturing profitable growth within expanding vertical segments for retrofit and new construction, particularly in the residential and commercial markets, and innovative plug-and-play solutions for the manufactured multi-family housing and light commercial markets.

Sustained investment in research and development during the first half of 2019 has continued to enhance core product platforms. Alongside the newly launched StatePoint Technology®, a new High

Performance Computing Portfolio has ramped up during the first half of the year which, along with HVAC's core Air Handling and Computer Room Air Handler systems, continue to address growing demand within the data centre cooling market. Two transformational projects have been announced with a major technology firm that position this business at the forefront of this market globally.

Simultaneously, HVAC has continued to implement its operational footprint strategy by consolidating resources and upgrading its existing manufacturing plants, underpinning our confidence in its prospects for the rest of the year.

The Air Quality & Home Solution business ("AQH") saw modest sales growth during the first half of 2019, but was held back by lower single family housing starts in Canada and a slow start to the year for US housebuilders. The business has successfully implemented its 2019 product launch strategy, which remains on track and is expected to positively impact financial performance in the second half of 2019. Since our acquisition, we have redeveloped the products of AQH substantially so as to further consolidate the position of this business in its very strong North American market.

Security & Smart Technology ("SST") is our most challenging Nortek business. It continues to see an increasingly competitive market in its traditional security markets, and flat demand for its products in the home control and access markets. In response to these challenges, SST has renewed its focus on technology and made further structural changes to the business to improve its competitive positions.

During the first half of 2019, SST continued to integrate the IntelliVision technologies it acquired last year into its Home Control and Access product lines. The business expects to launch its next generation security platform over the next 12 months, which will incorporate these new capabilities and complete the full integration of analytics-based technologies across all of its product platforms. The IntelliVision business has continued to broaden SST's patent portfolio for these and related emerging technologies, which have made it a leading player in the security sector for data analytic technology.

Against the backdrop of difficult market conditions and continuing pressure from tariffs, the business has taken the decision to close its Chinese factory and switch to contract manufacturing with a third party supplier. While this move is on track to deliver the intended benefits, overall, we expect market conditions to remain challenging.

OTHER INDUSTRIAL

The newly-installed fully flexible, automated off-highway rim line at the GKN Wheels & Structures facility in the UK, committed prior to our ownership, came on-stream during the first half of 2019. This has been further bolstered by a new management team and the sale of the Italian manufacturing line producing commoditised products. The positive impact of these changes will be realised over the next 12 months.

Global economic prospects for Brush's main markets remain uncertain and the underlying trading environment in the first half of 2019 continued to present significant challenges. Brush's key gas turbine market continues to run far below its previous peak, with anticipated stabilisation in generator demand for Brush this year of approximately 50 generators, leading it to explore alternative applications for its generator products and grow its aftermarket services.

Ergotron is a market leading business, which is being impacted by factors mainly outside its control, primarily tariffs and the resultant market disruptions. The first half performance was down compared to the first half of last year but at a similar level to the second half of 2018. Following the implementation of US tariffs, a review of its manufacturing footprint is now underway and a strong pipeline of new products will launch this year and in 2020.

GROUP OUTLOOK

Our businesses have continued to perform in line with expectations over this busy period. We are pleased that overall Nortek is performing in a manner that shows it will deliver the shareholder value we anticipated, albeit we have work to do, in particular at SST. This has also been a period of huge positive change at the GKN businesses. Despite automotive trading headwinds, these businesses have enormous potential and it is both exciting and a privilege to be on the journey to deliver that.

Simon Peckham
Chief Executive
5 September 2019

FINANCE DIRECTOR'S REVIEW

The results for the Group for the six months ended 30 June 2019 have been significantly impacted by the acquisition of GKN in April last year. As a result, any comparisons with prior year are difficult to interpret.

The comparative results in this Interim Report, which include GKN for 73 days only, have been restated to show the results of the Walterscheid Powertrain Group as a discontinued operation following its disposal on 25 June 2019 and have also been restated to reflect the finalisation of the opening Balance Sheet review process for GKN.

MELROSE GROUP RESULTS – CONTINUING OPERATIONS

Statutory results:

The statutory IFRS results are shown on the face of the Income Statement and show revenue of £5,700 million (2018: £2,847 million), an operating loss of £11 million (2018: loss of £325 million) and a loss before tax of £128 million (2018: loss of £372 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the period of 4,858 million (2018: 3,045 million), were a loss of 3.1 pence (2018: loss of 10.6 pence).

Adjusted results:

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

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

The adjusted results for the period ended 30 June 2019 show revenue of £6,002 million (2018: £2,971 million), an operating profit of £539 million (2018: £284 million) and a profit before tax of £429 million (2018: £244 million). Adjusted diluted EPS were 6.7 pence (2018: 6.0 pence).

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

The results for the period included a positive impact from utilising loss-making contract provisions which were required under IAS 37: "Provisions, contingent liabilities and contingent assets", and were identified during the opening Balance Sheet review process for GKN.

Excluding the positive impact of the utilisation of the loss-making contracts provision, the adjusted results for continuing operations would show an operating profit of £494 million, and an adjusted diluted EPS of 6.0 pence.

RECONCILIATION OF STATUTORY RESULTS TO ADJUSTED RESULTS

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

Continuing operations:	2019 £m	2018 £m
Statutory revenue	**5,700**	**2,847**
Adjusting item:		
Revenue from equity accounted investments	302	124
Adjusted revenue	**6,002**	**2,971**

Adjusting revenue item:

The Group has a number of EAIs in which it does not hold full control, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems ("SDS"), within the Automotive business. During the period ended 30 June 2019, EAIs in the Group generated £302 million of revenue (2018: £124 million), which is not included in the statutory results but is shown within adjusted revenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit from these EAIs is included.

Continuing operations:	2019 £m	2018 £m
Statutory operating loss	**(11)**	**(325)**
Adjusting items:		
Amortisation of intangible assets acquired in business combinations	269	125
Impairment of assets	179	-
Restructuring costs	75	128
Currency movements in derivatives and movements in associated financial assets and liabilities	13	123
Acquisition and disposal related costs	11	124
Other	3	10
Reversal of uplift in value of inventory	-	99
Adjustments to statutory operating loss	**550**	**609**
Adjusted operating profit	**539**	**284**

Adjusting items to operating profit are consistent with prior periods and include:

The amortisation charge on intangible assets acquired in business combinations of £269 million (2018: £125 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 2018 Annual Report disclosed that the determination of the recoverable amount in respect of the Security & Smart Technology group of cash generating units ("CGUs") involved management estimation of the impact of highly uncertain matters at that time. Enhanced disclosures, including sensitivity analysis in respect of the key assumptions used in the forecast models, were shown at the 2018 year end. Subsequently, there has been further deterioration in both the performance during the period and forecast future prospects, particularly following increases in US tariffs for goods being imported from China. This along with the increased level of competition and technological change in the market has resulted in the necessity to impair goodwill allocated to the Security & Smart Technology group of CGUs by £179 million. The impairment charge is shown as an adjusting item due to its non-trading nature and size.

Restructuring and other associated costs in the period totalled £75 million (2018: £128 million). Restructuring costs are adjusting items due to their size and non-trading nature and during the period ended 30 June 2019 they included:

- A charge of £45 million in respect of the GKN businesses. Within this, £26 million related to the Aerospace division and included costs incurred in improving quality and delivery for customers in North America and costs relating to footprint rationalisation projects within the Special Technologies business. Within the Automotive division, £14 million of costs have been incurred addressing the cost base of the business, whilst ensuring a more flexible cost structure going forward. In addition, £5 million of restructuring costs were incurred in the Powder Metallurgy division.

- A charge of £21 million within Nortek Air & Security, primarily relating to structural footprint changes in the Security & Smart Technology business in an attempt to mitigate the negative impact of the increase in US tariffs on goods manufactured in China. In addition, there were charges related to continued footprint rationalisation within the HVAC business.

- A charge of £5 million within Other Industrial businesses, predominantly relating to the finalisation of the restructuring activities announced in Brush last year.

Hedge accounting is not applied within the GKN businesses for transactional foreign exchange exposure. For consistency, the movement in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts) entered into to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts in the GKN businesses, along with foreign exchange movements on the associated financial assets and liabilities, totalling a charge of £13 million (2018: £123 million), is shown as an adjusting item because of its volatility and size.

Acquisition and disposal related costs of £11 million (2018: £124 million) were incurred in the period and included the profit or loss on the sale of two smaller businesses and their related transaction costs. These items are excluded from adjusted results due to their non-trading nature.

Other adjusting items include the charge for the Melrose equity-settled Incentive Scheme, including its associated employer's tax charge, of £7 million (2018: £10 million) which is excluded from adjusted results due to its volatility; an adjustment of £14 million (2018: £3 million) to gross up the post tax profits of EAIs to be consistent with the adjusted operating profits of subsidiaries within the Group; and the net release of fair value items totalling £18 million (2018: £3 million) resolved for more favourable amounts than first expected.

GOODWILL AND IMPAIRMENT REVIEW

Following the GKN acquisition in April 2018, an extensive review of the GKN assets, liabilities and accounting policies in accordance with IFRS 3 "Business Combinations" has now been completed.

Since the year end this review has resulted in increases to goodwill of £6 million, intangible assets of £21 million, provisions and trade and other payables of £10 million and a decrease to deferred tax assets of £17 million. The June 2018 and December 2018 Balance Sheets have been restated in accordance with IFRS 3.

The Security & Smart Technology business has experienced tough trading conditions and as a result enhanced disclosures, including sensitivity analysis in respect of the key assumptions used in the forecast models, were shown in the 2018 Annual Report.

During the period the impact of US tariffs on goods imported from China became clearer. The impact of US tariffs and the increased level of competition and technological change in the market caused further deterioration in performance and in forecast future prospects, resulting in a structural review of the business. This review resulted in the decision to close the manufacturing facility in China and the outsourcing of production to a third party.

A full impairment review has been performed on the Security & Smart Technology group of CGUs, which has assumed that US tariffs at the current higher rate will remain permanently, resulting in an impairment charge of £179 million in the period.

DISPOSAL OF WALTERSCHEID POWERTRAIN GROUP

On 25 June 2019 the Group completed the disposal of Walterscheid Powertrain Group to One Equity Partners, a US-based private equity firm for cash consideration of £185 million, less costs charged in the period of £7 million. Retirement benefit obligations of £155 million were disposed with the business and the loss on disposal was £21 million after the recycling of cumulative translation differences of £13 million.

Walterscheid Powertrain Group was acquired with GKN on 19 April 2018, contributed £206 million of revenue and £10 million of statutory operating profit in the period from 1 January 2019 up to the date it was disposed, and is shown within discontinued operations.

TAX – CONTINUING OPERATIONS

The statutory results for the period show a tax charge of £22 million (2018: credit of £42 million), arising on a statutory loss before tax of £128 million (2018: loss of £372 million). A tax charge was incurred on the statutory loss because certain adjusting items, discussed earlier in this review, did not give rise to tax deductions.

The Group Income Statement adjusted tax rate in the period was 23% (2018: 23%) and the Group paid £79 million (2018: £22 million) representing 18% of adjusted profit before tax.

ADOPTION OF IFRS 16 “LEASES”

IFRS 16 was adopted on 1 January 2019 and required operating leases to be recognised on the Balance Sheet. Previously only finance leases were recognised on the Balance Sheet, with costs associated with leases categorised as operating expensed through the Income Statement as incurred.

The impact of IFRS 16, on transition, has been to recognise a lease liability of £589 million with a corresponding right-of-use fixed asset in the Balance Sheet, which offset each other. The impact of IFRS 16 on the Income Statement in the period was to increase finance costs by £11 million, but this was broadly offset by an associated increase in operating profit. In addition, approximately £35 million of costs have been reclassified from a lease expense to depreciation.

Both the lease liability and the depreciation on leased assets are excluded from the definition of net debt and the resulting leverage calculations in the Group banking agreements.

CASH GENERATION AND MANAGEMENT

Group net debt at 30 June 2019, translated at closing exchange rates (being US $1.27 and €1.12), was £3,454 million (31 December 2018: £3,482 million). For bank covenant purposes the Group’s net debt is calculated at average exchange rates for the previous twelve months, to better align the calculation with the currency rates used to calculate profits. The Group net debt leverage at 30 June 2019 was 2.3x EBITDA.

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

Movement in Group net debt	2019 £m	2018 £m
At 1 January	**(3,482)**	**(572)**
GKN acquisition related net debt movements	-	(2,789)
Adjusted net debt brought forward	**(3,482)**	**(3,361)**
Non-trading items:		
Net cash flow from disposal of Walterscheid Powertrain Group	172	-
Acquisition related costs	(15)	(26)
Dividend paid to Melrose shareholders	(148)	(54)
Foreign exchange and other non-cash movements	(41)	(24)
Cash flow from non-trading items	**(32)**	**(104)**
Free cash flow	**60**	**92**
At 30 June at closing exchange rates	**(3,454)**	**(3,373)**
At 30 June at twelve month average exchange rates	**(3,404)**	**(3,330)**

An analysis of the free cash flow is shown in the table below. The comparative period includes GKN for 73 days following the acquisition:

	2019 £m	2018 £m
Adjusted operating cash flow (pre capex)	**599**	**240**
Net capital expenditure	(235)	(85)
Net interest and net tax paid	(148)	(50)
Defined benefit pension contributions	(111)	(20)
Restructuring	(91)	(50)
Dividend income from equity accounted investments	67	64
Net other (including discontinued operations)	(21)	(7)
Free cash flow	**60**	**92**
Adjusted free cash flow	**256**	**135**

Net capital expenditure in the period was £235 million (2018: £85 million), representing 1.1x depreciation on non-leased assets. Net interest paid in the period was £69 million (2018: £28 million) and tax was £79 million (2018: £22 million).

Adjusted free cash flow of £256 million (2018: £135 million) is considered to be a reflection of ongoing Group cash flow and is shown before the one-off special pension contribution of £94 million (2018: £nil), being the balance of the Melrose commitment to contribute £150 million to the GKN UK 2012 and 2016 plans within the first twelve months of GKN ownership. It is also shown before cash spent on restructuring projects of £91 million (2018: £50 million) and cash flows used in discontinued operations of £11 million (2018: £7 million cash generated).

Free cash flow in the period, after all costs, was £60 million (2018: £92 million).

PROVISIONS

Total provisions at 30 June 2019 were £1,335 million (31 December 2018: £1,471 million, restated following the finalisation of the GKN opening Balance Sheet review process).

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

	Total £m
At 1 January 2019 (restated)	**1,471**
Spend against provisions	(156)
Net charge to adjusted operating profit	49
Net charge shown as an adjusting item in the Income Statement	37
Utilisation of loss-making contract provision	(45)
Other (including foreign exchange)	(21)
At 30 June 2019	**1,335**

The net charge to adjusted operating profit in the period of £49 million, includes £12 million in respect of certain non-cash divisional long-term incentive plan charges, and the remainder is primarily in respect of warranty, product liability and workers' compensation charges which are matched by similar cash payments in the period.

The net charge shown as an adjusting item in the Income Statement of £37 million, consists of charges of £68 million, primarily related to restructuring activities discussed in the adjusting items section of this review, offset by a £31 million provision release, primarily relating to loss-making contracts which have been favourably resolved.

During the period £91 million of cash was spent on restructuring.

Included within other movements are foreign exchange changes, the unwind of discounting on certain provisions, the reclassification of surplus property lease provisions following the adoption of IFRS 16 and the provisions disposed with Walterscheid Powertrain Group.

PENSIONS AND POST-EMPLOYMENT OBLIGATIONS

At 30 June 2019 total plan assets of the Melrose Group's defined benefit pension plans were £3,366 million (31 December 2018: £3,273 million) and total plan liabilities were £4,692 million (31 December 2018: £4,686 million), a net deficit of £1,326 million (31 December 2018: £1,413 million).

The values of the Group plans were updated at 30 June 2019 by independent actuaries to reflect the latest key assumptions. A summary of the assumptions used are shown in note 12 to the Condensed Interim Financial Statements.

The most significant pension plan in the Group is the GKN UK 2012 plan, with a net accounting deficit of £583 million at 30 June 2019 (31 December 2018: £606 million). The plan had gross assets of £2,191 million (31 December 2018: £2,007 million) and liabilities of £2,774 million (31 December 2018: £2,613 million).

The Group has paid its committed one-off £150 million contribution and is making ongoing annual contributions of £60 million to the GKN UK 2012 and 2016 plans. In addition, the Group has committed to contribute to these plans £270 million upon the disposal of Powder Metallurgy, 10% of the proceeds from disposal of other GKN businesses and 5% of the proceeds from disposal of non-GKN businesses. These commitments cease when the funding target, which has been agreed with the 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.

On 1 July 2019 the GKN UK 2012 plan was separated into four pension plans, two of which have been allocated to the Aerospace division and two to the Automotive division as follows:

GKN UK 2012 pension plan split	Assets £m	Liabilities £m	Deficit £m
Aerospace pension plans	1,402	(1,775)	(373)
Automotive pension plans	789	(999)	(210)
Total	**2,191**	**(2,774)**	**(583)**

Ongoing progress was made in the period to manage the pension liabilities within the Group. The disposal of Walterscheid Powertrain Group, the buyout of the Broan Aftermarket North America, Inc. Group Pension Plan and some members voluntarily choosing to leave certain pension plans, resulted in Group gross pension liabilities reducing by over £400 million.

Contributions to the Melrose Group defined benefit pension plans and post-employment medical plans from continuing operations in the period were £111 million and included £94 million of one-off special contributions, being the balance of the £150 million upfront commitment following the acquisition of GKN.

EXCHANGE RATES USED IN THE PERIOD

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

US Dollar	Average rate for GKN ownership in 2018	Average rate	Closing rate
Six months to 30 June 2019	N/A	1.29	1.27
Twelve months to 31 December 2018	1.31	1.33	1.27
Six months to 30 June 2018	1.35	1.38	1.32
Euro			
Six months to 30 June 2019	N/A	1.15	1.12
Twelve months to 31 December 2018	1.13	1.13	1.11
Six months to 30 June 2018	1.14	1.14	1.13

The Group policy on foreign currency risk is explained on pages 47 and 48 of the 2018 Annual Report, a copy of which is available on the Company's website, www.melroseplc.net.

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

£m	USD	EUR	CNY	Other
Movement in adjusted operating profit	71	22	9	16
% impact on adjusted operating profit	6%	2%	1%	1%

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

A 10 percent strengthening in either the US Dollar or Euro would result in a partial natural hedge against the translational movement in profits and would have had the following impact on net debt as at 30 June 2019:

£m	USD	EUR
Increase in debt	233	82

FINANCIAL RISKS AND UNCERTAINTIES

The principal financial risks and uncertainties faced by the Group have not changed significantly from 2018. In summary, these financial risks include liquidity risk, finance cost risk, exchange rate risk, contract and warranty risk and commodity risk. Detailed explanations of these risks are discussed on pages 46 to 48 of the 2018 Annual Report and further explanations and details of the strategic risk profile of the Group are set out on pages 52 to 58 of the 2018 Annual Report.

BREXIT

Whilst the effect of Brexit on the European economy remains unclear, due to the Group's geographically balanced manufacturing footprint, on a micro level resulting tariffs and customs clearance are not expected to have a material negative effect on the Group as a whole.

Sales of product between the UK and Europe are a small proportion of the Group's overall revenues. Aerospace components are typically exempt from import duties under global agreements, whilst Automotive parts tariffs typically range between tariff free and 7%. However, the outcome of any Brexit agreement is unknown, as is the case for any legal or regulatory changes.

On a wider macro level the Group's financial results may be impacted by general lack of confidence and economic instability arising from a disruptive exit from the EU, or from any wider supply-chain disruption causing scheduling issues for customers or suppliers. Depending on the outcome of Brexit, the Group could be exposed to translational and transactional foreign exchange fluctuations. The impact from movements in foreign exchange rates on translating profits into Sterling is provided in the table above, whilst transactional exposures are generally well protected in the short-term due to approximately 90% of exposures being hedged for the next twelve months.

The Board will continue to monitor Brexit developments and adjust the plans for its businesses accordingly.

Geoffrey Martin
Group Finance Director
5 September 2019

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

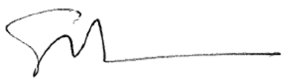
We confirm to the best of our knowledge:

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

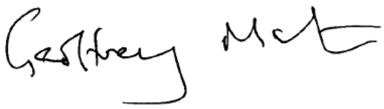
b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events and their impact, and description of principal risks and uncertainties for the remaining six months of the financial year); and

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
5 September 2019



Geoffrey Martin
Group Finance Director
5 September 2019

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 2019 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 Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Deloitte LLP
Statutory Auditor
London, United Kingdom
5 September 2019

Melrose Industries PLC
Condensed Consolidated Income Statement

Continuing operations	Notes	**6 months ended 30 June 2019 Unaudited £m**	Restated[1] 6 months ended 30 June 2018 Unaudited £m	Restated[2] Year ended 31 December 2018 £m
Revenue	3	**5,700**	2,847	8,325
Cost of sales		**(4,568)**	(2,342)	(6,717)
Gross profit		**1,132**	505	1,608
Share of results of equity accounted investments	8	**16**	12	34
Net operating expenses		**(1,159)**	(842)	(2,027)
Operating loss	3	**(11)**	(325)	(385)
Finance costs		**(126)**	(51)	(161)
Finance income		**9**	4	5
Loss before tax		**(128)**	(372)	(541)
Tax	5	**(22)**	42	73
Loss after tax for the period from continuing operations		**(150)**	(330)	(468)
Discontinued operations				
Loss for the period from discontinued operations	9	**(15)**	(4)	(7)
Loss after tax for the period		**(165)**	(334)	(475)
Attributable to:				
Owners of the parent		**(168)**	(328)	(475)
Non-controlling interests		**3**	(6)	-
		(165)	(334)	(475)
Earnings per share				
Continuing operations				
- Basic	6	**(3.1)p**	(10.6)p	(11.8)p
- Diluted	6	**(3.1)p**	(10.6)p	(11.8)p
Continuing and discontinued operations				
- Basic	6	**(3.4)p**	(10.8)p	(12.0)p
- Diluted	6	**(3.4)p**	(10.8)p	(12.0)p

Adjusted results from continuing operations

Adjusted revenue	3	**6,002**	2,971	8,818
Adjusted operating profit	3,4	**539**	284	819
Adjusted profit before tax	4	**429**	244	677
Adjusted profit after tax	4	**330**	188	520
Adjusted basic earnings per share	6	**6.7p**	6.0p	12.8p
Adjusted diluted earnings per share	6	**6.7p**	6.0p	12.8p

[1] Results for the period ended 30 June 2018 have been restated for the finalisation of acquisition accounting for GKN (see note 2) and discontinued operations (see note 9).
[2] Results for the year ended 31 December 2018 have been restated for discontinued operations (see note 9).

Melrose Industries PLC
Condensed Consolidated Statement of Comprehensive Income

	Notes	**6 months ended 30 June 2019 Unaudited £m**	Restated[1] 6 months ended 30 June 2018 Unaudited £m	Year ended 31 December 2018 £m
Loss after tax for the period		**(165)**	(334)	(475)
Items that will not be reclassified subsequently to the Income Statement:				
Net remeasurement (loss)/gain on retirement benefit obligations		**(151)**	166	(36)
Income tax credit/(charge) relating to items that will not be reclassified	5	**39**	(25)	9
		(112)	141	(27)
Items that may be reclassified subsequently to the Income Statement:				
Currency translation on net investments		**6**	389	625
Share of other comprehensive income from equity accounted investments		**2**	-	9
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	9	**(13)**	-	-
Losses on hedge relationships		**(44)**	(50)	(97)
Transfer to Income Statement on hedge relationships		**-**	(3)	(2)
Income tax (charge)/credit relating to items that may be reclassified	5	**(8)**	9	29
		(57)	345	564
Other comprehensive (expense)/income for the period		**(169)**	486	537
Total comprehensive (expense)/income for the period		**(334)**	152	62
Attributable to:				
Owners of the parent		**(337)**	140	44
Non-controlling interests		**3**	12	18
		(334)	152	62

[1] Results for the period ended 30 June 2018 have been restated for the finalisation of acquisition accounting for GKN (see note 2).

Melrose Industries PLC
Condensed Consolidated Statement of Cash Flows

	Notes	**6 months ended 30 June 2019 Unaudited £m**	Restated[1] 6 months ended 30 June 2018 Unaudited £m	Restated[1] Year ended 31 December 2018 £m
Operating activities				
Net cash from/(used in) operating activities from continuing operations	13	**262**	(3)	344
Net cash (used in)/from operating activities from discontinued operations	13	**(5)**	9	29
Net cash from operating activities		**257**	6	373
Investing activities				
Disposal of businesses, net of cash disposed	9	**172**	(1)	(4)
Purchase of property, plant and equipment		**(223)**	(78)	(333)
Proceeds from disposal of property, plant and equipment		**7**	3	18
Purchase of computer software and capitalised development costs		**(19)**	(10)	(35)
Dividends received from equity accounted investments		**67**	64	66
Equity accounted investment additions		**-**	-	(3)
Acquisition of subsidiaries, net of cash acquired		**-**	(1,009)	(1,009)
Interest received		**10**	4	5
Net cash from/(used in) investing activities from continuing operations		**14**	(1,027)	(1,295)
Net cash used in investing activities from discontinued operations	13	**(4)**	(2)	(9)
Net cash from/(used in) investing activities		**10**	(1,029)	(1,304)
Financing activities				
Purchase of non-controlling interests		**-**	(179)	(224)
Costs of issuing shares		**-**	(1)	(1)
Repayment of borrowings		**(144)**	(803)	(820)
New bank loans raised		**-**	2,515	2,558
Costs of raising debt finance		**-**	(54)	(51)
Repayment of principal under lease obligations		**(43)**	-	-
Dividends paid to non-controlling interests		**(5)**	-	(1)
Dividends paid to owners of the parent	7	**(148)**	(54)	(129)
Net cash (used in)/from financing activities from continuing operations		**(340)**	1,424	1,332
Net cash used in financing activities from discontinued operations	13	**(2)**	-	-
Net cash (used in)/from financing activities		**(342)**	1,424	1,332
Net (decrease)/increase in cash and cash equivalents		**(75)**	401	401
Cash and cash equivalents at the beginning of the period		**415**	16	16
Effect of foreign exchange rate changes		**-**	9	(2)
Cash and cash equivalents at the end of the period	13	**340**	426	415

[1] Amounts for the periods ended 30 June 2018 and 31 December 2018 have been restated for discontinued operations (see notes 9 and 13).

As at 30 June 2019, the Group had net debt of £3,454 million (31 December 2018: £3,482 million). A reconciliation of the movement in net debt is shown in note 13.

Melrose Industries PLC
Condensed Consolidated Balance Sheet

	Notes	30 June 2019 Unaudited £m	Restated[1] 30 June 2018 Unaudited £m	Restated[1] 31 December 2018 £m
Non-current assets				
Goodwill and other intangible assets		**10,444**	11,179	11,098
Property, plant and equipment		**3,631**	2,966	3,171
Interests in equity accounted investments		**439**	473	492
Deferred tax assets		**143**	159	132
Derivative financial assets		**20**	25	26
Trade and other receivables		**422**	256	504
		15,099	15,058	15,423
Current assets				
Inventories		**1,504**	1,403	1,489
Trade and other receivables		**2,190**	2,743	2,328
Derivative financial assets		**38**	20	15
Current tax assets		**38**	59	74
Cash and cash equivalents		**340**	426	415
		4,110	4,651	4,321
Total assets	3	**19,209**	19,709	19,744
Current liabilities				
Trade and other payables		**2,705**	2,853	2,583
Interest-bearing loans and borrowings		**394**	1	377
Lease obligations		**50**	-	5
Derivative financial liabilities		**218**	100	204
Current tax liabilities		**82**	160	137
Provisions	10	**376**	393	391
		3,825	3,507	3,697
Net current assets		**285**	1,144	624
Non-current liabilities				
Trade and other payables		**403**	549	762
Interest-bearing loans and borrowings		**3,235**	3,700	3,378
Lease obligations		**566**	-	52
Derivative financial liabilities		**303**	261	227
Deferred tax liabilities		**811**	966	874
Retirement benefit obligations	12	**1,326**	1,231	1,413
Provisions	10	**959**	1,065	1,080
		7,603	7,772	7,786
Total liabilities	3	**11,428**	11,279	11,483
Net assets		**7,781**	8,430	8,261
Equity				
Issued share capital		**333**	333	333
Share premium account		**8,138**	8,138	8,138
Merger reserve		**109**	109	109
Other reserves		**(2,330)**	(2,330)	(2,330)
Hedging reserve		**(125)**	(36)	(67)
Translation reserve		**563**	313	562
Retained earnings		**1,071**	1,875	1,492
Equity attributable to owners of the parent		**7,759**	8,402	8,237
Non-controlling interests		**22**	28	24
Total equity		**7,781**	8,430	8,261

[1] Amounts at 30 June 2018 and 31 December 2018 have been restated for the finalisation of acquisition accounting for GKN (see note 2).

Melrose Industries PLC
Condensed Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Other reserves £m	Hedging reserve £m	Translation reserve[1] £m	Retained earnings[1] £m	Equity attributable to owners of the parent £m	Non-controlling interests[1] £m	Total equity £m
At 1 January 2018	133	1,493	109	(2,330)	8	(66)	2,538	1,885	-	1,885
Loss for the period	-	-	-	-	-	-	(328)	(328)	(6)	(334)
Other comprehensive (expense)/income	-	-	-	-	(44)	379	133	468	18	486
Total comprehensive (expense)/income	-	-	-	-	(44)	379	(195)	140	12	152
Acquisition of GKN[2]	169	5,631	-	-	-	-	-	5,800	857	6,657
Purchase of non-controlling interests	31	1,014	-	-	-	-	(419)	626	(841)	(215)
Implementation of IFRS 9[3]	-	-	-	-	-	-	(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)	313	1,875	8,402	28	8,430
Loss for the period	-	-	-	-	-	-	(147)	(147)	6	(141)
Other comprehensive (expense)/income	-	-	-	-	(31)	249	(167)	51	-	51
Total comprehensive (expense)/income	-	-	-	-	(31)	249	(314)	(96)	6	(90)
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	(9)	(9)
Dividends paid	-	-	-	-	-	-	(75)	(75)	(1)	(76)
Equity-settled share-based payments	-	-	-	-	-	-	6	6	-	6
At 31 December 2018	333	8,138	109	(2,330)	(67)	562	1,492	8,237	24	8,261
Loss for the period	-	-	-	-	-	-	(168)	(168)	3	(165)
Other comprehensive (expense)/income	-	-	-	-	(58)	1	(112)	(169)	-	(169)
Total comprehensive (expense)/income	-	-	-	-	(58)	1	(280)	(337)	3	(334)
Dividends paid	-	-	-	-	-	-	(148)	(148)	(5)	(153)
Equity-settled share-based payments	-	-	-	-	-	-	7	7	-	7
At 30 June 2019 (unaudited)	**333**	**8,138**	**109**	**(2,330)**	**(125)**	**563**	**1,071**	**7,759**	**22**	**7,781**

(1) Amounts at 30 June 2018 have been restated for the finalisation of acquisition accounting for GKN (see note 2).
(2) 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.
(3) The Group adopted IFRS 9 on 1 January 2018.

Notes to the Condensed Interim Financial Statements

1. Corporate information

The interim financial information for the six months ended 30 June 2019 has been reviewed by the auditor, but not audited. The information for the year ended 31 December 2018 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.

On 25 June 2019, the Group completed the disposal of the Walterscheid Powertrain Group to One Equity Partners. The Walterscheid Powertrain Group was previously reported within the Other Industrial operating segment and is shown as a discontinued operation in these Condensed Interim Financial Statements.

2. Summary of significant accounting policies

The interim financial information for the six months ended 30 June 2019, 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 2018 Annual Report and financial statements on pages 132 to 141 other than as noted below.

The Group's 2018 Annual Report and financial statements can be found on the Group's website www.melroseplc.net. These Condensed Interim Financial Statements should be read in conjunction with the 2018 information. The annual financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). These Condensed Interim Financial Statements have been prepared in accordance with IAS 34: "Interim Financial Reporting" as adopted by the European Union.

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

The amounts recognised in respect of the identifiable assets and liabilities assumed on the acquisition of GKN were set out in the 2018 Annual Report and reported as provisional. During the period to 19 April 2019, the Group completed its review of the assets and liabilities acquired. As a result, the Group has recorded its final adjustments to the opening balance sheet of GKN and in accordance with IFRS 3: "Business combinations" the acquisition Balance Sheet at 19 April 2018 has been restated to reflect this. These adjustments impact the Balance Sheets at 31 December 2018 and 30 June 2018.

As at 30 June 2018 the Group was still 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. As a consequence, the only fair value items included at 30 June 2018 were in relation to: interest-bearing loans and borrowings, derivative financial instruments, retirement benefit obligations, certain interests in equity accounted investments, tax balances, the uplift of inventory and an initial value for property, plant and equipment. Given the magnitude of GKN's acquired intangible assets and the associated deferred tax liability, these values were removed from the acquisition balance sheet at 30 June 2018 pending finalisation of the Group's valuation and accordingly no amortisation was recognised in the period ended 30 June 2018.

There were many fair value changes identified in the second half of 2018 as well as a small number of final adjustments identified in the first half of the year up to 19 April 2019 that have impacted the restated Balance Sheet at 30 June 2018. Amortisation of acquired intangible assets amounting to a charge of £90 million, utilisation of loss-making contract provisions resulting in income of £15 million and tax income of £17 million thereon has impacted the Income Statement for the period ended 30 June 2018. Additionally, there was a £179 million gain recognised in the Statement of Comprehensive Income for favourable foreign exchange differences resulting primarily from the finalisation of goodwill and acquired intangible asset valuations.

The small number of final adjustments identified in the first half of the year up to 19 April 2019 that have impacted the restated Balance Sheet at 31 December 2018 are as follows:

- Provisions and trade and other payables have increased by £10 million;
  - Provisions increased by £26 million, including a £16 million reclassification from trade and other payables;
  - Trade and other payables decreased by £16 million due to a reclassification to provisions
- Deferred tax assets have reduced by £17 million;
- Acquisition intangibles assets have increased by £21 million; and
- Goodwill has correspondingly increased by £6 million.

There has been no restatement of the Income Statement or Statement of Comprehensive Income for the year ended 31 December 2018 as a result of the finalisation of fair values on acquisition accounting.

Alternative performance measures

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

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

Adjusted revenue includes the Group's share of revenue from equity accounted investments ("EAIs").

2. Summary of significant accounting policies (continued)

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

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

- Amortisation of intangible assets that are acquired in a business combination, excluding computer software and development costs;
- Significant restructuring costs and other associated costs, including losses incurred following the announcement of closure for identified businesses, arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- Acquisition and disposal related costs;
- Impairment charges that are considered to be significant in nature and/or value to the trading performance of the business;
- Movement in derivative financial instruments not designated in hedging relationships, including revaluation of associated financial assets and liabilities;
- Reversal of inventory uplift in value recorded on acquisition;
- Removal of adjusting items, interest and tax on equity accounted investments to reflect operating results;
- The charge for the Melrose equity-settled compensation scheme, including its associated employer's tax charge;
- One-off costs associated with gender equalisation of guaranteed minimum pensions ("GMP") for occupational schemes; and
- The release of fair value items booked on acquisitions.

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

- Acceleration of unamortised debt issue costs written off as a consequence of Group refinancing; and
- The fair value changes on cross-currency swaps, entered into by GKN prior to acquisition, relating to cost of hedging which are not deferred in equity.

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

- 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, when all businesses are held for a complete reporting period.

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

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

Adoption of new accounting standards

The Group adopted IFRS 16 "Leases" on 1 January 2019 using the modified retrospective approach, resulting in no adjustments to the prior year comparatives. IFRS 16 superseded the previous lease guidance including IAS 17: "Leases" and related interpretations. IFRS 16 requires all leases, except where exemptions are applied, to be recognised on the Balance Sheet as a lease liability with a corresponding right-of-use asset presented within property, plant and equipment. As a result of the transition to IFRS 16, the Group recognised right-of-use assets of £589 million and lease liabilities of £589 million.

As part of the initial application of IFRS 16, the Group has applied the following exemptions available; IFRS 16 guidance has not been applied to leases with a lease term which ends within 12 months of the date of initial application or to leases of low value assets. Payments relating to these leases are recognised as an expense in the Income Statement over the lease term and no right-of-use asset or lease liability is recognised.

The Group opted to apply the relief option available under IFRS 16, which permits any right-of-use asset to be adjusted by the value of any associated onerous lease provision recognised in the Balance Sheet as at 31 December 2018, as an alternative to performing an impairment review. As a result onerous lease liabilities, previously held within surplus property provisions of £20 million have been transferred to the IFRS 16 right-of-use asset following adoption of IFRS 16 on 1 January 2019.

The lease liabilities were measured at the present value of the remaining lease payments discounted at the incremental borrowing rate as at 1 January 2019. On transition, the right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In order to calculate the incremental borrowing rate, reference interest rates were derived for corporate bonds, for a period of up to 15 years. Interest rates were obtained for all key currencies and were subsequently adjusted to reflect the country risk premium and a leasing risk premium. The leasing risk premium derived was adjusted to reflect whether the lease was deemed to be secured or unsecured. The Group applied a single discount rate to a portfolio of leases with similar characteristics, in line with the practical expedient available under IFRS 16.

2. Summary of significant accounting policies (continued)

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the corresponding lease liability at 1 January 2019 was determined to be the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

The following explains the difference between operating lease commitments disclosed, applying IAS 17, at 31 December 2018 and the lease liability recognised on adoption of IFRS 16 at 1 January 2019.

	£m
Total minimum lease payments reported at 31 December 2018 under IAS 17	710
Change in assessment of lease term under IFRS 16	32
Leases outside the scope of IFRS 16	(11)
Impact of discounting lease liability under IFRS 16	(142)
Lease liability recognised on transition to IFRS 16 at 1 January 2019	**589**

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 Condensed 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.

Aerospace – a multi-technology tier one supplier of air frame and engine structures, including Aerostructures, Engine Systems and Special Technologies.

Automotive – comprises Driveline, All Wheel Drive and e-Drive (together e-Powertrain) and Cylinder Liners businesses; a global technology and systems engineer which designs, develops, manufactures and integrates an extensive range of driveline technologies.

Powder Metallurgy – a global leader in 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. Air Management includes the Air Quality & Home Solutions business ("AQH") and the Global Heating, Ventilation & Air Conditioning business ("HVAC"). AQH is a leading manufacturer of ventilation products for the professional remodelling and replacement markets, residential new construction market and DIY market. 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, Brush and Wheels & Structures businesses. The Walterscheid Powertrain business has been included in discontinued operations and prior periods have been restated following its disposal in June 2019.

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

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

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

The following tables present the results and certain asset and liability information regarding the Group's operating segments and central cost centres for the six-month period ended 30 June 2019 and comparative periods.

3. **Segment information (continued)**

a) Segment revenues

6 months ended 30 June 2019

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air & Security £m**	**Other Industrial £m**	**Total £m**
Adjusted revenue	1,904	2,450	581	732	335	6,002
Equity accounted investments	(13)	(282)	(7)	-	-	(302)
Revenue	**1,891**	**2,168**	**574**	**732**	**335**	**5,700**

6 months ended 30 June 2018 – restated

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air & Security £m**	**Other Industrial £m**	**Total £m**
Adjusted revenue	714	1,019	254	720	264	2,971
Equity accounted investments	(1)	(123)	-	-	-	(124)
Revenue	**713**	**896**	**254**	**720**	**264**	**2,847**

Year ended 31 December 2018 - restated

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air & Security £m**	**Other Industrial £m**	**Total £m**
Adjusted revenue	2,521	3,382	851	1,458	606	8,818
Equity accounted investments	(42)	(446)	(5)	-	-	(493)
Revenue	**2,479**	**2,936**	**846**	**1,458**	**606**	**8,325**

b) Segment operating profit

6 months ended 30 June 2019

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air & Security £m**	**Other Industrial £m**	**Corporate[2] £m**	**Total £m**
Adjusted operating profit/(loss)	**192**	**186**	**66**	**92**	**31**	**(28)**	**539**
Items not included in adjusted operating profit[1]:							
Amortisation of intangible assets acquired in business combinations	(132)	(73)	(24)	(28)	(12)	-	(269)
Impairment of assets	-	-	-	(179)	-	-	(179)
Restructuring costs	(26)	(14)	(5)	(21)	(5)	(4)	(75)
Equity accounted investments adjustments	-	(14)	-	-	-	-	(14)
Movement in derivatives and associated financial assets and liabilities	2	(2)	-	-	-	(13)	(13)
Acquisition and disposal related costs	-	-	-	-	-	(11)	(11)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(7)	(7)
Release and changes in discount rate of fair value items	(6)	-	22	2	-	-	18
Operating profit/(loss)	**30**	**83**	**59**	**(134)**	**14**	**(63)**	**(11)**
Finance costs							(126)
Finance income							9
Loss before tax							**(128)**
Tax							(22)
Loss for the period from continuing operations							**(150)**

[1] For further details on adjusting items, refer to note 4.
[2] Corporate adjusted operating loss of £28 million, includes £4 million of costs in respect of remaining GKN central cost centres and £12 million of costs in respect of divisional long-term incentive plans.

3. Segment information (continued)

b) Segment operating profit (continued)

6 months ended 30 June 2018 - restated

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	**57**	**74**	**30**	**104**	**32**	**(13)**	**284**
Items not included in adjusted operating profit[1]:							
Restructuring costs	(12)	(11)	(1)	(16)	(69)	(19)	(128)
Amortisation of intangible assets acquired in business combinations	(49)	(29)	(9)	(26)	(12)	-	(125)
Acquisition and disposal related costs	-	-	-	-	-	(124)	(124)
Movement in derivatives and associated financial assets and liabilities	-	-	-	-	-	(123)	(123)
Reversal of uplift in value of inventory	(45)	(42)	(11)	-	(1)	-	(99)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(10)	(10)
Equity accounted investments adjustments	-	(3)	-	-	-	-	(3)
Release and changes in discount rate of fair value items	-	-	-	3	-	-	3
Operating (loss)/profit	**(49)**	**(11)**	**9**	**65**	**(50)**	**(289)**	**(325)**
Finance costs							(51)
Finance income							4
Loss before tax							**(372)**
Tax							42
Loss for the period from continuing operations							**(330)**

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

Year ended 31 December 2018 – restated

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	**250**	**231**	**98**	**198**	**70**	**(28)**	**819**
Items not included in adjusted operating profit[1]:							
Amortisation of intangible assets acquired in business combinations	(176)	(103)	(34)	(54)	(24)	-	(391)
Restructuring costs	(56)	(46)	(11)	(22)	(64)	(32)	(231)
Acquisition and disposal related costs	(7)	-	(1)	-	-	(145)	(153)
Impairment of assets	(17)	-	(3)	-	(132)	-	(152)
Movement in derivatives and associated financial assets and liabilities	-	-	-	-	-	(143)	(143)
Reversal of uplift in value of inventory	(50)	(42)	(11)	-	(2)	-	(105)
Equity accounted investments adjustments	(1)	(24)	-	-	-	-	(25)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(13)	(13)
Impact of GMP equalisation on UK pension schemes	(2)	(1)	-	-	(1)	(7)	(11)
Release and changes in discount rate of fair value items	15	-	-	4	1	-	20
Operating (loss)/profit	**(44)**	**15**	**38**	**126**	**(152)**	**(368)**	**(385)**
Finance costs							(161)
Finance income							5
Loss before tax							**(541)**
Tax							73
Loss for the year from continuing operations							**(468)**

[1] For further details on adjusting items, refer to note 4.
[2] Corporate adjusted operating loss of £28 million, includes £6 million of costs in respect of remaining GKN central cost centres and £2 million of costs in respect of divisional long-term incentive plans.

3. Segment information (continued)

c) Segment total assets and liabilities

30 June 2019

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial £m	Corporate £m	Total £m
Total assets	7,702	5,696	2,117	2,112	1,038	544	**19,209**
Total liabilities	(3,112)	(2,419)	(551)	(594)	(258)	(4,494)	**(11,428)**

30 June 2018 - restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial[(1)] £m	Corporate £m	Total £m
Total assets	7,264	5,672	2,155	2,111	1,608	899	19,709
Total liabilities	(2,968)	(2,454)	(342)	(468)	(531)	(4,516)	(11,279)

(1) Includes assets of £421 million and liabilities of £186 million relating to discontinued operations.

31 December 2018 - restated

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial[(1)] £m	Corporate £m	Total £m
Total assets	7,725	5,685	2,070	2,142	1,494	628	19,744
Total liabilities	(3,040)	(2,330)	(521)	(492)	(499)	(4,601)	(11,483)

(1) Includes assets of £426 million and liabilities of £226 million relating to discontinued operations.

d) Segment capital expenditure and depreciation

6 months ended 30 June 2019

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial[(2)] £m	Corporate £m	Total £m
Capital expenditure[(1)]	67	95	31	20	10	-	**223**
Depreciation of owned assets[(1)]	68	93	30	13	12	-	**216**
Depreciation of leased assets	15	8	3	7	1	1	**35**

(1) Includes computer software and development costs. Capital expenditure excludes finance lease additions.
(2) Includes capital expenditure of £4 million and depreciation of £5 million relating to discontinued operations.

6 months ended 30 June 2018

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial[(2)] £m	Corporate £m	Total £m
Capital expenditure[(1)]	14	43	10	23	6	-	96
Depreciation of owned assets[(1)]	22	26	9	12	6	-	75

(1) Includes computer software and development costs. Capital expenditure excludes finance lease additions.
(2) Includes capital expenditure of £2 million and depreciation of £1 million relating to discontinued operations.

Year ended 31 December 2018

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air & Security £m	Other Industrial[(2)] £m	Corporate £m	Total £m
Capital expenditure[(1)]	105	198	53	44	22	-	422
Depreciation of owned assets[(1)]	88	116	37	24	17	-	282

(1) Includes computer software and development costs. Capital expenditure excludes finance lease additions.
(2) Includes capital expenditure of £11 million and depreciation of £5 million relating to discontinued operations.

3. Segment information (continued)

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 trade and other receivables 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 2019 £m	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m	**30 June 2019 £m**	Restated 30 June 2018 £m	Restated 31 December 2018 £m
UK	**578**	266	834	**2,435**	2,630	2,459
Europe	**1,316**	594	1,869	**5,431**	5,422	5,704
North America	**3,100**	1,599	4,536	**5,219**	5,148	5,146
Other	**706**	388	1,086	**1,429**	1,418	1,452
Total	**5,700**	2,847	8,325	**14,514**	14,618	14,761

[1] Revenue is presented by destination.

4. Reconciliation of adjusted profit measures

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

a) Operating profit

Continuing operations	Notes	**6 months ended 30 June 2019 £m**	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m
Operating loss		**(11)**	(325)	(385)
Amortisation of intangible assets acquired in business combinations	a	**269**	125	391
Impairment of assets	b	**179**	-	152
Restructuring costs	c	**75**	128	231
Equity accounted investments adjustments	d	**14**	3	25
Movement in derivatives and associated financial assets and liabilities	e	**13**	123	143
Acquisition and disposal related costs	f	**11**	124	153
Melrose equity-settled compensation scheme charges	g	**7**	10	13
Release and changes in discount rate of fair value items	h	**(18)**	(3)	(20)
Reversal of uplift in value of inventory	i	**-**	99	105
Impact of GMP equalisation on UK pension schemes	j	**-**	-	11
Total adjustments to operating loss		**550**	609	1,204
Adjusted operating profit		**539**	284	819

a. The amortisation charge on intangible assets acquired in business combinations of £269 million (2018: £125 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.

b. The 2018 Annual Report disclosed that the determination of the recoverable amount in respect of the Security & Smart Technology group of cash generating units ("CGUs") involved management estimation of the impact of highly uncertain matters at that time. Enhanced disclosures, including sensitivity analysis in respect of the key assumptions used in the forecast models, were shown at the 2018 year end. Subsequently, there has been further deterioration in both the performance during the period and forecast future prospects, particularly following increases in US tariffs for goods being imported from China. This along with the increased level of competition and technological change in the market has resulted in the necessity to impair goodwill allocated to the Security & Smart Technology group of CGUs by £179 million. The impairment charge is shown as an adjusting item due to its non-trading nature and size.

4. Reconciliation of adjusted profit measures (continued)

a) Operating profit (continued)

c. Restructuring and other associated costs in the period totalled £75 million (2018: £128 million). Restructuring costs are adjusting items due to their size and non-trading nature and during the period ended 30 June 2019 they included:

- A charge of £45 million in respect of the GKN businesses. Within this, £26 million related to the Aerospace division and included costs incurred in improving quality and delivery for customers in North America and costs relating to footprint rationalisation projects within the Special Technologies business. Within the Automotive division, £14 million of costs have been incurred addressing the cost base of the business, whilst ensuring a more flexible cost structure going forward. In addition, £5 million of restructuring costs were incurred in the Powder Metallurgy division.
- A charge of £21 million within Nortek Air & Security, primarily relating to structural footprint changes in the Security & Smart Technology business in an attempt to mitigate the negative impact of the increase in US tariffs on goods manufactured in China. In addition, there were charges related to continued footprint rationalisation within the HVAC business.
- A charge of £5 million within Other Industrial businesses, predominantly relating to the finalisation of the restructuring activities announced in Brush last year.

d. The Group has a number of equity accounted investments ("EAIs") in which it does not hold full control, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems ("SDS"), within the Automotive business. The EAIs generated £302 million (2018: £124 million) of revenue in the period, which is not included in the statutory results but is shown within adjusted revenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit earned from these EAIs is included.

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

e. Hedge accounting is not applied within the GKN businesses for transactional foreign exchange exposure. For consistency, the movement in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts) entered into to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts in the GKN businesses, along with foreign exchange movements on the associated financial assets and liabilities, totalling a charge of £13 million (2018: £123 million), is shown as an adjusting item because of its volatility and size.

f. Acquisition and disposal related costs of £11 million (2018: £124 million) were incurred in the period and included the profit or loss on the sale of two smaller businesses and their related transaction costs. These items are excluded from adjusted results due to their non-trading nature.

g. The charge for the Melrose equity-settled Incentive Scheme, including its associated employer's tax charge, of £7 million (2018: £10 million) is excluded from adjusted results due to its size and volatility. The shares that would be issued, based on the Scheme's current value at the end of the reporting period, are included in the calculation of the adjusted diluted earnings per share, which the Board considers to be a key measure of performance.

h. Certain items previously recorded as fair value items on acquisitions, have been settled for more favourable amounts than first anticipated. The release of fair value items recognised on acquisitions in the period of £29 million included a credit of £26 million relating to certain loss-making contracts recognised on the acquisition of GKN and is partly offset by an £11 million charge relating to the movement in discount rates on the loss-making contracts recognised as fair value items. The release of any excess fair value item is shown as an adjusting item to avoid positively distorting adjusted results.

i. Finished goods and work in progress inventory 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. The one-off effect in the prior period, relating to GKN's acquired inventory was a charge of £99 million and is excluded from adjusted results due to its size and non-recurring nature.

j. On 26 October 2018, a High Court judgement was made in respect of the gender equalisation of guaranteed minimum pensions for occupational pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, an issue which affects many UK defined benefit pension schemes. The impact of this amendment on the pension schemes within the Group resulted in a specific £11 million increase in the pension deficit in the year ended 31 December 2018, with a corresponding past service cost in the Income Statement. This cost is excluded from adjusted results due to its non-trading and non-recurring nature.

4. Reconciliation of adjusted profit measures (continued)

b) Profit before tax

Continuing operations	Notes	**6 months ended 30 June 2019 £m**	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m
Loss before tax		**(128)**	(372)	(541)
Adjustments to operating loss per above		**550**	609	1,204
Fair value changes on cross-currency swaps	k	**7**	-	8
Write-off previous debt facility unamortised fees	l	**-**	7	7
Equity accounted investments - interest	m	**-**	-	(1)
Total adjustments to loss before tax		**557**	616	1,218
Adjusted profit before tax		**429**	244	677

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

l. To enable the acquisition of GKN, a new bank facility was negotiated which replaced the old Group bank facility. As a result, the amortisation of the remaining £7 million of debt fees relating to the old facility was accelerated and written off. This prior year charge is shown as an adjusting item because of its one-off non-trading nature.

m. As explained in paragraph d above, the profits and losses of EAIs are shown after interest and tax in the statutory results. They are adjusted to show the profit before tax and the profit after tax, consistent with the subsidiaries of the Group.

c) Profit after tax

Continuing operations	Notes	**6 months ended 30 June 2019 £m**	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m
Loss after tax		**(150)**	(330)	(468)
Adjustments to loss before tax per above		**557**	616	1,218
Equity accounted investments - tax	m	**(4)**	(3)	(9)
Tax effect of adjustments to loss before tax	5	**(73)**	(95)	(221)
Total adjustments to loss after tax		**480**	518	988
Adjusted profit after tax		**330**	188	520

5. Tax

Analysis of the charge/(credit) in the period:	**6 months ended 30 June 2019 £m**	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m
Continuing operations			
Current tax	**59**	27	30
Deferred tax	**(37)**	(69)	(103)
Total income tax charge/(credit) from continuing operations	**22**	(42)	(73)
Discontinued operations			
Current tax	**2**	3	4
Deferred tax	**-**	(5)	(6)
Total income tax charge/(credit) from discontinued operations	**2**	(2)	(2)
Total income tax charge/(credit)	**24**	(44)	(75)

Continuing operations:
The effective tax rate in respect of adjusted profit before tax for the half year is 23% (2018: 23%). The adjusted tax charge has been calculated by applying the expected tax rate for the full year to the adjusted profit before tax of £429 million (2018: £244 million), giving an adjusted tax charge of £99 million (2018: £56 million).

5. Tax (continued)

The adjusted tax charge of £99 million (2018: £56 million) excludes a tax credit on adjusting items of £73 million (2018: £95 million). This represents a deferred tax credit on intangible asset amortisation of £59 million (2018: £27 million) and a tax credit on other adjusting items of £14 million (2018: £68 million). The adjusted tax charge includes a charge in respect of EAIs of £4 million (2018: £3 million).

In addition to the amount charged to the Income Statement, a credit of £31 million (2018: charge of £16 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax charge of £8 million (2018: credit of £9 million) in respect of movements on hedge relationships and translation differences and a tax credit of £39 million (2018: charge of £25 million) 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 2019 £m**	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m
Earnings for basis of earnings per share	**(168)**	(328)	(475)
Less: loss for the period from discontinued operations	**15**	4	7
Earnings for basis of earnings per share from continuing operations	**(153)**	(324)	(468)

	6 months ended 30 June 2019 Number	6 months ended 30 June 2018 Number	Year ended 31 December 2018 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	**4,858**	3,045	3,959
Further shares for the purposes of diluted earnings per share (million)(1)	**-**	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share (million)	**4,858**	3,045	3,959

(1) The results for all periods presented 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 2019 pence**	Restated 6 months ended 30 June 2018 pence	Restated Year ended 31 December 2018 pence
Basic earnings per share			
From continuing and discontinued operations	**(3.4)**	(10.8)	(12.0)
From continuing operations	**(3.1)**	(10.6)	(11.8)
From discontinued operations	**(0.3)**	(0.2)	(0.2)
Diluted earnings per share			
From continuing and discontinued operations	**(3.4)**	(10.8)	(12.0)
From continuing operations	**(3.1)**	(10.6)	(11.8)
From discontinued operations	**(0.3)**	(0.2)	(0.2)

Adjusted earnings from continuing operations	**6 months ended 30 June 2019 £m**	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m
Adjusted earnings(1) for the basis of adjusted earnings per share	**327**	182	507

(1) Adjusted earnings for the 6 months ended 30 June 2019 comprises adjusted profit after tax of £330 million (6 months ended 30 June 2018: £188 million - see note 4c), net of an allocation to non-controlling interests of £3 million (6 months ended 30 June 2018: £6 million). Adjusted earnings for the year ended 31 December 2018 comprises adjusted profit after tax of £520 million, net of an allocation to non-controlling interests of £13 million.

6. Earnings per share (continued)

Adjusted earnings per share from continuing operations

	6 months ended 30 June 2019 pence	Restated 6 months ended 30 June 2018 pence	Restated Year ended 31 December 2018 pence
Adjusted basic earnings per share	**6.7p**	6.0p	12.8p
Adjusted diluted earnings per share	**6.7p**	6.0p	12.8p

7. Dividends

	6 months ended 30 June 2019 £m	6 months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Final dividend for the year ended 31 December 2017 of 2.8p	**-**	54	54
Interim dividend for the year ended 31 December 2018 of 1.55p	**-**	-	75
Final dividend for the year ended 31 December 2018 of 3.05p	**148**	-	-
Total dividends paid	**148**	54	129

An interim dividend of 1.7p per ordinary share (2018: 1.55p) totalling £83 million (2018: £75 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 2019.

8. Share of results of equity accounted investments

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

Continuing operations	**6 months ended 30 June 2019 £m**	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m
Revenue	**302**	124	493
Adjusted operating profit	**30**	15	59
Adjusting items	**(10)**	-	(15)
Net finance costs	**-**	-	(1)
Profit before tax	**20**	15	43
Tax	**(4)**	(3)	(9)
Share of results of equity accounted investments	**16**	12	34

9. Discontinued operations

On 25 June 2019, the Group completed the sale of the Walterscheid Powertrain Group for cash consideration of £185 million. The costs charged to the Income Statement during the period associated with the disposal were £7 million. The loss on disposal was £21 million after the recycling of cumulative translation differences of £13 million.

The results of the Walterscheid Powertrain Group were previously included within the Other Industrial operating segment and are classified as a discontinued operation, in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations.

9. Discontinued operations (continued)

Financial performance of discontinued operations:

	6 months ended 30 June 2019 £m	6 months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Revenue	**206**	90	280
Operating costs	**(196)**	(96)	(287)
Operating profit/(loss)	**10**	(6)	(7)
Finance costs	**(2)**	-	(2)
Profit/(loss) before tax	**8**	(6)	(9)
Tax	**(2)**	2	2
Profit/(loss) after tax	**6**	(4)	(7)
Cumulative translation differences recycled on disposal	**13**	-	-
Loss on disposal of net assets of discontinued operations	**(34)**	-	-
Loss for the period from discontinued operations	**(15)**	(4)	(7)

The major classes of assets and liabilities disposed of during the period were as follows:

	£m
Goodwill and other intangible assets	210
Property, plant and equipment	110
Interests in equity accounted investments	4
Inventories	74
Trade and other receivables	67
Cash and cash equivalents	9
Total assets	474
Trade and other payables	(54)
Lease obligations	(34)
Retirement benefit obligations	(155)
Provisions	(10)
Current and deferred tax	(9)
Total liabilities	(262)
Net assets	**212**
Cash consideration, net of costs[(1)]	178
Cumulative translation difference recycled on disposals	13
Loss on disposal of businesses	**(21)**
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents, net of costs[(2)]	181
Less: cash and cash equivalents disposed	(9)
	172

[(1)] Cash consideration of £185 million net of £7 million of disposal costs charged to the Income Statement, £3 million of these costs were accrued at 30 June 2019.

[(2)] Cash consideration of £185 million net of £4 million of cash disposal costs.

10. Provisions

	Loss-making contracts £m	Property related costs £m	Environmental and litigation £m	Warranty related costs £m	Restructuring £m	Other £m	Total £m
At 1 January 2019 – restated	616	74	218	397	116	50	1,471
Utilised	(45)	(2)	(34)	(26)	(91)	(3)	(201)
Net (credit)/charge to operating profit[(1)]	(25)	-	21	7	68	15	86
Unwind of discount[(2)]	15	-	-	-	-	-	15
Disposal of businesses	(1)	(1)	(1)	(1)	(2)	(4)	(10)
Transfers[(3)]	-	(20)	-	-	-	-	(20)
Exchange differences	(5)	-	2	(2)	-	(1)	(6)
At 30 June 2019	**555**	**51**	**206**	**375**	**91**	**57**	**1,335**
Current	77	13	70	111	85	20	376
Non-current	478	38	136	264	6	37	959
	555	51	206	375	91	57	1,335

(1) Includes £37 million of adjusting items and £49 million recognised in adjusted operating profit.
(2) Includes £4 million within finance costs relating to the time value of money and £11 million relating to changes in discount rates on loss-making contract provisions recognised as fair value items on the acquisition of GKN, which has been included as an adjusting item within operating profit.
(3) Onerous lease liabilities have been transferred to the IFRS 16 'right of use asset' following the adoption of IFRS 16 on 1 January 2019.

Provisions for loss-making contracts are considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under it. This obligation has been discounted and will be utilised over the period of the respective contracts, which is up to 15 years.

The provision for property related costs represents the estimated dilapidation costs for ongoing leases. 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.

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products and subsequently updated for changes in estimates as necessary. Warranty terms are, on average, between one and five years.

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

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

Where appropriate, provisions have been discounted using discount rates of between 0% and 8% (31 December 2018: 0% and 9%) depending on the territory in which the provision resides and the length of its expected utilisation.

11. Financial instruments

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values as at 30 June 2019, 30 June 2018 and 31 December 2018:

	Current £m	Non-current £m	Total £m
30 June 2019			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	340	-	340
Net trade receivables	1,762	-	1,762
Contract assets	186	404	590
Classified as fair value:			
Derivative financial assets:			
Foreign currency forward contracts	10	5	15
Interest rate swaps	25	-	25
Embedded derivatives	3	15	18
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(394)	(3,235)	(3,629)
Government refundable advances	(7)	(66)	(73)
Lease obligations	(50)	(566)	(616)
Other financial liabilities	(2,427)	(106)	(2,533)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(98)	(121)	(219)
Interest rate swaps	(11)	(73)	(84)
Cross-currency swaps	(108)	(101)	(209)
Embedded derivatives	(1)	(8)	(9)
30 June 2018 – Restated			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	426	-	426
Net trade receivables	1,847	-	1,847
Contract assets	342	255	597
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	(2,732)	(240)	(2,972)
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)
31 December 2018			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	415	-	415
Net trade receivables	1,835	-	1,835
Contract assets	200	396	596
Classified as fair value:			
Derivative financial assets:			
Foreign currency forward contracts	9	6	15
Interest rate swaps	3	5	8
Embedded derivatives	3	15	18
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(377)	(3,378)	(3,755)
Government refundable advances	(8)	(73)	(81)
Lease obligations	(5)	(52)	(57)
Other financial liabilities	(2,309)	(106)	(2,415)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(100)	(109)	(209)
Interest rate swaps	(1)	(13)	(14)
Cross-currency swaps	(102)	(97)	(199)
Embedded derivatives	(1)	(8)	(9)

11. Financial instruments (continued)

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.

12. Retirement benefit obligations

The Group sponsors defined benefit plans for qualifying employees of certain subsidiaries. The funded defined benefit plans are administered by separate funds that are legally separated from the Group. The Trustees of the funds are required by law to act in the interest of the fund and of all relevant stakeholders in the plans. The Trustees of the pension funds are responsible for the investment policy with regard to the assets of the fund.

The most significant defined benefit pension plans in the Group at 30 June 2019 were:

GKN UK 2012 Pension Plan
The GKN UK 2012 Pension Plan is a funded plan, closed to new members and was closed to future accrual in 2017. The valuation of the plan was based on a full actuarial valuation as of 5 April 2016, updated to 30 June 2019 by independent actuaries.

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

GKN US Consolidated Pension Plan
The GKN US Consolidated Pension Plan is a funded plan, closed to new members and closed to future accrual. The US Pension Plan valuation was based on a full actuarial valuation as of 1 January 2018, updated to 30 June 2019 by independent actuaries.

GKN Germany Pension Plans
The GKN Germany Pension Plans provide benefits dependent on final salary and service with the Company. The plans are generally unfunded and closed to new members.

Brush UK Pension Plan
The Brush Group (2013) ("Brush UK") Pension Plan is a funded plan, closed to new members and closed to future accrual. The valuation of the Brush UK Pension Plan was based on a full actuarial valuation as of 31 December 2016, updated to 30 June 2019 by independent actuaries.

Other plans include a number of funded and unfunded defined benefit arrangements and retiree medical insurance plans, predominantly in the US and Europe.

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

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

30 June 2019

	UK plans[1] £m	US plans £m	European plans £m	Other plans £m	**Total £m**
Plan assets	3,039	257	28	42	**3,366**
Plan liabilities	(3,594)	(422)	(620)	(56)	**(4,692)**
Net deficit	(555)	(165)	(592)	(14)	**(1,326)**

(1) Includes a net deficit in respect of the GKN UK 2012 plan, GKN post-employment medical plans and the Nortek UK plan and a surplus in respect of the Brush UK plan and the GKN UK 2016 plan.

30 June 2018 - restated

	UK plans[1] £m	US plans £m	European plans £m	Other plans £m	**Total £m**
Plan assets	2,914	438	29	37	**3,418**
Plan liabilities	(3,374)	(554)	(668)	(53)	**(4,649)**
Net deficit	(460)	(116)	(639)	(16)	**(1,231)**

(1) Includes a net deficit in respect of the GKN UK 2012 plan, the GKN UK 2016 plan, GKN post-employment medical plans and the Nortek UK plan and a surplus in respect of the Brush UK plan.

12. Retirement benefit obligations (continued)

31 December 2018

	UK plans[1] £m	US plans £m	European plans £m	Other plans £m	**Total £m**
Plan assets	2,791	412	29	41	**3,273**
Plan liabilities	(3,378)	(565)	(690)	(53)	**(4,686)**
Net deficit	(587)	(153)	(661)	(12)	**(1,413)**

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

Valuations of material plans have been updated at 30 June 2019 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.	Price inflation % p.a.
30 June 2019			
GKN UK – 2012 plan	3.1	2.3	2.1
GKN UK – 2016 plan	3.1	2.2	2.1
GKN US plans	n/a	3.5	2.5
GKN Europe plans	1.7	1.1	1.7
Brush UK plan	3.2	2.3	2.1
30 June 2018			
GKN UK – 2012 plan	3.0	2.9	2.0
GKN UK – 2016 plan	3.0	2.7	2.0
GKN US plans	n/a	4.2	n/a
GKN Europe plans	1.8	1.9	n/a
Brush UK plans	3.1	2.9	2.0
31 December 2018			
GKN UK – 2012 plan	3.1	2.9	2.1
GKN UK – 2016 plan	3.1	2.9	2.1
GKN US plans	n/a	4.1	2.5
GKN Europe plans	2.5	1.9	1.8
Brush UK plan	3.2	2.9	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 2019.

During the period, an enhanced transfer value (ETV) exercise has been carried out in the GKN UK 2012 pension plan. This has resulted in a settlement credit of £6 million. Furthermore, the liabilities of the Broan Aftermarket North America, Inc. Group Pension Plan have been settled resulting in a settlement charge of £7 million.

On 1 July 2019, the GKN UK 2012 pension plan was spilt into four separate pension schemes which have been allocated to the Aerospace and Automotive segments. There has been no change to the amounts recognised by the Group as a result of this change.

13. Notes to the Cash Flow Statement

Continuing operations	6 months ended 30 June 2019 £m	Restated 6 months ended 30 June 2018 £m	Restated Year ended 31 December 2018 £m
Reconciliation of adjusted operating profit to cash generated from operating activities			
Adjusted operating profit[1]	**539**	284	819
Adjustments for:			
Depreciation of property, plant and equipment	**214**	61	233
Amortisation of computer software and development costs	**32**	13	44
Share of adjusted operating profit of equity accounted investments	**(30)**	(15)	(59)
Restructuring costs paid and movements in provisions	**(141)**	(78)	(202)
Defined benefit pension contributions paid[2]	**(111)**	(20)	(99)
Change in inventories	**(92)**	(25)	(110)
Change in receivables	**164**	(39)	179
Change in payables	**(140)**	(24)	(160)
Acquisition costs and associated transaction taxes	**(15)**	(106)	(125)
Tax paid	**(79)**	(22)	(65)
Interest paid	**(79)**	(32)	(111)
Net cash from/(used in) operating activities	**262**	(3)	344

[1] See note 4 for reconciliation of operating loss to adjusted operating profit.
[2] The Group committed to contribute £150 million in total to the GKN UK 2012 and GKN UK 2016 plans in the first 12 months of ownership, £56 million was contributed in the year ended 31 December 2018 and £94 million was contributed in the period ended 30 June 2019.

Cash flow from discontinued operations	6 months ended 30 June 2019 £m	6 months ended 30 June 2018 £m	Year ended 31 December 2018 £m
Net cash (used in)/from discontinued operations	**(3)**	10	33
Defined benefit pension contributions paid	**(2)**	(1)	(3)
Tax paid	**-**	-	(1)
Net cash (used in)/from operating activities from discontinued operations	**(5)**	9	29
Purchase of property, plant and equipment	**(4)**	(2)	(11)
Proceeds from disposal of property, plant and equipment	**-**	-	2
Net cash used in investing activities from discontinued operations	**(4)**	(2)	(9)
Repayment of principal under lease obligations	**(2)**	-	-
Net cash used in financing activities from discontinued operations	**(2)**	-	-

Net debt reconciliation

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

Net debt is 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. See the glossary for a reconciliation of these measures.

13. Notes to the Cash Flow Statement (continued)

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

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Interest-bearing loans and borrowings – due within one year	**(394)**	(1)	(377)
Interest-bearing loans and borrowings – due after one year	**(3,235)**	(3,700)	(3,378)
External debt	**(3,629)**	(3,701)	(3,755)
Less:			
Cash and cash equivalents	**340**	426	415
	(3,289)	(3,275)	(3,340)
Adjustments:			
Impact of cross-currency swaps	**(209)**	(167)	(199)
Non-cash acquisition fair value adjustments	**44**	69	57
Net debt	**(3,454)**	(3,373)	(3,482)

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

	At 31 December 2018 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	**At 30 June 2019 £m**
External debt	(3,755)	144	-	7	(25)	**(3,629)**
Cross-currency swaps	(199)	-	-	(6)	(4)	**(209)**
Non-cash acquisition fair value adjustments	57	-	-	(13)	-	**44**
	(3,897)	144	-	(12)	(29)	**(3,794)**
Cash and cash equivalents	415	(232)	157	-	-	**340**
Net debt	(3,482)	(88)	157	(12)	(29)	**(3,454)**

Glossary

Alternative Performance Measures ("APMs")

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

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

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures			
Adjusted revenue	Revenue	Share of revenue of equity accounted investments (note 8)	Adjusted revenue includes the Group's share of revenue of equity accounted investments ("EAIs"). This enables comparability between reporting periods.

Revenue	**6 months ended 30 June 2019 £m**	Restated(1) 6 months ended 30 June 2018 £m	Restated(2) Year ended 31 December 2018 £m
Revenue	**5,700**	2,847	8,325
Share of revenue of equity accounted investments	**302**	124	493
Adjusted revenue	**6,002**	2,971	8,818

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusting items	None	Adjusting items (note 4)	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. These include items which are significant in size or volatility or by nature are non-trading or non-recurring, any item released to the Income Statement that was previously a fair value item booked on an acquisition, and include adjusted profit from EAIs. This provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and provides consistency and comparability between reporting periods.
Adjusted operating profit	Operating profit/(loss)(3)	Adjusting items (note 4)	The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.

Operating profit	**6 months ended 30 June 2019 £m**	Restated(1) 6 months ended 30 June 2018 £m	Restated(2) Year ended 31 December 2018 £m
Operating loss	**(11)**	(325)	(385)
Adjusting items (note 4)	**550**	609	1,204
Adjusted operating profit	**539**	284	819

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted operating margin	Operating margin(4)	Share of revenue of equity accounted investments (note 8), adjusting items (note 4)	Adjusted operating margin represents Adjusted operating profit as a percentage of Adjusted revenue.
Adjusted profit before tax	Profit/(loss) before tax	Adjusting items (note 4)	Profit before the impact of adjusting items and tax. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.

Profit before tax	**6 months ended 30 June 2019 £m**	Restated(1) 6 months ended 30 June 2018 £m	Restated(2) Year ended 31 December 2018 £m
Loss before tax	**(128)**	(372)	(541)
Adjusting items (note 4)	**557**	616	1,218
Adjusted profit before tax	**429**	244	677

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted profit after tax	Profit/(loss) after tax	Adjusting items (note 4)	Profit after tax but before the impact of the adjusting items. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.

Profit after tax	**6 months ended 30 June 2019 £m**	Restated(1) 6 months ended 30 June 2018 £m	Restated(2) Year ended 31 December 2018 £m
Loss after tax	**(150)**	(330)	(468)
Adjusting items (note 4)	**480**	518	988
Adjusted profit after tax	**330**	188	520

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted EBITDA for covenant purposes	Operating profit/ (loss)(3)	Adjusting items (note 4), depreciation of property, plant and equipment and amortisation of computer software and development costs, share of depreciation of property, plant and equipment and amortisation of computer software and development costs of equity accounted investments	Adjusted operating profit for 12 months subsequent to the reporting date, before depreciation and impairment of property, plant and equipment and before the amortisation and impairment of computer software and development costs. Adjusted EBITDA for covenant purposes is a measure used by external stakeholders to measure performance.

Adjusted EBITDA for covenant purposes	**12 months ended 30 June 2019 £m**	Year ended(5) 31 December 2018 £m
Adjusted operating profit	**1,074**	847
Depreciation of property, plant and equipment and amortisation of computer software and development costs	**449**	282
Full year impact of acquisitions	**-**	378
Other adjustments required for covenant purposes(6)	**(65)**	(15)
Adjusted EBITDA for covenant purposes	**1,458**	1,492

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Adjusted tax rate</td><td>Effective tax rate</td><td>Adjusting items, adjusting tax items and the tax impact of adjusting items (note 4 and note 5)</td><td>The income tax charge for the Group excluding adjusting tax, and the tax impact of adjusting items, divided by adjusted profit before tax.

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

<table>
<tr><th>Adjusted tax rate</th><th>6 months ended 30 June 2019 £m</th><th>Restated[1] 6 months ended 30 June 2018 £m</th><th>Restated[2] Year ended 31 December 2018 £m</th></tr>
<tr><td>Tax (charge)/credit per Income Statement</td><td>(22)</td><td>42</td><td>73</td></tr>
<tr><td>Tax impact of adjusting items</td><td>(77)</td><td>(98)</td><td>(230)</td></tr>
<tr><td>Adjusted tax charge</td><td>(99)</td><td>(56)</td><td>(157)</td></tr>
<tr><td>Adjusted profit before tax</td><td>429</td><td>244</td><td>677</td></tr>
<tr><td>Adjusted tax rate</td><td>23%</td><td>23%</td><td>23%</td></tr>
</table></td></tr>
<tr><td>Adjusted basic earnings per share</td><td>Basic earnings per share</td><td>Adjusting items (notes 4 and 6)</td><td>Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial period.</td></tr>
<tr><td>Adjusted diluted earnings per share</td><td>Diluted earnings per share</td><td>Adjusting items (notes 4 and 6)</td><td>Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of any potentially dilutive options.

The Board considers this to be a key measure of performance when all businesses are held for the complete reporting period.</td></tr>
<tr><td>Interest cover</td><td>None</td><td>Not applicable</td><td>Adjusted EBITDA for covenant purposes as a multiple of net interest payable on bank loans and overdrafts, being 10.5x in 12-month period ended 30 June 2019 (Year ended 31 December 2018: 11.6x).

This measure is used for bank covenant testing.</td></tr>
<tr><td colspan="4">Balance Sheet Measures</td></tr>
<tr><td>Working capital</td><td>Inventories, trade and other receivables less trade and other payables</td><td>Not applicable</td><td>Working capital comprises inventories, current and non-current trade and other receivables and current and non-current trade and other payables.</td></tr>
<tr><td>Net debt</td><td>Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments</td><td>Reconciliation of net debt (note 13)</td><td>Net debt comprises cash and cash equivalents, interest-bearing loans and borrowings and cross-currency swaps but excludes non-cash acquisition fair value adjustments.

Net debt is one measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of the indebtedness of the Group.</td></tr>
<tr><td>Leverage of net debt to adjusted EBITDA for covenant purposes</td><td>None</td><td>Not applicable</td><td>Bank covenant definition of net debt divided by adjusted EBITDA for bank covenant purposes.

This measure is used for bank covenant testing.</td></tr>
</table>

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Bank covenant definition of net debt at average rates	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Impact of foreign exchange and adjustments for bank covenant purposes	Net debt (as above) is presented in the Balance Sheet translated at period end exchange rates. For bank covenant testing purposes net debt is converted using average exchange rates for the previous 12 months.

Net debt	**30 June 2019 £m**	31 December 2018 £m
Net debt at closing rates (note 13)	**3,454**	3,482
Impact of foreign exchange	**(50)**	(86)
Net debt at average rates	**3,404**	3,396
Other adjustments required for covenant purposes	**14**	11
Bank covenant definition of net debt at average rates	**3,418**	3,407
Leverage	**2.34x**	2.28x

Covenants were not applicable for the period ended 30 June 2018.

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

Adjusted operating cash flow	**6 months ended 30 June 2019 £m**	Restated[1] 6 months ended 30 June 2018 £m	Restated[2] Year ended 31 December 2018 £m
Adjusted operating profit	**539**	284	819
Share of adjusted operating profit of equity accounted investments	**(30)**	(15)	(59)
Depreciation of owned property, plant and equipment and amortisation of computer software and development costs	**211**	74	277
Depreciation of leased property, plant and equipment and amortisation of computer software and development costs	**35**	-	-
Lease obligation payments	**(43)**	-	-
Positive non-cash impact from loss-making contracts	**(45)**	(15)	(63)
	667	328	974
Change in inventories	**(92)**	(25)	(110)
Change in receivables	**164**	(39)	179
Change in payables	**(140)**	(24)	(160)
Adjusted operating cash flow (pre-capex)	**599**	240	883
Adjusted operating cash flow conversion	**90%**	73%	91%

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Free cash flow	Net increase/ decrease in cash and cash equivalents	Acquisition related cash flows, dividends paid to owners of the parent, foreign exchange, discontinued operating cash flows and other non-cash movements	Free cash flow represents cash generated from trading after all costs including restructuring, pension contributions, tax and interest payments.
Adjusted free cash flow	Net increase/ decrease in cash and cash equivalents	Free cash flow, as defined above, adjusted for special pension contributions, restructuring cash flows and discontinued operation cash flows	Adjusted free cash flow represents free cash flow adjusted for special pension contributions, restructuring cash flows and discontinued operating cash flows.
Capital expenditure (capex)	None	Not applicable	Calculated as the purchase of owned property, plant and equipment and computer software and expenditure on capitalised development costs during the period, excluding any assets acquired as part of a business combination. Net capital expenditure is capital expenditure net of proceeds from disposal of property, plant and equipment.
Capital expenditure to depreciation ratio	None	Not applicable	Capital expenditure divided by depreciation of owned property, plant and equipment and amortisation of computer software and development costs.
Dividend per share	Dividend per share	Not applicable	Amounts payable by way of dividends in terms of pence per share.

(1) Results for the period ended 30 June 2018 have been restated for the finalisation of acquisition accounting for GKN (see note 2) and discontinued operations (see note 9).
(2) Results for the year ended 31 December 2018 have been restated for discontinued operations (see note 9).
(3) 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.
(4) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating profit/loss[3] divided by revenue.
(5) Year ended 31 December 2018 remains aligned to the original calculations supporting the Group's bank debt compliance certificate, and has not been restated for discontinued operations.
(6) Included within other adjustments required for covenant purposes are adjustments to include dividends received from equity accounted investments, to remove adjusted operating profit of equity accounted investments and adjustments in respect of leases.