5 March 2020

MELROSE INDUSTRIES PLC

AUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Melrose Industries PLC today announces its audited results for the year ended 31 December 2019.

Highlights

	Adjusted[1] results		**Statutory results**	
	2019	2018	**2019**	2018
Continuing operations[2]	**£m**	£m	**£m**	£m
Revenue	**11,592**	8,645	**10,967**	8,152
Operating profit/(loss)	**1,102**	813	**318**	(387)
Profit/(loss) before tax	**889**	672	**106**	(542)
Diluted earnings per share	**14.3p**	12.7p	**0.9p**	(11.8p)

Group

- The results for 2019 were comfortably ahead of the Board's expectations for both profit and cash generation
- Adjusted[1] diluted earnings per share ("EPS") were 14.3 pence, up 13% on last year (statutory EPS: 0.9 pence) and adjusted free cash flow[3] was £591 million, up 72%[4] on an annualised like-for-like basis
- Group net debt and leverage have both been improved and were reduced to £3.28 billion and 2.25x respectively
- Net trade working capital in the Group was reduced by £95 million (5%) in the year, with adjusted profit conversion to cash[1] of 104%. More progress in net trade working capital to come, in line with achieving the previously announced £400 million target within the Melrose ownership period
- Loss-making contracts have been improved materially with the losses from 2018 reducing by 11% in 2019. In addition, c.25% of the remaining provision has been released (as previously stated this release is not included in adjusted[1] operating profit) due to improvements implemented by management this year. These improvements impact future trading in GKN positively
- The GKN UK defined benefit pension schemes are significantly better funded, aided by over £240 million[5] of cash contributions from the Group so far during Melrose ownership, fully in line with the plan agreed with the Trustees. Along with better investment returns, the remaining contributions required to make these schemes well funded has reduced from up to £1 billion at acquisition to c.£500 million
- A proposed final dividend of 3.4 pence per share (2018: 3.05 pence) is 11% up on last year, giving a full year dividend of 5.1 pence per share (2018: 4.6 pence) up 11%
- During 2019, a record total level of investment has been made in new product development; technology; environmental, social & governance (ESG); and capital and restructuring projects - all designed to improve the quality of the businesses and their future performance
- The effects of the COVID-19 outbreak are not fully known at present. However, whilst there will clearly be some impact, the opportunities to improve GKN in 2020 and beyond position Melrose well to deliver positive returns for shareholders in the future

Divisions[6]

- Aerospace sales grew by 7% in 2019 and the adjusted[1] operating margin rose to 10.6%, up from 9.9% in 2018. The second half margin was 11.1%, fully on track to achieve the target previously set

- Aerospace is implementing its extensive restructuring project, "One Aerospace", as announced in September 2019, to achieve further performance enhancements and is investing in new technology to improve aircraft efficiency in the future. North American Aerostructures became profitable in 2019; only two years ago this part of Aerospace made a £43 million loss

- Automotive sales reduced by 6% over the full year in 2019 in line with the market, but saw an improved trend in the second half, being 4% down, despite the General Motors strike in the autumn. An exciting new commercial partnership in eDrive has been signed with Delta Electronics Inc to accelerate the development of electric vehicles

- The Automotive adjusted[1] operating margin in the full year was 7.7% with the second half margin rising to 7.9% up from 6.8% in 2018, a very encouraging performance. This meant the adjusted[1] operating profit actually rose by 14% in the second half compared to the same period in 2018 despite the macro Automotive headwinds

- The Automotive and Aerospace businesses are now totally separate from a head office, legal, tax and pensions perspective. Melrose will be holding an Investor Day for Automotive in New York in October this year to update the markets on its future strategy

- Nortek Air Management continues to benefit from its leading edge sustainable StatePoint Technology® to reduce energy and water consumption in data centres. Nortek Security had a tough year but is rebuilding under new management. Ergotron ended the year strongly with its second half profit being 26% ahead of the previous year

- Melrose has appointed advisers to explore the strategic options for Nortek Air Management, although clearly recent events may have some bearing on timing. In the event of a significant disposal, a further reduction to net debt would be made along with an exceptional repayment to shareholders and a further contribution to the GKN UK defined benefit pension schemes

Justin Dowley, Chairman of Melrose Industries PLC, said:

"We are delighted with the Melrose performance in 2019 and the substantial value that is being unlocked. Notwithstanding any implications of the COVID-19 outbreak, the bedrock has now been built for the GKN businesses to attain results which were not previously achievable, and, in addition, the shareholder value built up in our longer held assets is closer to being realised. This shows, once more, that the Melrose model thrives by investing properly in businesses and giving management the entrepreneurial freedom to succeed. This is just the start of what is possible for GKN."

1. Considered by the Board to be a key measure of performance. Described in the glossary to the 2019 Preliminary Announcement
2. Results for 2018 include GKN for 8 months only and have been restated for discontinued operations
3. Adjusted free cash flow excludes the special one-off pension contributions and restructuring spend
4. Calculated compared to 2018 annualised adjusted free cash flow, excluding the previously announced £150 million cash outflow from unwinding creditor stretch in 2018. 2018 annualised adjusted free cash flow includes 12 months of GKN ownership
5. Including the contribution paid on 6 January 2020
6. All growth metrics are calculated at constant currency against 2018 annualised results, excluding the impact of loss-making contracts in both periods for consistency. 2018 annualised results include 12 months of GKN ownership

ENDS

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CHAIRMAN'S STATEMENT

I am pleased to report our 17th set of annual results since flotation in 2003.

CALENDAR YEAR 2019[1]

The past year has seen us take some important steps towards unlocking the full potential of the GKN businesses and this is showing through in these results. We achieved statutory revenue for the Melrose Group of £10,967 million (2018: £8,152 million), with an adjusted operating profit of £1,102 million (2018: £813 million) based on a statutory operating profit of £318 million (2018: loss of £387 million). Importantly, adjusted free cash flow improved by 72% to £591 million on an annualised like-for-like basis, thus reducing leverage in the Group to 2.25x EBITDA.

While there remains plenty to do, this clearly demonstrates that the improvements we are making to the GKN businesses are starting to deliver the performance that we believe is achievable. Nortek Global HVAC ("HVAC") has enjoyed another strong year as the installations of its cutting edge sustainable StatePoint technology in large scale data centres gain momentum across the globe. With the appointment of advisers to consider strategic options for Nortek Air Management ("Air Management"), the business is reported in these accounts as a stand-alone division and Security & Smart Technology ("Security") has been moved to the Other Industrial division.

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

DIVIDEND

In line with our progressive dividend policy, the Board proposes to pay a final dividend of 3.4 pence per share (2018: 3.05 pence), making a total dividend for the year of 5.1 pence per share (2018: 4.6 pence), an increase of 11% from last year. The final dividend will be paid on 20 May 2020 to those shareholders on the register at 3 April 2020, subject to approval at the Annual General Meeting ("AGM") on 7 May 2020.

PENSIONS

We are very proud of our track record in improving the funding of pension schemes under our stewardship. We were proactive, transparent and constructive in agreeing commitments with pension trustees during the acquisition of GKN to provide comfort that the improvements we had planned for the businesses included greater security for their members. We continue to deliver on our promises, increasing the prudence of their funding targets, while over £240 million of cash contributions so far have helped to significantly improve the funding position.

This improvement in funding has been matched by structural enhancements. In line with plans agreed with the trustees, we have rebalanced the pension liabilities more evenly across the supporting businesses. Stronger, better funded and more secure GKN pension schemes are the latest example in our good track record for responsible stewardship.

BOARD MATTERS

As announced last year, co-founder and Executive Vice Chairman David Roper will retire at the end of May. His period of service, first as inaugural CEO and then as Executive Vice Chairman, has been one of great success for the business he helped found in 2003. It is a testament to his leadership that he leaves Melrose in such good health. We thank him for his long and successful service and wish him all the best in his retirement. David's departure is part of the ongoing succession planning for the Board that has also seen us welcome Funmi Adegoke as a non-executive director last October.

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[1] Results for 2018 include GKN businesses for the eight months of ownership and have been restated for discontinued operations

Although I have only served as independent non-executive Chairman for a short period, I will have served as a director for nine years in September 2020, which is a key date for independent directors under the guidance of the new UK Corporate Governance Code (the "Code") that came into force after my appointment had been announced. The Company therefore conducted an engagement exercise with its key shareholders regarding the possible extension of my tenure past the nine year guidance. I am pleased to say that the feedback was unanimously supportive and accordingly, the Board proposes that my appointment as Chairman continues for up to a further three years, subject to annual re-election, to provide stability and certainty following the acquisition of GKN, as well as to oversee smooth succession and increasing diversity for the Board.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") DISCLOSURE

You will see that we have produced our first stand-alone ESG Report as part of our Annual Report. This ESG Report draws together all the actions, programmes and performance on ESG matters for us and our businesses to aid the understanding of our investors and other stakeholders.

Consistent with our "Buy, Improve, Sell" strategy, some of the businesses we acquire may be underdeveloped in one or more areas of ESG focus. While we set a good example centrally through strong governance practices and responsible stewardship, a key part of the improvement strategy is providing the investment, support and encouragement that our businesses need to make meaningful, continuous ESG improvements. This delivers material production efficiencies, such as the 30% reduction in emissions achieved by GKN facilities over the past two years, and sustainability breakthroughs on product developments such as the composite "Wing of Tomorrow" and electric aircraft initiatives of GKN Aerospace, the P4 eDrive system of GKN Automotive reducing CO_2 emissions by up to 100%, and HVAC's cutting edge StatePoint technology, which enables savings of up to 30% for energy consumption and up to 90% for water usage on cooling systems in the fast growing hyperscale data centre market.

These are all long-term programmes requiring significant investment that will continue to deliver sustainable benefits long after our ownership and demonstrate the strength of our commitment. We welcome the evolving focus and clarity on ESG matters as yet another opportunity to demonstrate how we build better, stronger businesses for the benefit of all stakeholders whilst producing excellent returns for shareholders. We see these as entirely compatible and I refer you to the ESG Report for full details.

PURPOSE AND STRATEGY

Melrose was founded in 2003 to empower businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. This has been delivered through Melrose's "Buy, Improve, Sell" strategy, which means we buy good quality but underperforming manufacturing businesses and then invest heavily to improve performance and productivity as they become stronger, better businesses under our responsible stewardship. At the appropriate time, we find them a new home for the next stage of their development and return the proceeds to shareholders. This current set of results is a strong demonstration of this strategy in action, and a continuation of the achievements that have seen Melrose ranked as the second highest performer for total shareholder return in the FTSE350 over the past decade.

OUTLOOK 2020

2019 was a year of significant progress but encouragingly much remains to be done and our divisional teams are delivering. As such, we expect 2020 to be another year of good progress driven by each of the key businesses with a dual focus on efficiency programmes, to deliver operational improvements, as well as record investment in R&D to maintain technological market leadership. The Melrose model has always been focussed on performance improvement rather than end market growth and it is in uncertain and volatile markets that this shines through most clearly. While it is too early to be precise on the impact of COVID-19 on our businesses or wider economic conditions, we remain focussed on what we can control. Longer term, we continue to see significant value in the Group and the foundations to realise this are stronger than ever.

Justin Dowley
Chairman
5 March 2020

CHIEF EXECUTIVE'S REVIEW

After a busy eight months following the acquisition of GKN, our first full year of ownership has proved to be equally significant as our investments and improvement plans have gained momentum. Having legally separated all the GKN businesses and with motivated executive teams, we were able to increase the focus on performance, with pleasing results.

Although benefiting from a strong sector, GKN Aerospace was successful in both growing its sales as well as improving adjusted operating margins to approximately 11% in the second half of the year. Continued record investment in technology supported a number of advances, including the first composite components for the Wing of Tomorrow programme for Airbus, while continuing efficiency and productivity programmes saw a return to profitability for the previously troubled North American sites. Good progress has been made on the "One Aerospace" reorganisation announced last September. This has reshaped the division into three business lines – Civil Airframe, Defense and Engines – to align with its customer base and centralise the global control of operations under the Chief Operating Officer. It is a key focus for 2020 to evolve the management structure of this business.

With the global downturn in the automotive sector continuing into 2019, GKN Automotive was quick to take corrective action that limited its impact on profitability. Although sales declined 6% over the year, in line with the market, the business was able to improve adjusted operating margins in the second half to just under 8% and adjusted operating profit for the same period rose by 14% compared with the prior year. These actions are part of GKN Automotive's ambitious plan to achieve the margin target announced last year and are matched by ongoing record investment in research and development. The exciting new collaboration with Delta Electronics Inc announced in January 2020 to jointly produce 3-in-1 eDrive systems builds on a strong existing relationship and will enable both parties to build on their respective positions in this dynamic market.

Being predominantly an automotive component manufacturer, GKN Powder Metallurgy also felt the challenges of the automotive sector downturn in 2019. This was accentuated by its exposure to the General Motors strike in the second half which drove sales down by 10% and adjusted operating margins to 10.5%. Accordingly, it is implementing a plan to rebalance its cost base and a focus for this year is on improving its Sinter Large division. There is now a strong focus on improving this business and the recent acquisition of Forecast 3D is an exciting opportunity for GKN Powder Metallurgy to be a market leader in additive manufacturing.

All of our businesses are keeping the unfolding events surrounding the COVID-19 outbreak under review. To provide some context of the impact to date, approximately 10% of Group sales are manufactured in China, of which only 5% is sold in China. GKN Automotive has the largest exposure through its SDS joint venture, but all except one site are operational after the new year break. Whilst there is clearly going to be a material impact on the Chinese economy, at the time of writing there are increasing signs of a return to normal levels of production.

The working capital improvement programme is building momentum across the Group, which delivered significant progress towards the targeted £400 million of ultimate savings through a 5% reduction in trade working capital. Group cash conversion was strong at 104%. Each of GKN Aerospace and GKN Automotive have continued their focus on procurement, delivering significant savings year on year.

The GKN businesses are also making good progress in addressing the £629 million of loss-making contracts we inherited on acquisition. Through a mixture of operational improvements, productivity, procurement initiatives and commercial discussions, they have achieved sufficient improvements in the long-term positions of these contracts to enable a release of approximately 25% of the remaining provision (as previously indicated not included in adjusted operating profit). GKN Automotive has been particularly effective in making progress, but we are confident there are significant further improvements available to all businesses.

Last year saw a number of important milestones for Air Management's game changing data centre climate control technology StatePoint, with the business initiating roll out in two mega scale facilities for a global technology company and developing a strong pipeline of new opportunities to gain further market share. Elsewhere, the Nortek Air Solutions business continues to go from strength to strength, while the Air Quality and Home Solutions business overcame some headwinds in its Canadian market and delivered a number of important new product launches.

Security has been moved to the Other Industrial division, with the impairment unchanged from the interim results, and has a new management team as it looks to finalise the transition of its production away from China to minimise tariff exposure. These results indicate that the new management team at Ergotron look to have put recent challenges from tariffs behind them as they further develop their product portfolio and clarify their best routes to market. Brush has emerged from its restructuring programme better shaped and well positioned to serve its growing markets.

Set out below is a more detailed overview of the performance for each division.

AEROSPACE DIVISION

GKN Aerospace is a global tier 1 aerospace partner with market leading positions driven by technological innovation, advanced processes and engineering excellence. GKN Aerospace's technology is used throughout the aerospace industry: from high-use single aisle aircraft and the world's largest passenger planes, through to business jets, helicopters and the world's most advanced fighter jets. GKN Aerospace technologies help aircrafts fly faster, further and greener.

During 2019, GKN Aerospace consolidated on the early gains made since our acquisition and continued to take the required actions to increase customer confidence and improve operational delivery. Those measures have resulted in good progress being made in addressing loss-making contracts identified in the opening balance sheet review, although this remains a work in progress with significant further opportunities available. The business has also kept its exposure to Boeing 737 MAX under close review and, in discussion with Boeing, is taking the necessary mitigating action. The exposure of GKN Aerospace to the 737 MAX is approximately a shipset value of up to £400,000 for each aircraft.

The business also sharpened its focus on commercial performance improvement, supported by operational efficiency measures and significant investment from Melrose. These have been particularly noticeable in the North American transformation programme in 2019 that has enabled this group of sites to move from a £43 million loss in 2017 to a small profit in 2019. This contributed to a stronger second half performance for GKN Aerospace, with operating margins for that period reaching 11% and operating margin growth across the year of more than 1 percentage point.

GKN Aerospace commenced a wholesale reorganisation during the second half of the year to create a stronger, simpler, more competitive business, based on a fully integrated global operating model and organised around three business lines: Civil Airframe, Defense and Engines as well as a regional network of operational sites supported by global functions. Over the next 18 months full deployment of the "One Aerospace" operating model will refocus the business to better serve its customers by placing accountability for customer relationships and product lines at the heart of the commercial organisation.

The refreshed organisation will better enable the business to unlock its full potential by supporting and directing its key improvement measures including continued investment in new facilities, centralised control of operations, further investment in technology, and improvements to delivery, quality and customer relationships. It will also result in a more streamlined and nimble management structure. Implementation of the reorganisation will remain a key focus for the business in 2020 and into 2021.

GKN Aerospace's continued investment in technology led to several landmark achievements in 2019, strengthening its position as a key partner to several major blue-chip customers. In the Civil Airframe market, GKN Aerospace's advanced composite leadership saw it manufacture and deliver the first components for Airbus' Wing of Tomorrow programme, including a revolutionary 4-metre demonstrator tool to accelerate future progress. In Engines, GKN Aerospace's world-leading additive manufacturing capability accelerated the production of a Fan Case Mount Ring component. This is the largest purely additive aerospace part ever produced, while reducing titanium waste, CO_2 emissions, and production time and costs, and providing opportunities for expansion into key engine platforms.

GKN Aerospace also strengthened its additive manufacturing leadership position within Civil Airframe and Defense, winning key roles on collaborative R&D programmes in the UK and announcing a new world-leading additive pilot production cell at Oak Ridge National Laboratory in the US. These advances in additive manufacturing technology continue to target untapped productivity and profitability improvements, as well as secure new business opportunities.

Throughout the year, GKN Aerospace continued its strategic repositioning in the emerging Asia market, announcing a new facility in China and starting production in its new wiring site in Pune, India, while closing two loss-making sites. With Melrose support, over £50 million was committed to new investment in productivity across key European and US facilities, including Cowes, Luton and Portsmouth in the UK, and Garden Grove in the US.

Outlook

Despite some challenges, overall the long-term civil aerospace market remains in line with our acquisition assumptions, with order backlog and predicted aircraft requirements supporting a positive long-term outlook for GKN Aerospace globally. An increase in international defence spending is driving strong demand expectations in the aerospace defence market.

While the Boeing 737 MAX has made headlines over the past 12 months, the full extent of the impact on the market still remains unclear for 2020 and, whilst relatively less significant for GKN Aerospace, the business is taking appropriate mitigating actions. GKN Aerospace's strong relationships with major OEMs and good exposure to the growing Asian market, world-leading technology and a renewed focus on operational efficiencies driven centrally across its global footprint, is expected to enable a reshaped GKN Aerospace to continue to deliver further improvements towards achieving its margin targets and again perform strongly in 2020.

AUTOMOTIVE DIVISION

GKN Automotive is a world leading supplier of automotive driveline technology and systems used across the automotive industry, from the smallest ultra-low-cost cars to the most sophisticated premium vehicles demanding the most complex driving dynamics. GKN Automotive has global operations in 21 countries and is principally organised around its two key core competencies: (i) Driveline, which is the world's pre-eminent global driveshaft manufacturer; and (ii) ePowertrain, an industry leader in electric powertrains ("eDrive") and intelligent all-wheel drive ("AWD") systems.

The Driveline division is an industry leader, supplying to more than 90% of global vehicle manufacturers, with more than 50% of the 80 million new cars sold each year running on GKN Automotive parts. The business provides a comprehensive range of sideshafts, propshafts and constant velocity joints, offering a simple, reliable solution for every type of hybrid, electric or combustion passenger vehicle. Despite the global automotive downturn in 2019, the Driveline pipeline has expanded throughout the year, bolstering the division's market leading position as it moves into 2020.

GKN Automotive also has an unparalleled 17 years of eDrive development and integration expertise and has produced more than one million eDrive systems to date, with a rapidly expanding order book. The business has pioneered the advancement of eDrive technologies, developing its systems integration and production capabilities. GKN Automotive recently announced a strategic collaboration with Delta Electronics Inc, a global power electronics specialist, for the joint development of advanced eDrive technology, with GKN Automotive acting as system integrator.

This partnership will further GKN Automotive's technical capabilities and accelerate time to market for scalable, next generation semi integrated 2-in-1 and fully integrated 3-in-1 eDrive systems of power classes from 80kW to 155kW. This important development milestone has been matched by commercial success, with four successful programme launches and £2.4 billion of lifetime value ePowertrain programmes secured, and the delivery of GKN Automotive's millionth eDrive system. This milestone underlines GKN Automotive's early technology position in the fast-growing and competitive eDrive market, which is projected to be worth more than £12 billion by 2030.

China continues to be an important market for GKN Automotive. A long-standing excellent relationship with local partner HASCO through GKN Automotive's 50% equity investment in the strong joint venture, Shanghai GKN HUAYU Driveline Systems ("SDS"), continues to generate impressive returns. The business in this region experienced a healthy evolution of its eDrive pipeline in 2019 and executed three major eDrive programme launches during the year. GKN Automotive is closely monitoring the situation surrounding the COVID-19 outbreak, both in China and elsewhere, and is working to mitigate the potential impact. It will be quick to take action where required. Whilst COVID-19 is very likely to have a negative effect on the Chinese economy this year, the market position of the joint venture makes us confident that China will be a very successful market for GKN Automotive in the future.

Despite facing challenging global market conditions, 2019 was a strong year for GKN Automotive. An inevitable market-driven sales decline was offset by the disciplined operational focus of the refreshed and settled management team and targeted cost control measures, resulting in an increase in operating profit margins that were just short of 8% in the second half. This margin performance is benefiting from the implementation of an ambitious improvement programme based on six main levers, including procurement optimisation, fixed cost reduction, commercial improvement and operational excellence.

The improvement programme has a very healthy pipeline of value creation initiatives, some of which have already contributed to the margin improvement witnessed in 2019. Procurement delivered over £40 million of savings from both direct and indirect material purchasing and value engineering, while centralising the function has improved costing intelligence and diversified supply sources. Strategic footprint rationalisation opportunities continue to be assessed, with the business building greater discipline around its investment in its core manufacturing capabilities, driven by smart automation and insourcing of essential, core GKN Automotive capabilities, as well as targeted footprint expansion in best cost locations supported by rationalisation elsewhere.

The business also made significant progress in addressing loss-making contracts, taking an integrated approach to driving efficiencies while improving commercial terms and performance delivery, enabling a £60 million release from the opening balance sheet provision and making a distinct impact on current programme profitability. Through a better allocation of resources and increased focus on working capital management throughout 2019, GKN Automotive was also able to make significant improvements in cash flow, with a conversion rate of greater than 100% for the full year.

Outlook

GKN Automotive's performance in 2019 has set strong foundations for further performance improvements. While global production volumes are expected to remain soft and the full impact of the COVID-19 outbreak is not yet known, continued focus on cost management initiatives in its improvement plan are expected to have a further positive impact on underlying operating profit margins.

Driveline has over 60 programme launches planned for 2020 and is pushing hard to drive productivity gains through smart automation and execution of operational excellence and industrial strategy initiatives approved and deployed in 2019. For ePowertrain, market growth is expected to continue in 2020, which is expected to accelerate GKN Automotive's delivery of next generation semi integrated 2-in-1 and fully integrated 3-in-1 eDrive systems, further strengthening the business' position in the sizeable and rapidly expanding eDrive market.

With a positive underlying operating margin trajectory, improved cash position, and the strategic investments that the business made during 2019, we believe 2020 is set to be another year of transformation for GKN Automotive irrespective of market conditions.

POWDER METALLURGY DIVISION

GKN Powder Metallurgy is a global leader in both precision powder metal parts for the automotive and industrial sectors, and the production of metal powder, through its prized vertically integrated business platform.

GKN Powder Metallurgy comprises: (i) Sinter Metals – the world's leading manufacturer of precision automotive components and components for industrial and consumer applications spread across its Small and Large segments; (ii) Hoeganaes – the world's second largest manufacturer of metal powder, the essential raw material for powder metallurgy, with manufacturing facilities in North America, Europe, and China; and (iii) Additive – a leading digital manufacturer of additive manufacturing parts, both metals and polymer, and materials for prototypes, manufactured through a global, digitally connected print-network.

During 2019, GKN Powder Metallurgy faced its most challenging market conditions for some years, most notably in the automotive sector, that most significantly impacted the Sinter Large segment of its business. Whilst the business largely outperformed the market in Europe, China and Brazil, in its largest market of North America the combination of a weaker domestic automotive market, the impact of industrial action at certain customers, and reduced exports to China proved challenging, as reflected in the 2019 results. This has nonetheless provided some opportunities, with further market consolidation expected as smaller competitors exit the market.

Although sales performance was impacted by macro events, the business was largely able to protect margins through investment and efficiency programmes that are part of a wider renewed strategic plan for the business, which is being implemented after a comprehensive review of its operations and cost base. This plan has a particular focus on the underperforming Large segment of Sinter Metals and has included the closure of two plants in North America, as well as further continuous improvement initiatives to bolster Sinter Metals market leadership in product quality and delivery. These have reduced non-conformities and unnecessary expedited freight costs. Further improvement is planned for the Large segment of Sinter Metals in 2020.

Further automation initiatives were deployed throughout the GKN Powder Metallurgy production footprint during 2019, supported by increased shop floor digitisation. The harnessing of additional activity data points has enabled more detailed and targeted mapping of future improvement initiatives in process efficiency, quality control and supply chain management, with a view to further bolstering GKN Powder Metallurgy's technological and operational leadership.

While rightly focusing on cost efficiency improvements, the business nonetheless continues to pursue expansion opportunities. After acquiring a small European sinter business in March 2019, GKN Powder Metallurgy completed its acquisition of a leading US plastic 3D polymer printing company called Forecast 3D in January this year. This acquisition has added 25 years of polymers experience and capability to its already advanced additive manufacturing production capabilities. Once fully integrated, it will build on the success of GKN Powder Metallurgy's Metal Jet technology and furthers the business' geographic reach in North America as well as its market expansion and leadership ambitions in the high-growth 3D metal & plastics printing solutions market globally.

Outlook

Delivery of the operational improvement opportunities remains the key strategic focus for GKN Powder Metallurgy in 2020 as it continues to take the steps necessary to achieve its margin targets. The business is optimistic for its performance for the year, despite the challenging end-markets expected for the foreseeable period.

NORTEK AIR MANAGEMENT DIVISION

The Nortek Air Management division comprises (i) Nortek Global HVAC ("HVAC") and (ii) Air Quality and Home Solutions ("AQH"). The Security & Smart Technology business is now included in the Other Industrial division.

NORTEK GLOBAL HVAC

The Nortek Global HVAC business includes the custom and commercial business of Nortek Air Solutions, the residential and light commercial business of HVAC and the dedicated data centre business of StatePoint Liquid Cooling. It employs a strategic framework of sustained growth, operational excellence, favourable cash flow conversion and a commitment to its customers.

During 2019, the HVAC business continued its focus on creating long-term value through strategies aimed at driving margin expansion and future revenue growth. The introduction of common procedures and optimisation of footprint and supply chain has simplified the business while HVAC is starting to benefit from significant investment in innovation and technology through the development of breakthrough products and new portfolios. It has sought to maximise the impact of these improvements with sales channel growth to extend market leadership in critical segments of the HVAC value chain and better cover previously under-penetrated North American regions.

Throughout the year HVAC has successfully launched new products and value propositions that address a number of key global societal challenges, including the reduction of energy usage intensity, improved water efficiency and the expansion of broader air-management standards. The regulatory changes governing refrigerants used in the HVAC sector is resulting in the largest product transition in decades, with HVAC's significant investment in innovation and technology meaning it is strategically well positioned to gain market share across its product portfolio.

This is most notably highlighted by HVAC's market leading position in the global data centre market, with very significant demand opportunities. HVAC achieved standout commercialisation of its StatePoint cooling system in 2019, which included a multi-continent collaboration with a leading global technology company to provide cooling solutions. These systems deliver greatly superior performance and geographic flexibility in the design and construction of world-class hyperscale data centres across the world.

Vitally, this investment has also demonstrated HVAC's longstanding commitment to sustainability, with StatePoint cooling systems enabling surrounding communities to benefit from up to 30% energy savings and up to 90% water efficiency. These significant improvements in performance and efficiency are fundamentally important for the HVAC equipment market that is predicted to grow by over $50 billion at a CAGR of 5% over the next five years.[2]

Building on its market leading position in data centres, HVAC is harnessing the advantages of its technology leadership to make developments right across its product offering, as well as into adjacent product lines such as desiccant enhanced evaporative cooling systems. With the launch of a suite of new products and services to help end markets react constructively to global trends, the business continued to lead the way in 2019. Nortek Air Solutions again delivered on its investments, showing further margin improvement as well as strong sales growth. The residential business faced more market challenges but was quick to react in implementing a series of efficiency initiatives, including footprint rationalisation, that mitigated some of the impact.

Outlook

Having moved into the construction phase of hyperscale data centre projects for its StatePoint cooling systems during 2019, HVAC has proven its ability to deliver on the promise of this transformational opportunity and expects to pursue similar large-scale projects in 2020. Further

[2] Source: Technavio

growth is backed by a product portfolio and technology leadership that provides a platform to remain ahead of the market. Combining this with a balanced and dynamic capital allocation strategy and experienced management team, HVAC expects further strong operational and financial performance in 2020.

AIR QUALITY AND HOME SOLUTIONS

AQH is a leading manufacturer of ventilation products for the professional building remodelling and replacement market, the residential new construction market, and the consumer DIY market. It supplies to distributors and dealers of electrical and lighting products, kitchen and bathroom dealers, retail home centres and private label customers from its four manufacturing locations around the world. AQH enjoys a leading market share and installed base in US residential ventilation fans and range hoods.

Strong performances in 2019 from the business' high margin brands Zephyr and Best and above market growth in China were enough to offset wider market headwinds, in particular weak housing starts in the US and Canada. This resulted in largely flat sales for the year, although there was some targeted growth in the appliance and wholesale channels and a breakthrough in the fresh air segment. The business was successful in negotiating pass through arrangements to partially mitigate the negative impact of tariffs.

An installed base of 80 million units in North America following years of market leadership provides a significant opportunity for recurring replacement and remodelling revenue. Accordingly, AQH has refocussed some of its new product development to address this with the aim of increasing its market share in aftermarket revenue. 2019 also saw a number of product upgrades including more powerful and efficient fresh air platforms, a new cooker hood ventilation range, and a connectable whole home air quality solution.

Operationally, AQH continued to optimise and realise production efficiencies throughout 2019 to offset margin challenges from tariffs, higher first half commodity costs and competitive pricing pressures. The business continues to manage the product transfers that are generating margin opportunities, with further supply chain and logistics improvements set to deliver additional savings in 2020.

Outlook

Some cautious recovery is expected in those North American markets that had a difficult 2019, with the business targeting sales growth for 2020 through a strong pipeline of new product development, scheduled product extensions, and the opportunities presented by the large installed base. Operationally, further supply chain, logistics and product optimisations are planned for 2020, providing confidence in the outlook of the business for the year.

OTHER INDUSTRIAL DIVISION

The Other Industrial Division comprises (i) Brush, (ii) Security & Smart Technology, and (iii) Ergotron. The Walterscheid Powertrain Group business was sold during the year and GKN Wheels & Structures is held for sale and both are classified as discontinued operations.

BRUSH

Brush is a leading independent provider of Turbogenerators, Transformers and Switchgear, and a fast-growing provider of Services across these core product segments. Brush is a profitable, cash generative business serving more diverse and growing end markets than ever before, which benefit from supporting macro trends.

The structural realignment of Brush's manufacturing footprint is now complete and cost benefits are being realised by a strengthened and refocussed management team in line with expectations. Brush is now repositioned for future growth, driven by product innovation, asset life extension, improved productivity and building on its cost reduction initiatives that continue to generate savings. Brush has continued to invest in product development across all of its businesses, including broadening its product range in Switchgear and enhancing its Turbogenerators product portfolio.

While trading conditions in the turbogenerator market remained challenging, the reshaped business matches this new reality and has mitigated the impact. For Switchgear, increased DC business from China through a number of new metro projects offset delays with the UK Distribution Network Operator sector, and the penetration of new product lines has been positive. After a slow start, activity in Transformers increased significantly during the latter half of 2019, contributing to a strong order book for deliveries scheduled well into 2020.

Services activity remained somewhat subdued across all product segments as some key customers deferred maintenance activities as a result of market conditions. However, Brush's newly strengthened commercial function for Services and increased bespoke collaboration with key industries began to yield good results in the latter half of the year.

Outlook

Brush has emerged from 2019 as a stronger and more agile business, with a significant order backlog built on a more diversified customer base and product portfolio that addresses customer needs in a broad range of traditional and emerging end-markets. After putting recent challenges behind it and now under strategic review, the business is confident of a good performance from its current base in the coming years.

SECURITY & SMART TECHNOLOGY

The Security business is a leading developer and manufacturer of security, home automation and access control technologies for the residential and commercial markets, principally in North America. The business continues to bolster its expertise in the design and manufacture of wireless connectivity devices, to leverage its strong brand presence in professional security, integrator and custom installer channels, and to invest in its relationships with top resellers.

The business experienced another difficult year in 2019 as it faced increasing market competition and higher tariffs on many of its products, leading to the impairment announced at the half year. Throughout 2019, Security rebuilt its management team and maintained its strong focus on product development leading to a strong pipeline of innovative products, many of which are set for release in 2020. Security continued to optimise its operations and footprint in 2019, including the consolidation of its research and development and back office functions into newly built headquarters in California, and the successful shift of production away from China in response to increasing tariffs. These efforts have resulted in reduced operating costs and an improved working capital structure, as well as providing the business with a more streamlined footprint moving forward.

Outlook

In 2020 a new management team, with a renewed discipline and focus on product development in core offerings, will be executing an updated go-to-market sales and marketing strategy. Following the successful transition of the business's production activities to a third party manufacturer, the business is repositioned for a better performance in 2020.

ERGOTRON

Ergotron is a leading designer, manufacturer and distributor of ergonomic products for use in a variety of working, learning and healthcare environments. Based in Minneapolis, USA, Ergotron comprises four business segments: Healthcare, Office, Education and Custom.

The business continues to drive a product leadership strategy, focusing on high-growth industry sectors and growing its presence in the EMEA and APAC regions. In 2019 the business was reorganised into focussed end segments positioning it for growth. Tariff headwinds were mitigated through pass through arrangements and securing certain regulatory exclusions.

Significant improvements have been made in new products, rapid prototyping, test laboratories, CRM enhancement and improved channel engagement. Closure of non-core operations in Tualatin, Oregon and Phoenix, Arizona, USA enabled the business to refocus its footprint to reflect its core strengths.

Outlook

Ergotron expects growth of its core businesses to accelerate in 2020, led by the healthcare segment, due to a significant number of new product launches, enhanced end market focus, channel partner realignment and accountability. Alongside current markets, Ergotron is building its incremental growth prospects from new markets such as Office Furniture and Industrial. A new leadership team, revitalised channel engagement, new products and building on the new product momentum established in 2019, all point to a positive trajectory in 2020.

Simon Peckham
Chief Executive
5 March 2020

FINANCE DIRECTOR'S REVIEW

The results for the year ended 31 December 2019 include the first full year of ownership of GKN. As a consequence, the results for the year are not directly comparable to 2018 as the prior year performance includes only eight months of GKN trading following its acquisition on 19 April 2018.

The comparative results in this Preliminary Announcement have been restated to show: the results of Walterscheid Powertrain Group as discontinued following its disposal on 25 June 2019; the results of GKN Wheels & Structures as discontinued following its classification as an asset held for sale at 31 December 2019; the reclassification of the results of the Security & Smart Technology business from Nortek Air & Security to the Other Industrial division, following the Board's intention to consider strategic options for the Nortek Air Management business separate to the Nortek Security business; and 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 £10,967 million (2018: £8,152 million), an operating profit of £318 million (2018: loss of £387 million) and a profit before tax of £106 million (2018: loss of £542 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the year of 4,858 million (2018: 3,959 million), were 0.9 pence (2018: loss of 11.8 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 defined in the glossary to the Preliminary Announcement.

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 year ended 31 December 2019 show revenue of £11,592 million (2018: £8,645 million), an operating profit of £1,102 million (2018: £813 million) and a profit before tax of £889 million (2018: £672 million). Adjusted diluted EPS were 14.3 pence (2018: 12.7 pence).

Tables summarising the statutory results and adjusted results by reportable segment are shown later in this review.

The continuing results in 2019 included a positive impact of £81 million from utilising loss-making contract provisions as required under IAS 37: "Provisions, contingent liabilities and contingent assets", and identified during the opening Balance Sheet review process for GKN.

RECONCILIATION OF STATUTORY RESULTS TO ADJUSTED RESULTS

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

Continuing operations:	2019 £m	2018 £m
Statutory revenue	**10,967**	**8,152**
Adjusting item:		
Revenue from equity accounted investments (“EAIs”)	625	493
Adjusted revenue	**11,592**	**8,645**

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 year ended 31 December 2019, EAIs in the Group generated £625 million of revenue (2018: £493 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 profit/(loss)	**318**	**(387)**
Adjusting items:		
Amortisation of intangible assets acquired in business combinations	534	391
Restructuring costs	238	229
Write down of asset value	179	152
Net release of fair value items	(153)	(20)
Currency movements in derivatives and movements in associated financial assets and liabilities	(55)	143
Disposal proceeds net of transaction related costs	(4)	153
Other	45	49
Reversal of uplift in value of inventory	-	103
Adjustments to statutory operating profit/(loss)	**784**	**1,200**
Adjusted operating profit	**1,102**	**813**

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

The amortisation charge on intangible assets acquired in business combinations of £534 million (2018: £391 million), 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 excluded from adjusted results.

Restructuring and other associated costs in the year totalling £238 million (2018: £229 million), shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2019 included:

- A charge of £83 million (2018: £46 million) within the Automotive division including: costs associated with headcount reduction programmes addressing the high cost base inherited with the business and ensuring a more flexible structure; costs incurred closing two loss-making factories in the second half of the year; costs associated with further footprint consolidation opportunities; and costs incurred separating the Automotive business from other GKN businesses.

- A charge of £79 million (2018: £56 million) within the Aerospace division including: costs associated with initial headcount reductions following the commencement of a global integration process to create “One Aerospace” and achieve a simpler, more competitive, customer focussed business; costs within the North America Aerostructures business relating to two factory closures; and costs relating to footprint rationalisation projects within the Special Technologies business.

- A charge of £19 million (2018: £11 million) within the Powder Metallurgy division including costs associated with headcount reductions and the commencement of footprint consolidation actions.

- A charge of £11 million (2018: £19 million) within Nortek Air Management primarily relating to continued factory consolidation within the HVAC business.

- A charge of £37 million (2018: £65 million) within Other Industrial businesses, predominantly relating to the closure of the Chinese manufacturing facility and switching to a third party contract manufacturing model in the Security & Smart Technology business. Restructuring charges also included the finalisation of the restructuring activities announced in Brush last year.

- A charge of £9 million (2018: £32 million) within central activities mainly relating to the separation of the GKN businesses.

An impairment charge of £179 million, booked in the first half of the year in respect of the Security & Smart Technology business, shown within the Other Industrial division, following a deterioration in performance and assumed future prospects. The impairment charge is shown as an adjusting item due to its non-trading nature and size, and has not changed in value in the second half of the year.

The net release of fair value items in the year of £153 million (2018: £20 million) where items have been resolved for more favourable amounts than first anticipated. During the year this included £122 million in respect of the release of loss-making contract provisions held within the GKN businesses, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period. The net release of fair value items are shown as an adjusting item, avoiding positively distorting adjusted results.

Hedge accounting is not applied within the GKN businesses for transactional foreign exchange exposure. Consequently, for consistency and because of their volatility and size, the movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts) entered into to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts in the GKN businesses, along with foreign exchange movements on the associated financial assets and liabilities are shown as an adjusting item. These movements totalled a credit of £55 million (2018: charge of £143 million) in the year.

A net acquisition and disposal related credit of £4 million (2018: charge of £153 million) including a profit on the sale of a small business and transaction costs in respect of acquisition and disposal activities. 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 £17 million (2018: £13 million) which is excluded from adjusted results due to its volatility; an adjustment of £28 million (2018: £25 million) to gross up the post tax profits of EAIs to be consistent with the adjusted operating profits of subsidiaries within the Group; and in 2018, an £11 million past service cost in respect of gender equalisation of guaranteed minimum pensions for occupational pension schemes, which was shown as an adjusting item because of its non-trading and non-recurring nature.

In 2018, in accordance with IFRS 3, the value of finished goods and work in progress inventory acquired in the GKN business was required to be uplifted by £103 million. The impact on gross margin as the inventory was sold through in 2018 was shown as an adjusting item due to its size and non-recurring nature.

STATUTORY AND ADJUSTED RESULTS BY REPORTING SEGMENT

The following table shows revenue split by reporting segment, including EAIs for adjusted revenue:

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air Mgmt. £m	Other Industrial £m	Total £m
Statutory revenue	**3,836**	**4,146**	**1,099**	**1,178**	**708**	**10,967**
Reconciling item:						
Revenue from EAIs	16	593	16	-	-	625
Adjusted revenue	**3,852**	**4,739**	**1,115**	**1,178**	**708**	**11,592**

The following table shows operating profit/(loss) split by reporting segment. Adjusting items are described earlier in this review.

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air Mgmt. £m	Other Industrial £m	Corporate £m	Total £m
Statutory operating profit/(loss)	**104**	**186**	**77**	**139**	**(170)**	**(18)**	**318**
Reconciling item:							
Adjusting items	305	181	40	36	256	(34)	784
Adjusted operating profit/(loss)	**409**	**367**	**117**	**175**	**86**	**(52)**	**1,102**

The performances of each of the reporting segments are discussed in the Chief Executive's Review. The adjusted operating costs in the corporate cost centre of £52 million (2018: £28 million) included £26 million (2018: £20 million) of Melrose corporate costs, £6 million (2018: £6 million) of the remaining GKN central costs and £20 million (2018: £2 million) of costs relating to divisional cash-based long-term incentive plans, mainly for GKN businesses in 2019.

FINANCE COSTS AND INCOME – CONTINUING OPERATIONS

Net finance costs in the year ended 31 December 2019 were £212 million (2018: £155 million), which included a credit of £1 million (2018: charge of £15 million) treated as adjusting items.

Adjusted finance costs:

The net adjusted finance costs for continuing operations in the year ended 31 December 2019 were £213 million (2018: £141 million), the year-on-year increase reflecting a full year ownership of GKN.

Net interest on external bank loans, bonds, overdrafts and cash balances was £143 million (2018: £98 million). Melrose uses interest rate swaps to fix the majority of the interest rate exposure on its drawn debt. More detail on these swaps is given in the finance cost risk management section of this review.

In addition, finance charges included: an £11 million (2018: £11 million) amortisation charge relating to the arrangement costs of raising the Group's current bank facility; an interest charge on net pension liabilities of £31 million (2018: £21 million); a charge on lease liabilities of £21 million (2018: £nil) following the adoption of IFRS 16 on 1 January 2019, discussed later in this review; a charge for the unwind of discounting on long-term provisions of £7 million (2018: £10 million); and in the prior year £1 million relating to the interest charge in EAIs.

Adjusting items:

Adjusting items, within finance costs and income, include a credit of £1 million (2018: charge of £8 million) relating to the fair value changes on cross-currency swaps, and in the prior year included £7 million relating to the accelerated amortisation of fees associated with the previous Melrose bank facility, written off when the new bank facility was entered into to acquire GKN and the previous facility was repaid and cancelled. These charges are shown as adjusting items because of their volatility and non-trading nature.

DISCONTINUED OPERATIONS

Discontinued operations include the results of Walterscheid Powertrain Group up to the date of disposal on 25 June 2019 and the full year result of the GKN Wheels & Structures business which was classified as held for sale at 31 December 2019. For the year ended 31 December 2019 discontinued operations show revenue of £423 million (2018: £453 million), a statutory operating loss of £80 million (2018: £5 million) and a statutory loss before tax of £82 million (2018: £8 million).

Walterscheid Powertrain Group was sold to One Equity Partners, a US-based private equity firm, for cash consideration of £185 million, less costs charged in the year 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.

At 31 December 2019 negotiations are ongoing with potential buyers for the GKN Wheels & Structures business, which made a small adjusted operating loss in the year. It is the Board's strategic priority to dispose of this business within the next twelve months, and as such the value of the business has been remeasured on a fair value less costs to sell basis. Consequently, a charge of £64 million is included in the discontinued operations operating loss in the year.

TAX – CONTINUING OPERATIONS

The statutory results show a tax charge of £51 million (2018: credit of £75 million) which arises on a statutory profit before tax of £106 million (2018: loss of £542 million), a statutory tax rate of 48% (2018: 14%). This rate is higher than the adjusted effective tax rate because many of the adjusting items, discussed earlier in this review, do not give rise to tax deductions.

The effective rate on the adjusted profit before tax for the year ended 31 December 2019 was 21.4% (2018: 23.1%).

The Group has tax losses and other deferred tax assets with a value of £819 million (31 December 2018: £885 million). These are offset by deferred tax liabilities on intangible assets of £1,243 million (31 December 2018: £1,450 million) and £188 million (31 December 2018: £177 million) of other deferred tax liabilities. The Group tax losses will generate future cash tax savings, whereas the deferred tax liabilities on intangible assets are not expected to give rise to cash tax payments.

Cash tax paid in the year ended 31 December 2019 was £117 million (2018: £68 million) representing 13% (2018: 10%) of adjusted profit before tax. This was lower than the effective tax rate on adjusted profit before tax because the Group benefits from certain adjusting items being tax allowable and from existing tax losses and other deferred tax assets brought forward.

IFRS 3 "BUSINESS COMBINATIONS"

In the first half of the year, the opening Balance Sheet review of GKN assets, liabilities and accounting policies was finalised and as a result the Balance Sheet at 31 December 2018 was restated, increasing goodwill by £6 million, intangible assets by £21 million, provisions and trade and other payables by £10 million and decreasing deferred tax assets by £17 million. These items remain unchanged since the half year.

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 and costs associated with operating leases expensed through the Income Statement as incurred.

The impact of IFRS 16, on transition, was 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 for continuing operations in the year was to increase finance costs by £21 million, but this was broadly offset by an associated increase in operating profit. In addition, £72 million of costs have been reclassified from lease expense to depreciation in continuing operations.

Leverage calculations in the Group's banking agreements exclude lease obligations from the definition of net debt. Similarly, for bank covenant purposes only, they exclude the depreciation on right-of-use assets from the definition of EBITDA, by including a lease charge in the calculation of EBITDA.

CASH GENERATION AND MANAGEMENT

Group net debt at 31 December 2019, translated at closing exchange rates (for 2019 being US $1.33 and €1.18), was £3,283 million (31 December 2018: £3,482 million). For bank covenant purposes the Group's net debt is calculated using average exchange rates for the previous twelve months, to better align the calculation with the currency rates used to calculate profits, and adjusted operating profit before depreciation and amortisation ("EBITDA") is adjusted for leases and EAIs. The Group net debt leverage for bank covenant purposes at 31 December 2019 was 2.25x EBITDA (31 December 2018: 2.28x).

The movement in net debt during the year 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	-	(2,841)
Adjusted net debt brought forward	**(3,482)**	**(3,413)**
Non-trading items and discontinued operations:		
Net cash flow from disposal and acquisition related activities	103	(26)
Dividend paid to Melrose shareholders	(231)	(129)
Foreign exchange and other non-cash movements	74	(110)
Discontinued operations	(37)	29
Cash flow from non-trading items and discontinued operations	**(91)**	**(236)**
Free cash flow from continuing operations	290	167
At 31 December at closing exchange rates	**(3,283)**	**(3,482)**
At 31 December at twelve month average exchange rates	**(3,385)**	**(3,407)**

An analysis of the free cash flow is shown in the table below. The comparative period includes GKN for 8 months following the acquisition:

	2019 £m	2018 £m
Adjusted operating cash flow	**1,441**	**868**
Net capital expenditure	(495)	(345)
Net interest and net tax paid	(295)	(174)
Defined benefit pension contributions - ongoing	(72)	(43)
Dividend income from EAIs	67	66
Net other	(55)	(36)
Adjusted free cash flow	**591**	**336**
Restructuring costs	(190)	(113)
Defined benefit pension – special contributions	(111)	(56)
Free cash flow from continuing operations	290	167

The adjusted operating profit conversion to cash for the year ended 31 December 2019 was 104% (2018: 90%). Net trade working capital in the Group was reduced by £95 million, building momentum towards achieving the previously announced £400 million target for GKN.

Net capital expenditure in the year was £495 million (2018: £345 million), representing 1.2x depreciation on non-leased assets. Net interest paid in the year was £178 million (2018: £106 million) and tax paid was £117 million (2018: £68 million).

Adjusted free cash flow of £591 million (2018: £336 million), is 72% higher than the annualised adjusted free cash flow for 2018, due to improved Group cash flow processes. Adjusted free cash flow is shown before restructuring and special pension contributions, which included: £94 million (2018: £56 million), being the completion of the Melrose commitment to contribute £150 million to the GKN UK 2012 and 2016 plans within the first twelve months of GKN ownership; and before a contribution of £17 million, being 10% of the net proceeds received from the disposal of Walterscheid Powertrain Group.

Free cash flow from continuing operations in the year, after all costs, was £290 million (2018: £167 million).

ASSETS AND LIABILITIES

The summarised Melrose Group assets and liabilities are shown below:

	2019 £m	2018 £m
Goodwill and intangible assets acquired with business combinations	9,342	10,618
Tangible fixed assets, computer software and development costs	3,874	3,651
Equity accounted investments	436	492
Net working capital	821	976
Retirement benefit obligations	(1,121)	(1,413)
Provisions	(1,087)	(1,471)
Deferred tax and current tax	(698)	(805)
Lease obligations	(582)	(57)
Net other	(151)	(248)
Total	**10,834**	**11,743**

These assets and liabilities are funded by:

	2019 £m	2018 £m
Net debt	(3,283)	(3,482)
Equity	(7,551)	(8,261)
Total	**(10,834)**	**(11,743)**

GOODWILL, INTANGIBLE ASSETS AND IMPAIRMENT REVIEW

The total value of goodwill as at 31 December 2019 was £3,653 million (31 December 2018: £4,058 million) and intangible assets acquired with business combinations was £5,689 million (31 December 2018: £6,560 million). These items are split by reporting segment as follows:

31 December 2019	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air Mgmt. £m	Other Industrial £m	Total £m
Goodwill	941	1,027	503	592	590	3,653
Intangible assets acquired with business combinations	3,076	1,293	653	346	321	5,689
Total goodwill and intangible assets	**4,017**	**2,320**	**1,156**	**938**	**911**	**9,342**

The goodwill and intangible assets have been tested for impairment as at 31 December 2019. In accordance with IAS 36 "Impairment of assets" the recoverable amount is assessed as being the higher of the fair value less costs to sell and the value in use.

A full impairment review was performed on the Security & Smart Technology group of CGUs in the first half of the year, which assumed that US tariffs at the higher rate would remain in place, and resulted in an impairment charge of £179 million, shown within adjusting items. This impairment charge has not changed in the second half of the year.

The GKN businesses were acquired and recorded at fair value on 19 April 2018 and subsequently there has been a global automotive market decline, naturally reducing the headroom at this point in the cycle when testing goodwill and intangible assets in respect of the Automotive and Powder Metallurgy businesses.

The Board is comfortable that no impairment is required in respect of the goodwill and intangible assets of these businesses at 31 December 2019.

PROVISIONS

Total provisions at 31 December 2019 were £1,087 million (31 December 2018: £1,471 million).

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

	Total £m
At 1 January 2019	**1,471**
Spend against provisions	(342)
Net charge to adjusted operating profit	92
Net charge shown as adjusting items	158
Release of loss-making contract provision to adjusting items	(122)
Utilisation of loss-making contract provision	(83)
Other (including foreign exchange)	(87)
At 31 December 2019	**1,087**

The net charge to adjusted operating profit in the year of £92 million includes £20 million in respect of certain divisional long-term incentive plans to be paid in future years, and the remainder is primarily in respect of warranty, product liability and workers' compensation charges which are matched by similar cash payments in the year.

The net charge shown as adjusting items in the Income Statement primarily includes costs associated with restructuring actions of £193 million, discussed within the adjusting items section of this review, net of a release of £35 million, mainly relating to fair value items settled for an amount favourable to first anticipated.

The utilisation of the loss-making contract provision was £83 million, of which £2 million is included in discontinued operations. Furthermore, £122 million, approximately 25%, of the remaining loss-making contract provision was released as an adjusting item in the year, either because contracts have been favourably resolved following positive negotiations with customers or because operational efficiencies have been demonstrated for a sustained period of time.

During the period £190 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 provisions either disposed or transferred to held for sale.

PENSIONS AND POST-EMPLOYMENT OBLIGATIONS

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

The values of the Group plans were updated at 31 December 2019 by independent actuaries to reflect the latest key assumptions. A summary of the assumptions used are shown in note 12 of the Preliminary Announcement.

At 31 December 2019 total plan assets of the Melrose Group's defined benefit pension plans were £3,412 million (31 December 2018: £3,273 million) and total plan liabilities were £4,533 million (31 December 2018: £4,686 million), a net deficit of £1,121 million (31 December 2018: £1,413 million).

The most significant pension plan in the Group at the beginning of the year was the GKN UK 2012 plan, when gross assets were £2,007 million, gross liabilities were £2,613 million and the net deficit was £606 million. On 1 July 2019 the GKN UK 2012 pension plan was separated into four pension plans, namely the GKN Group Pension Schemes (Numbers 1 - 4), two of which were allocated to the Aerospace division and two to the Automotive division. In total these four pension plans had aggregate gross assets of £2,243 million, gross liabilities of £2,711 million and a net deficit of £468 million at 31 December 2019. No changes to member's benefits were made on separation of the plans.

The GKN Group Pension Schemes (Numbers 1 - 4) are closed to new members and to the accrual of future benefits for current members.

The Group has fulfilled its commitment to contribute special one-off payments to the GKN UK plans totalling £150 million in the first twelve months of ownership of GKN, and is also making ongoing annual contributions of £60 million. In addition, the Group paid £17 million into the GKN UK plans following the disposal of Walterscheid Powertrain Group, in line with the commitment to contribute 10% of the net proceeds from disposal of GKN businesses (other than Powder Metallurgy) and 5% of the net proceeds from disposal of non-GKN businesses. The Group has committed to contribute £270 million to the GKN UK plans when Powder Metallurgy is disposed. 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 Group Pension Schemes (Numbers 1 - 4).

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 approximately £400 million in the year.

In total ongoing contributions to the Group defined benefit pension plans and post-employment medical plans are expected to be approximately £105 million in 2020.

It is noted that a 0.1 percentage point decrease in the discount rate would increase the retirement benefit accounting liabilities of the Group, on an IAS 19 basis, by £78 million, or 2%, and a 0.1 percentage point increase to inflation would increase the liabilities by £59 million, or 1%. Furthermore, an increase by one year in the expected life of a 65 year old member would increase the pension liabilities on these plans by £186 million, or 4%.

FINANCIAL RISK MANAGEMENT

The financial risks the Group faces have been considered and policies have been implemented to appropriately deal with each risk. The most significant financial risks are considered to be liquidity risk, finance cost risk, exchange rate risk, contract and warranty risk and commodity cost risk.

These are discussed in turn below.

Liquidity risk management

The Group's net debt position at 31 December 2019 was £3,283 million (31 December 2018: £3,482 million). Core funding comes from a mix of committed bank funding and capital market borrowings.

Committed bank funding consists of a multi-currency term loan denominated £100 million and US$960 million that matures in April 2021 and a multi-currency revolving credit facility, denominated £1.1 billion, US$2.0 billion and €0.5 billion that matures in January 2023.

The term loan was amended on 31 December 2019, on the same financial terms, to provide Melrose with the option at its request to extend the loan for a further three years to April 2024, if required. Loans drawn under this facility are guaranteed by Melrose Industries PLC and certain of its subsidiaries, but there is no security over any of the Melrose assets in respect of this facility. As at 31 December 2019, the term loan was fully drawn.

There remains a significant amount of headroom on the multi-currency committed revolving credit facility at 31 December 2019. Applying the exchange rates at 31 December 2019, the headroom equated to £1,136 million.

At the start of the year the Group held three capital market borrowings, inherited as part of the GKN acquisition, totalling £1.1 billion. During October 2019, one of these bonds reached maturity and the revolving credit facility was utilised to repay the notional amount of £350 million, together with the associated cross-currency swap, which was out of the money by £100 million. Capital market borrowings as at 31 December 2019 consist of:

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

To simplify the corporate reporting requirements of the Group, the bonds were transferred to the Professional Securities Market in March 2019 with the approval of the bondholders. The bondholders now have the same guarantees from the Melrose Group companies as those provided to the banks within the committed bank facility.

Cash, deposits and marketable securities amounted to £317 million at 31 December 2019 (31 December 2018: £415 million) and are offset to arrive at the Group net debt position of £3,283 million (31 December 2018: £3,482 million). The Board takes careful consideration of counterparty risk with banks when deciding where to place cash on deposit. The combination of this cash and the headroom on the revolving credit facility allows the Directors to consider that the Group has sufficient access to liquidity for its current needs.

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

The EBITDA covenant test is set at 3.5x leverage for each of the half-yearly measurement dates for the remainder of the term of the facility. For the year ended 31 December 2019 it was 2.25x (31 December 2018: 2.28x), showing sufficient headroom compared to the covenant test.

The interest cover covenant is set at 4.0x throughout the life of the facility and was 10.8x at 31 December 2019 (31 December 2018: 11.6x), affording comfortable headroom compared to the covenant test.

There are also a number of uncommitted facilities made available to the Group which include a small number of uncommitted working capital programmes, which predominately relate to programmes inherited as part of the GKN acquisition. These programmes provide favourable financing terms on eligible customer receipts and competitive financing terms to suppliers on eligible supplier payments.

A limited number of Group trade receivables are subject to non-recourse factoring and customer supply chain finance arrangements. As at 31 December 2019, these amounted to £200 million (31 December 2018: £206 million).

Finance cost risk management

The bank margin on the bank facility depends on the Group leverage, and ranges from 0.75% to 2.0% on the term loan, and 0.95% to 2.25% on the revolving credit facility. As at 31 December 2019 the margin was 1.4% (31 December 2018: 1.4%) on the term loan and 1.65% (31 December 2018: 1.65%) on the revolving credit facility.

In addition to the cross-currency swaps associated with the fixed rate capital market borrowings, inherited as part of the GKN acquisition, the Group holds interest rate swap instruments to fix the cost of LIBOR on borrowings under the bank facility. The policy of the Board is to fix approximately 70% of the interest rate exposure of the Group. Under the terms of the existing swap arrangements and excluding the bank margin, the Group will pay a weighted average fixed cost of approximately 2% until the swaps terminate on 17 January 2023.

During the year, cross-currency swaps were also used to convert US Dollar bank debt into Euro borrowings and at 31 December 2019, US $620 million had been swapped into €559 million. These swaps are rolled on a monthly basis and help to reduce the cost of the Group's borrowings.

At 31 December 2019, the fair value liability of all cross-currency swaps held by the Group was £80 million (31 December 2018: £199 million).

The average cost of the debt for the Group is expected to be approximately 3.7% over the next 12 months.

Exchange rate risk management

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

The most common exchange rate risk is the transaction risk the Group takes when it invoices a customer or purchases from suppliers in a different currency to the underlying functional currency of the relevant business. The Group's policy is to review transactional foreign exchange exposures, and place necessary hedging contracts, quarterly on a rolling basis. To the extent the cash flows associated with a transactional foreign exchange risk are committed, the Group will hedge 100% at the time the cash flow becomes committed. For forecast and variable cash flows, the Group hedges a proportion of the expected cash flows, with the percentage being hedged lowering as the time horizon lengthens. The average time horizons are longer for GKN Aerospace, GKN Automotive and GKN Powder Metallurgy to reflect the longer-term nature of the contracts within these divisions. Typically, in total the Group hedges around 90% of foreign exchange exposures expected over the next twelve months and approximately 60% to 70% of exposures expected between 12 and 24 months. This policy does not eliminate the cash risk but does bring some certainty to it.

The translation rate risk is the effect on the Group results in the period due to the movement of exchange rates used to translate foreign results into Sterling from one period to the next. No specific exchange instruments are used to protect against the translation risk because it is a non-cash risk to the Group, until foreign currency is subsequently converted to Sterling. However, the Group utilises its multi-currency revolving credit facility and cross-currency swaps, where relevant, to maintain an appropriate mix of debt in each currency. The hedge of having debt drawn in these currencies funding the trading units with US Dollars or Euro functional currencies protects against some of the Balance Sheet and banking covenant translation risk.

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

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

US Dollar	**Twelve month average rate**	**8 month average (GKN businesses)**	**Closing rate**
2019	1.28	N/A	1.33
2018	1.33	1.31	1.27
Euro			
2019	1.14	N/A	1.18
2018	1.13	1.13	1.11

A 10 percent strengthening of the major currencies within the Group, if this were to happen in isolation against all other currencies, would have the following impact on the re-translation of adjusted operating profit into Sterling:

£m	USD	EUR	CNY	Other
Movement in adjusted operating profit	68	26	9	15
% 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 have the following impact on net debt as at 31 December 2019:

	USD	EUR
Increase in debt - £ million	204	75
Increase in debt	6%	2%

Contract and warranty risk management

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

Commodity cost risk management

The cumulative expenditure on commodities is important to the Group and the risk of base commodity costs increasing is mitigated, wherever possible, by passing on the cost increases to customers or by having suitable purchase agreements with suppliers which fix the price over a certain period. These risks are also managed through sourcing policies, including the use of multiple suppliers, where possible, and procurement contracts where prices are agreed in advance to limit exposure to price volatility. Occasionally, businesses within the Group enter financial instruments on commodities when this is considered to be the most efficient way of protecting against price movements.

UK's relationship with the European Union

The UK left the European Union on 31 January 2020 and the transition period to agree a trade deal is due to run until 31 December 2020, meaning the shape of the future relationship beyond this date remains unclear. Due to the Group's geographically balanced manufacturing footprint, on a micro company level, any resulting tariffs and/or customs clearance would not have a material negative effect on the Group as a whole.

Sales of product between the UK and Europe are a relatively 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%.

On a wider macro global level, the Group's financial results may be impacted by general uncertainty and economic instability arising from the transition period, or from any wider supply-chain disruption causing scheduling issues for customers or suppliers. Depending on the outcome of the trade negotiation, 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, however transactional exposures are generally well protected in the short-term due to approximately 60% to 80% of exposures being hedged over the next two years.

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

POST BALANCE SHEET EVENT

On 2 January 2020 GKN Powder Metallurgy completed the acquisition of FORECAST 3D, a leading US specialist in plastic additive manufacturing and 3D printing services offering a full range of services from concept to series production, for a total consideration of up to £29 million, of which £20 million was paid on 2 January 2020. The acquisition furthers GKN Powder Metallurgy's ambition to achieve global market leadership in industrialising additive manufacturing. In the year ended 31 December 2019 FORECAST 3D achieved sales of approximately £17 million.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review. In addition, the Annual Report includes details of the Group's borrowing facilities and hedging activities along with the processes for managing its exposures to liquidity risk, finance cost risk, exchange rate risk, contract and warranty risk and commodity cost risk.

The Group has a strong record of cash management, and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully taking into account the various macro headwinds and the general economic environment.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Geoffrey Martin
Group Finance Director
5 March 2020

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.

Melrose Industries PLC
Consolidated Income Statement

Continuing operations	Notes	Year ended 31 December 2019 £m	Restated[1] Year ended 31 December 2018 £m
Revenue	3	**10,967**	8,152
Cost of sales		**(8,732)**	(6,573)
Gross profit		**2,235**	1,579
Share of results of equity accounted investments	10	**38**	34
Net operating expenses		**(1,955)**	(2,000)
Operating profit/(loss)	3, 4	**318**	(387)
Finance costs		**(221)**	(160)
Finance income		**9**	5
Profit/(loss) before tax		**106**	(542)
Tax	5	**(51)**	75
Profit/(loss) after tax for the year from continuing operations		**55**	(467)
Discontinued operations			
Loss for the year from discontinued operations	9	**(106)**	(8)
Loss after tax for the year		**(51)**	(475)
Attributable to:			
Owners of the parent		**(60)**	(475)
Non-controlling interests		**9**	-
		(51)	(475)
Earnings per share			
Continuing operations			
- Basic	7	**0.9p**	(11.8)p
- Diluted	7	**0.9p**	(11.8)p
Continuing and discontinued operations			
- Basic	7	**(1.2)p**	(12.0)p
- Diluted	7	**(1.2)p**	(12.0)p

Adjusted[2] results from continuing operations

Adjusted revenue	3	**11,592**	8,645
Adjusted operating profit	3, 4	**1,102**	813
Adjusted profit before tax	4	**889**	672
Adjusted profit after tax	4	**699**	517
Adjusted basic earnings per share	7	**14.3p**	12.7p
Adjusted diluted earnings per share	7	**14.3p**	12.7p

[1] Results for the year ended 31 December 2018 have been restated for discontinued operations (note 1).
[2] Defined in note 2.

Melrose Industries PLC
Consolidated Statement of Comprehensive Income

	Notes	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
Loss after tax for the year		**(51)**	(475)
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement loss on retirement benefit obligations		**(32)**	(36)
Income tax credit relating to items that will not be reclassified	5	**15**	9
		(17)	(27)
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**(346)**	625
Share of other comprehensive (expense)/income from equity accounted investments		**(23)**	9
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	9	**(13)**	-
Losses on hedge relationships		**(17)**	(97)
Transfer to Income Statement on hedge relationships		**-**	(2)
Income tax (charge)/credit relating to items that may be reclassified	5	**(19)**	29
		(418)	564
Other comprehensive (expense)/income for the year		**(435)**	537
Total comprehensive (expense)/income for the year		**(486)**	62
Attributable to:			
Owners of the parent		**(494)**	44
Non-controlling interests		**8**	18
		(486)	62

Melrose Industries PLC
Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2019 £m	Restated[1] Year ended 31 December 2018 £m
Operating activities			
Net cash from operating activities from continuing operations	13	**769**	330
Net cash (used in)/from operating activities from discontinued operations	13	**(20)**	43
Net cash from operating activities		**749**	373
Investing activities			
Disposal of businesses, net of cash disposed	9	**169**	(4)
Purchase of property, plant and equipment		**(465)**	(328)
Proceeds from disposal of property, plant and equipment		**24**	18
Purchase of computer software and capitalised development costs		**(54)**	(35)
Dividends received from equity accounted investments		**67**	66
Purchase of investments		**(50)**	-
Settlement of derivatives used in net investment hedging		**(100)**	-
Equity accounted investment additions		**-**	(3)
Acquisition of subsidiaries, net of cash acquired		**-**	(1,009)
Interest received		**9**	5
Net cash used in investing activities from continuing operations		**(400)**	(1,290)
Net cash used in investing activities from discontinued operations	13	**(15)**	(14)
Net cash used in investing activities		**(415)**	(1,304)
Financing activities			
Purchase of non-controlling interests		**-**	(224)
Costs of issuing shares		**-**	(1)
Repayment of borrowings		**(456)**	(820)
New bank loans raised		**350**	2,558
Costs of raising debt finance		**-**	(51)
Repayment of principal under lease obligations		**(70)**	-
Dividends paid to non-controlling interests		**(6)**	(1)
Dividends paid to owners of the parent	6	**(231)**	(129)
Net cash (used in)/from financing activities from continuing operations		**(413)**	1,332
Net cash used in financing activities from discontinued operations	13	**(2)**	-
Net cash (used in)/from financing activities		**(415)**	1,332
Net (decrease)/increase in cash and cash equivalents		**(81)**	401
Cash and cash equivalents at the beginning of the year	13	**415**	16
Effect of foreign exchange rate changes	13	**(17)**	(2)
Cash and cash equivalents at the end of the year	13	**317**	415

[1] Amounts for the year ended 31 December 2018 have been restated for discontinued operations (notes 1 and 13).

As at 31 December 2019, the Group had net debt of £3,283 million (31 December 2018: £3,482 million). A reconciliation of the movement in net debt is shown in note 13.

Melrose Industries PLC
Consolidated Balance Sheet

	Notes	31 December 2019 £m	Restated[1] 31 December 2018 £m
Non-current assets			
Goodwill and other intangible assets		**9,784**	11,098
Property, plant and equipment		**3,432**	3,171
Investments		**48**	-
Interests in equity accounted investments		**436**	492
Deferred tax assets		**160**	132
Derivative financial assets		**38**	26
Trade and other receivables		**424**	504
		14,322	15,423
Current assets			
Inventories		**1,332**	1,489
Trade and other receivables		**1,970**	2,328
Derivative financial assets		**19**	15
Current tax assets		**20**	74
Cash and cash equivalents		**317**	415
Assets classified as held for sale	9	**65**	-
		3,723	4,321
Total assets	3	**18,045**	19,744
Current liabilities			
Trade and other payables		**2,461**	2,583
Interest-bearing loans and borrowings		**89**	377
Lease obligations		**71**	5
Derivative financial liabilities		**106**	204
Current tax liabilities		**106**	137
Provisions	11	**412**	391
Liabilities associated with assets held for sale	9	**46**	-
		3,291	3,697
Net current assets		**432**	624
Non-current liabilities			
Trade and other payables		**444**	762
Interest-bearing loans and borrowings		**3,464**	3,378
Lease obligations		**511**	52
Derivative financial liabilities		**216**	227
Deferred tax liabilities		**772**	874
Retirement benefit obligations	12	**1,121**	1,413
Provisions	11	**675**	1,080
		7,203	7,786
Total liabilities	3	**10,494**	11,483
Net assets		**7,551**	8,261
Equity			
Issued share capital		**333**	333
Share premium account		**8,138**	8,138
Merger reserve		**109**	109
Other reserves		**(2,330)**	(2,330)
Translation and hedging reserve		**78**	495
Retained earnings		**1,197**	1,492
Equity attributable to owners of the parent		**7,525**	8,237
Non-controlling interests		**26**	24
Total equity		**7,551**	8,261

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

The Financial Statements were approved and authorised for issue by the Board of Directors on 5 March 2020 and were signed on its behalf by:

……………………………………………… ……………………………………………

Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Executive

Melrose Industries PLC
Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Other reserves £m	Translation and hedging reserve £m	Retained earnings £m	**Equity attributable to owners of the parent £m**	Non-controlling interests £m	**Total equity £m**
At 1 January 2018	133	1,493	109	(2,330)	(58)	2,538	**1,885**	-	**1,885**
Loss for the year	-	-	-	-	-	(475)	**(475)**	-	**(475)**
Other comprehensive income/(expense)	-	-	-	-	553	(34)	**519**	18	**537**
Total comprehensive income/(expense)	-	-	-	-	553	(509)	**44**	18	**62**
Acquisition of GKN	169	5,631	-	-	-	-	**5,800**	857	**6,657**
Purchase of non-controlling interests	31	1,014	-	-	-	(419)	**626**	(850)	**(224)**
Implementation of IFRS 9	-	-	-	-	-	(2)	**(2)**	-	**(2)**
Dividends paid	-	-	-	-	-	(129)	**(129)**	(1)	**(130)**
Equity-settled share-based payments	-	-	-	-	-	13	**13**	-	**13**
At 31 December 2018	333	8,138	109	(2,330)	495	1,492	**8,237**	24	**8,261**
(Loss)/profit for the year	-	-	-	-	-	(60)	**(60)**	9	**(51)**
Other comprehensive expense	-	-	-	-	(417)	(17)	**(434)**	(1)	**(435)**
Total comprehensive (expense)/income	-	-	-	-	(417)	(77)	**(494)**	8	**(486)**
Dividends paid	-	-	-	-	-	(231)	**(231)**	(6)	**(237)**
Equity-settled share-based payments	-	-	-	-	-	13	**13**	-	**13**
At 31 December 2019	**333**	**8,138**	**109**	**(2,330)**	**78**	**1,197**	**7,525**	**26**	**7,551**

Notes to the Preliminary Announcement

1. Corporate information

The financial information included within this Preliminary Announcement does not constitute the Company's statutory Financial Statements for the years ended 31 December 2019 or 31 December 2018 within the meaning of s435 of the Companies Act 2006, but is derived from those Financial Statements. Statutory Financial Statements for the year ended 31 December 2018 have been delivered to the Registrar of Companies and those for the year ended 31 December 2019 will be delivered to the Registrar of Companies during April 2020. The auditor has reported on those Financial Statements; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

While the financial information included in this Preliminary Announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRSs") adopted for use in the European Union, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full Financial Statements that comply with IFRSs during April 2020.

Prior year information

The results for the year ended 31 December 2018 include GKN for eight months only.

The Consolidated Income Statement and Consolidated Statement of Cash Flows have been restated for discontinued operations. The Consolidated Balance Sheet has been restated for the finalisation of acquisition accounting for the purchase of GKN.

Discontinued operations

On 25 June 2019, the Group completed the disposal of the Walterscheid Powertrain Group to One Equity Partners. Additionally, during the second half of the year the Group formally commenced a disposal process, aligned to its strategic priority, to dispose of the Wheels & Structures business, with a high expectation this process will conclude within one year. Both the Walterscheid Powertrain Group and Wheels & Structures businesses were previously reported within the Other Industrial operating segment and are shown as discontinued operations in this Preliminary Announcement, with the Consolidated Income Statement, the Consolidated Statement of Cash Flows and their associated notes restated accordingly. Further detail is shown in note 9.

Finalisation of acquisition accounting for the purchase of GKN

There were a small number of final adjustments to the fair value of assets and liabilities acquired that were identified in the first half of the year up to 18 April 2019, being 12 months since the acquisition, that have impacted the restated Balance Sheet at 31 December 2018, as follows:

- Provisions and non-current 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 intangible 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.

IFRS 16: "Leases"

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 property related cost 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.

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**

2. 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 this Preliminary Announcement and the reconciling items between statutory and adjusted results are listed below and described in more detail in note 4.

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

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

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

- Amortisation of intangible assets that are acquired in a business combination, excluding computer software and development costs;
- Significant restructuring costs and other associated costs, including losses incurred following the announcement of closure for identified businesses, arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- Acquisition and disposal related 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") in 2018 for occupational schemes; and
- The net release of fair value items booked on acquisitions.

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

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

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

- The net effect on tax of significant restructuring from strategy changes that are not considered by the Group to be part of the normal operating costs of the business; 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.

3. Segment information

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

Following a decision to explore strategic options for the Nortek Air Management business separate to the Security & Smart Technology business, internal reporting provided to the CODM was revised. As a consequence, the Nortek Air & Security operating segment was revised with the Security & Smart Technology business now included in the Other Industrial operating segment. Other Industrial has also been impacted by the removal of the Walterscheid Powertrain and Wheels & Structures businesses, which have been included in discontinued operations (note 9). Comparative results have been restated accordingly.

The operating segments are as follows:

Aerospace – a multi-technology global tier one supplier of both civil and defence airframes and engine structures, including Aerostructures and Engine Systems.

Automotive – comprises Driveline, All Wheel Drive and eDrive (together ePowertrain) 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 Management – comprises the Group's Air Management businesses, which includes the Air Quality and 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 data centres and non-residential applications.

Other Industrial – comprises the Group's Ergotron, Brush and Security & Smart Technology businesses.

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 costs and charges related to the divisional management long-term incentive plans.

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

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

The following tables present the results and certain asset and liability information regarding the Group's operating segments and central cost centres for the year ended 31 December 2019.

a) Segment revenues

The Group derives its revenue from the transfer of goods and services over time and at a point in time. The Group has assessed that the disaggregation of revenue recognised from contracts with customers by operating segment is appropriate as this is the information regularly reviewed by the CODM in evaluating financial performance. The Group also believes that presenting this disaggregation of revenue based on the timing of transfer of goods or services provides useful information as to the nature and timing of revenue from contracts with customers.

Year ended 31 December 2019

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air Management £m**	**Other Industrial £m**	**Total £m**
Adjusted revenue	**3,852**	**4,739**	**1,115**	**1,178**	**708**	**11,592**
Equity accounted investments	(16)	(593)	(16)	-	-	(625)
Revenue	**3,836**	**4,146**	**1,099**	**1,178**	**708**	**10,967**
Timing of revenue recognition						
At a point in time	2,644	4,146	1,099	1,157	705	9,751
Over time	1,192	-	-	21	3	1,216
Revenue	**3,836**	**4,146**	**1,099**	**1,178**	**708**	**10,967**

Year ended 31 December 2018 - restated

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air Management £m**	**Other Industrial £m**	**Total £m**
Adjusted revenue	**2,521**	**3,382**	**851**	**1,140**	**751**	**8,645**
Equity accounted investments	(42)	(446)	(5)	-	-	(493)
Revenue	**2,479**	**2,936**	**846**	**1,140**	**751**	**8,152**
Timing of revenue recognition						
At a point in time	1,483	2,936	846	1,140	744	7,149
Over time	996	-	-	-	7	1,003
Revenue	**2,479**	**2,936**	**846**	**1,140**	**751**	**8,152**

b) Segment operating profit

Year ended 31 December 2019

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air Management £m**	**Other Industrial £m**	**Corporate[(2)] £m**	**Total £m**
Adjusted operating profit/(loss)	**409**	**367**	**117**	**175**	**86**	**(52)**	**1,102**
Items not included in adjusted operating profit[(1)]:							
Amortisation of intangible assets acquired in business combinations	(261)	(148)	(48)	(36)	(41)	-	(534)
Restructuring costs	(79)	(83)	(19)	(11)	(37)	(9)	(238)
Impairment of assets	-	-	-	-	(179)	-	(179)
Equity accounted investments adjustments	(1)	(27)	-	-	-	-	(28)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(17)	(17)
Release and changes in discount rate of fair value items	34	79	28	11	1	-	153
Movement in derivatives and associated financial assets and liabilities	2	(2)	-	-	-	55	55
Acquisition and disposal costs	-	-	(1)	-	-	5	4
Operating profit/(loss)	**104**	**186**	**77**	**139**	**(170)**	**(18)**	**318**
Finance costs							(221)
Finance income							9
Profit before tax							**106**
Tax							(51)
Profit for the year from continuing operations							**55**

Year ended 31 December 2018 - restated

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air Management £m	Other Industrial £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	**250**	**231**	**98**	**158**	**104**	**(28)**	**813**
Items not included in adjusted operating profit[1]:							
Amortisation of intangible assets acquired in business combinations	(176)	(103)	(34)	(34)	(44)	-	(391)
Restructuring costs	(56)	(46)	(11)	(19)	(65)	(32)	(229)
Acquisition and disposal 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)	-	-	-	(103)
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**	**109**	**(137)**	**(368)**	**(387)**
Finance costs							(160)
Finance income							5
Loss before tax							**(542)**
Tax							75
Loss for the year from continuing operations							**(467)**

[1] Further details on adjusting items are discussed in note 4.
[2] Corporate adjusted operating loss of £52 million (2018: £28 million), includes £6 million in respect of remaining GKN central costs (2018: £6 million) and £20 million (2018: £2 million) of costs in respect of divisional long-term incentive plans.

c) Segment total assets and liabilities

	Total assets		Total liabilities	
	31 December 2019 £m	Restated 31 December 2018 £m	**31 December 2019 £m**	Restated 31 December 2018 £m
Aerospace	**7,478**	7,725	**3,089**	3,040
Automotive	**5,391**	5,685	**2,304**	2,330
Powder Metallurgy	**1,906**	2,070	**472**	521
Nortek Air Management	**1,415**	1,476	**362**	390
Other Industrial	**1,237**	1,574	**259**	301
Corporate	**553**	628	**3,962**	4,601
Total continuing operations	**17,980**	19,158	**10,448**	11,183
Discontinued operations	**65**	586	**46**	300
Total	**18,045**	19,744	**10,494**	11,483

d) Segment capital expenditure and depreciation

	Capital expenditure[1]		Depreciation of owned assets[1]		Depreciation of leased assets	
	Year ended 31 December 2019 £m	Restated Year ended 31 December 2018 £m	**Year ended 31 December 2019 £m**	Restated Year ended 31 December 2018 £m	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
Aerospace	**178**	105	**139**	88	**30**	-
Automotive	**231**	198	**194**	116	**16**	-
Powder Metallurgy	**55**	53	**59**	37	**8**	-
Nortek Air Management	**37**	35	**23**	20	**11**	-
Other Industrial	**8**	15	**11**	12	**6**	-
Corporate	**-**	-	**-**	-	**1**	-
Total continuing operations	**509**	406	**426**	273	**72**	-
Discontinued operations	**11**	16	**12**	9	**1**	-
Total	**520**	422	**438**	282	**73**	-

[1] Including computer software and development costs. Capital expenditure excludes lease additions.

e) Geographical information

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

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

	Revenue[(1)] from external customers		**Segment assets**	
	Year ended 31 December 2019 £m	Restated Year ended 31 December 2018 £m	**31 December 2019 £m**	Restated 31 December 2018 £m
UK	**1,048**	794	**2,319**	2,400
Rest of Europe	**2,426**	1,799	**5,136**	5,489
North America	**6,073**	4,490	**4,917**	5,056
Other	**1,420**	1,069	**1,328**	1,430
Continuing operations	**10,967**	8,152	**13,700**	14,375
Discontinued operations	**423**	453	**-**	386
Total	**11,390**	8,605	**13,700**	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	**Year ended 31 December 2019 £m**	Restated Year ended 31 December 2018 £m
Operating profit/(loss)		**318**	(387)
Amortisation of intangible assets acquired in business combinations	a	**534**	391
Restructuring costs	b	**238**	229
Impairment of assets	c	**179**	152
Equity accounted investments adjustments	d	**28**	25
Melrose equity-settled compensation scheme charges	e	**17**	13
Release and changes in discount rate of fair value items	f	**(153)**	(20)
Movement in derivatives and associated financial assets and liabilities	g	**(55)**	143
Acquisition and disposal costs	h	**(4)**	153
Reversal of uplift in value of inventory	i	**-**	103
Impact of GMP equalisation on UK pension schemes	j	**-**	11
Total adjustments to operating profit/(loss)		**784**	1,200
Adjusted operating profit		**1,102**	813

a. The amortisation charge on intangible assets acquired in business combinations of £534 million (2018: £391 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 excluded from adjusted results.

b. Restructuring and other associated costs in the year totalled £238 million (2018: £229 million). Restructuring costs are shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2019 included:

- A charge of £83 million (2018: £46 million) within the Automotive division, including: costs associated with headcount reduction programmes addressing the high cost base inherited with the business and ensuring a more flexible cost structure; costs incurred closing two loss-making factories; costs associated with further footprint consolidation opportunities; and costs incurred separating the Automotive business from other GKN businesses.

- A charge of £79 million (2018: £56 million) within the Aerospace division which included: costs associated with initial headcount reductions following the commencement of a global integration process to create "One Aerospace" and achieve a simpler, more competitive, customer focussed business; costs within the North America Aerostructures business relating to two factory closures; and costs relating to footprint rationalisation projects within the Special Technologies business.

- A charge of £19 million (2018: £11 million) within the Powder Metallurgy division including costs associated with headcount reductions and the commencement of footprint consolidation actions.

- A charge of £11 million (2018: £19 million) within Nortek Air Management primarily relating to continued factory consolidation within the HVAC business.

- A charge of £37 million (2018: £65 million) within Other Industrial businesses, predominantly relating to the closure of the Chinese manufacturing facility and switching to a third party contract manufacturing model in the Security & Smart Technology business. Restructuring charges also included the finalisation of the restructuring activities announced in Brush last year.

- A charge of £9 million (2018: £32 million) within central activities, mainly relating to the separation of the GKN business.

c. 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. During the first half of the year ended 31 December 2019, there was further deterioration in both the performance and forecast future prospects of the business, 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 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.

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 £625 million (2018: £493 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. The charge for the Melrose equity-settled Incentive Scheme, including its associated employer's tax charge, of £17 million (2018: £13 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.

f. Certain items previously recorded as fair value items on acquisitions, have been resolved for more favourable amounts than first anticipated. The net release of fair value items recognised on acquisitions in the year of £153 million (2018: £20 million) includes a credit of £122 million in respect of the release of certain loss-making contracts, recognised on the acquisition of GKN, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period. The net release of fair value items are shown as an adjusting item, avoiding positively distorting adjusted results.

g. Hedge accounting is not applied within the GKN businesses for transactional foreign exchange exposure. Consequently, for consistency and because of their volatility and size, the movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts) entered into to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts in the GKN businesses, along with foreign exchange movements on the associated financial assets and liabilities, are shown as an adjusting item. These movements totalled a credit of £55 million (2018: charge of £143 million), in the year.

h. A net acquisition and disposal related credit of £4 million (2018: costs of £153 million), that arose in the year, includes a profit on the sale of a small business and transaction costs in respect of acquisition and disposal activities. These items are excluded from adjusted results due to their non-trading nature.

i. In the prior year, finished goods and work in progress inventory which were present in the GKN businesses when acquired, in accordance with IFRS 3, were required to be uplifted in value to closer to their selling price. As a result, in the early months of the acquisition, reduced profits were generated as this inventory was sold. The one-off effect in 2018, relating to GKN's acquired inventory was a charge of £103 million and was 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 in the prior year due to its non-trading and non-recurring nature.

b) Profit before tax

Continuing operations	Notes	Year ended 31 December 2019 £m	Restated Year ended 31 December 2018 £m
Profit/(loss) before tax		**106**	(542)
Adjustments to operating profit/(loss) as above		**784**	1,200
Fair value changes on cross-currency swaps	k	**(1)**	8
Write-off previous debt facility unamortised fees	l	**-**	7
Equity accounted investments - interest	m	**-**	(1)
Total adjustments to profit/(loss) before tax		**783**	1,214
Adjusted profit before tax		**889**	672

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 in 2018, 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	Year ended 31 December 2019 £m	Restated Year ended 31 December 2018 £m
Profit/(loss) after tax		**55**	(467)
Adjustments to profit/(loss) before tax as above		**783**	1,214
Tax effect of adjustments to profit/(loss) before tax	5	**(123)**	(221)
Tax effect of significant restructuring	5	**(9)**	-
Equity accounted investments - tax	m	**(7)**	(9)
Total adjustments to profit/(loss) after tax		**644**	984
Adjusted profit after tax		**699**	517

5. Tax

Continuing operations	Year ended 31 December 2019 £m	Restated Year ended 31 December 2018 £m
Analysis of tax charge/(credit) in the year:		
Current tax		
Current year tax charge	**156**	55
Adjustments in respect of prior years	**(10)**	(21)
Total current tax charge	**146**	34
Deferred tax		
Origination and reversal of temporary differences	**(89)**	(33)
Adjustments in respect of prior years	**5**	(6)
Tax on the change in value of derivative financial instruments	**(10)**	(31)
Adjustments to deferred tax attributable to changes in tax rates	**(2)**	(34)
Non-recognition of deferred tax	**17**	-
Recognition of previously unrecognised deferred tax assets	**(16)**	(5)
Total deferred tax credit	**(95)**	(109)
Tax charge/(credit) on continuing operations	**51**	(75)
Tax charge on discontinued operations	**3**	-
Total tax charge/(credit) in year	**54**	(75)

Analysis of charge/(credit) on continuing operations in the year:	£m	£m
Tax charge in respect of adjusted profit before tax	**190**	155
Tax credit recognised as an adjusting item	**(139)**	(230)
Total tax charge/(credit) on continuing operations	**51**	(75)

The tax charge of £190 million (2018: £155 million) arising on adjusted profit before tax of £889 million (2018: £672 million), results in an effective tax rate of 21.4% (2018: 23.1%).

The £139 million (2018: £230 million) tax credit recognised as an adjusting item includes £123 million (2018: £221 million) in respect of tax credits on adjustments to profit/(loss) before tax of £783 million (2018: £1,214 million), £7 million (2018: £9 million) in respect of the tax charge on equity accounted investments and £9 million (2018: £nil) in respect of net tax credits on restructuring, being a £1 million (2018: £nil) tax charge on the legal separation of the GKN Aerospace and Automotive divisions and a £10 million (2018: £nil) tax credit on other internal Group restructuring.

The tax charge for the year for continuing and discontinued operations can be reconciled to the profit/(loss) before tax per the Income Statement as follows:

	Year ended 31 December 2019 £m	Restated Year ended 31 December 2018 £m
Profit/(loss) before tax:		
Continuing operations	**106**	(542)
Discontinued operations (note 9)	**(82)**	(8)
	24	(550)
Tax charge/(credit) on profit/(loss) before tax at the weighted average rate of 21.0% (2018: 20.0%)	**5**	(110)
Tax effect of:		
Disallowable expenses and other permanent differences within adjusted profit	**6**	10
Disallowable items included within adjusting items	**54**	57
Temporary differences not recognised in deferred tax	**17**	14
Recognition of previously unrecognised deferred tax assets	**(16)**	(5)
Tax credits, withholding taxes and other rate differences	**4**	10
Adjustments in respect of prior years	**(5)**	(27)
Tax (credit)/charge classified within adjusting items	**(9)**	10
Effect of changes in tax rates	**(2)**	(34)
Total tax charge/(credit) for the year	**54**	(75)

The reconciliation has been performed at a blended Group tax rate of 21.0% (2018: 20.0%) which represents the weighted average of the tax rates applying to profits and losses in the jurisdictions in which those results arose.

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

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Deferred tax on retirement benefit obligations	**(15)**	(9)
Deferred tax on hedge relationship gains and losses	**16**	(24)
Deferred tax on foreign currency gains and losses	**3**	(5)
Total charge/(credit) for the year	**4**	(38)

6. Dividends

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Final dividend for the year ended 31 December 2017 paid of 2.8p	**-**	54
Interim dividend for the year ended 31 December 2018 paid of 1.55p	**-**	75
Final dividend for the year ended 31 December 2018 of 3.05p	**148**	-
Interim dividend for the year ended 31 December 2019 of 1.7p	**83**	-
	231	129

Proposed final dividend for the year ended 31 December 2019 of 3.4p per share (2018: 3.05p per share) totalling £165 million (2018: £148 million).

The final dividend of 3.4p was proposed by the Board on 5 March 2020 and, in accordance with IAS 10: “Events after the reporting period”, has not been included as a liability in this Preliminary Announcement.

7. Earnings per share

Earnings attributable to owners of the parent	**Year ended 31 December 2019 £m**	Restated Year ended 31 December 2018 £m
Earnings for basis of earnings per share	**(60)**	(475)
Less: loss for the year from discontinued operations	**106**	8
Earnings for basis of earnings per share from continuing operations	**46**	(467)

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

Earnings per share	**Year ended 31 December 2019 pence**	Restated Year ended 31 December 2018 pence
Basic earnings per share		
From continuing and discontinued operations	**(1.2)**	(12.0)
From continuing operations	**0.9**	(11.8)
From discontinued operations	**(2.1)**	(0.2)
Diluted earnings per share		
From continuing and discontinued operations	**(1.2)**	(12.0)
From continuing operations	**0.9**	(11.8)
From discontinued operations	**(2.1)**	(0.2)

Adjusted earnings from continued operations	Year ended 31 December 2019 £m	Restated Year ended 31 December 2018 £m
Adjusted earnings for the basis of adjusted earnings per share[1]	**693**	504

[1] Adjusted earnings for the year ended 31 December 2019 comprises adjusted profit after tax of £699 million (2018: £517 million) (note 4), net of an allocation to non-controlling interest of £6 million (2018: £13 million).

Adjusted earnings per share from continuing operations

	Year ended 31 December 2019 pence	Restated Year ended 31 December 2018 pence
Adjusted basic earnings per share	**14.3**	12.7
Adjusted diluted earnings per share	**14.3**	12.7

8. Goodwill and other intangible assets

Goodwill acquired in business combinations, net of impairment, has been allocated to the businesses, each of which comprises several cash-generating units ("CGUs").

Goodwill	31 December 2019 £m	Restated 31 December 2018 £m
Nortek businesses:		
AQH	**355**	370
HVAC	**237**	246
Security & Smart Technology	**172**	357
Ergotron	**418**	435
GKN businesses:		
Aerostructures	**545**	558
Aerospace Engine Systems	**346**	360
Aerospace Special Technologies	**50**	51
Automotive Driveline	**688**	715
Automotive ePowertrain	**339**	345
Powder Metallurgy	**503**	529
Walterscheid Powertrain Group[1]	**-**	92
	3,653	4,058

[1] Disposed on 25 June 2019.

Impairment Testing

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired. In accordance with IAS 36: "Impairment of assets" the Group values goodwill at the recoverable amount, being the higher of the value in use basis and the fair value less costs to sell basis.

Value in use calculations have been used to determine the recoverable amount of goodwill allocated to each group of CGUs. The calculation uses the latest approved forecasts extrapolated to perpetuity using growth rates shown below, which do not exceed the long-term growth rate for the relevant market.

An impairment charge of £179 million was recorded in respect of the Security & Smart Technology group of CGUs during the first half of the year as a result of further deterioration in both the performance and forecast future prospects, particularly following increases in US tariffs for goods being imported from China. The impairment charge recorded in the Consolidated Income Statement, is shown as an adjusting item (note 4) and has not changed in value in the second half of the year. Sensitivity analysis has been provided in respect of reasonably possible changes to key assumptions.

Based on impairment testing completed at the year-end no further impairment was identified in respect of the Nortek and GKN businesses. No reasonably possible change in key assumptions would result in an impairment in the AQH, HVAC and Ergotron groups of CGUs. Due to the proximity of the recent acquisition of GKN, the recoverable amounts for GKN businesses will be close to carrying values. There is no reasonably possible change in the key assumptions for the three Aerospace and Automotive ePowertrain groups of CGUs that could result in an impairment. There is also no reasonably possible change in the key assumptions for the revised two Aerospace groups of CGUs that are effective from 1 January 2020 that could result in an impairment.

The Automotive Driveline and Powder Metallurgy groups of CGUs, impacted by the automotive market downturn, are mitigating reductions in demand through cost and efficiency actions. No impairment of goodwill is required within these businesses, but sensitivity analysis has been provided in respect of reasonably possible changes to key assumptions.

Significant assumptions and estimates
Each group of CGUs has been assessed through a value in use methodology, using the following significant assumptions.

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

	31 December 2019			31 December 2018		
Group of CGUs	**Pre-tax[1] discount rates**	**Long-term growth rates**	**Period of forecast**	Pre-tax discount rates	Long-term growth rates	Period of forecast
AQH	**11.0%**	**3.3%**	**3**	11.8%	3.3%	3
HVAC	**11.2%**	**3.1%**	**3**	11.8%	3.1%	3
Security & Smart Technology	**11.5%**	**3.5%**	**3**	12.0%	3.3%	3
Ergotron	**10.9%**	**3.4%**	**3**	11.8%	3.3%	3
Aerostructures	**9.4%**	**2.9%**	**5**	10.2%	2.0%	5
Aerospace Engine Systems	**9.4%**	**3.0%**	**5**	10.1%	2.5%	5
Aerospace Special Technologies	**9.8%**	**2.9%**	**5**	9.7%	2.5%	5
Automotive Driveline	**13.5%**	**2.5%**	**5**	11.6%	0.0%	5
Automotive ePowertrain	**10.0%**	**2.8%**	**5**	12.0%	3.0%	5
Powder Metallurgy	**11.8%**	**2.5%**	**5**	12.0%	2.0%	5

(1) Adjusted for the impact of IFRS 16.

Pre-tax risk adjusted discount rates
Cash flows are discounted using a pre-tax discount rate specific to each group of CGUs. Discount rates reflect the current market assessments of the time value of money and the territories in which the CGU operates. In determining the cost of equity, the Capital Asset Pricing Model ("CAPM") has been used. Under CAPM, the cost of equity is determined by adding a risk premium, based on an industry adjustment ("Beta"), to the expected return of the equity market above the risk-free return. The relative risk adjustment reflects the risk inherent in each group of CGUs relative to all other sectors and geographies on average.

The cost of debt is determined using a risk-free rate based on the cost of government bonds, and an interest rate premium equivalent to a corporate bond with a similar credit rating to Melrose.

The Group adopted IFRS 16: "Leases" on 1 January 2019 which has affected the calculation of pre-tax discount rates. The change in accounting standard does not affect impairment conclusions.

Assumptions applied in financial forecasts
The Group prepares cash flow forecasts derived from financial budgets and medium-term forecasts. Each forecast has been prepared using a cash flow period deemed most appropriate by management, considering the nature of each group of CGUs. The key assumptions used in forecasting pre-tax cash flows relate to future budgeted revenue and operating margins likely to be achieved and the expected rates of long-term growth by market sector. Underlying factors in determining the values assigned to each key assumption are shown below:

Revenue growth and operating margins:
Revenue growth assumptions in the forecast period are based on financial budgets and medium-term forecasts by management, taking into account industry growth rates and management's historical experience in the context of wider industry and economic conditions. Projected sales are built up with reference to markets and product categories. They incorporate past performance, historical growth rates, projections of developments in key markets, secured orders and orders forecast to be achieved in the short to medium term given trends in the relevant market sector.

Operating margins have been forecast based on historical levels achieved considering the likely impact of changing economic environments and competitive landscapes on volumes and revenues and the impact of management actions on costs. Projected margins reflect the impact of all initiated projects to improve operational efficiency and leverage scale. The projections do not include the impact of future restructuring projects to which the Group is not yet committed. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors.

Aerospace - The key drivers for growth in revenue and operating margins are global demand for commercial and military aircraft. Consumer spending, passenger load factors, raw material input costs, market expectations for aircraft production requirements, technological advancements, and other macroeconomic factors influence demand for these products.

Automotive - The key drivers for growth in revenue and operating margins are global demand for a large range of cars including smaller low-cost cars to larger premium vehicles. Demand is influenced by technological advancements particularly in electric and full hybrid vehicles, market expectations for global vehicle production requirements, fuel prices, raw material input costs, consumer spending, credit availability, and other macroeconomic factors.

Powder Metallurgy - The key drivers for growth in revenue and operating margins are trends in the automotive and industrial markets. Market expectations for global light vehicle production requirements, raw material input costs, technological advancements, particularly in additive manufacturing, influence demand for these products along with other macroeconomic factors.

HVAC and AQH - The key drivers for growth in revenue and operating margins are the levels of residential remodelling and replacement activity and the levels of residential and non-residential new construction in the markets in which these businesses operate. New residential and non-residential construction activity and, to a lesser extent, residential remodelling and replacement activity are affected by seasonality and cyclical factors such as interest rates, credit availability, inflation, consumer spending, employment levels and other macroeconomic factors.

Security & Smart Technology - The key driver for growth in revenue and operating margins is global demand for security and home automation products. Consumer spending, employment levels, regulation, technological advancements and the evolution of the traditional security market towards home automation and other macroeconomic factors influence demand for these products.

Ergotron - The key driver for growth in revenue and operating margins is demand for technology and wellness products in the markets in which Ergotron operates. Seasonal factors, public authority spending, corporate and consumer spending, employment levels, the public awareness of wellness, regulation, technological advancements and other macroeconomic factors influence demand for these products.

Long-term growth rates:
Long-term growth rates are based on long-term forecasts for growth in the sectors and geography in which the CGU operates. Long-term growth rates are determined using long-term growth rate forecasts that take into account the international presence and the markets in which each business operates.

Security & Smart Technology group of CGUs
The 2018 Annual Report disclosed that the determination of the recoverable amount in respect of the Security & Smart Technology group of 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, in the first half of 2019 there was further deterioration in both the performance 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 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 (note 4) due to its non-trading nature and size and is unchanged in value from the first half of the year.

Sensitivity analysis
The forecasts are prepared using the methodology required by IAS 36 and show headroom of £43 million above the carrying amount for the Security & Smart Technology group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the discount rate and long-term growth rate from 11.5% to 12.5% or from 3.5% to 2.4% respectively would reduce headroom to £nil. A reduction in the terminal operating margin from 10.8% to 9.5% would also reduce headroom to £nil.

Powder Metallurgy and Automotive group of CGUs
The GKN businesses were acquired and recorded at fair value on 19 April 2018 and subsequently there has been a global automotive market decline, naturally reducing the headroom when testing goodwill and intangible assets in respect of the Automotive and Powder Metallurgy businesses at this point in the cycle.

Powder Metallurgy group of CGUs - sensitivity analysis
The forecasts are prepared using the methodology required by IAS 36 and show headroom of £90 million above the carrying amount for the Powder Metallurgy group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the discount rate and long-term growth rate from 11.8% to 12.3% or from 2.5% to 1.7% respectively would reduce headroom to £nil. A reduction in the terminal operating margin from 14.2% to 13.2% would also reduce headroom to £nil.

Automotive Driveline group of CGUs – sensitivity analysis
The forecasts are prepared using the methodology required by IAS 36 and show headroom of £103 million above the carrying amount for the Automotive Driveline group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the discount rate and long term growth rate from 13.5% to 14.0% or from 2.5% to 1.7% respectively would reduce headroom to £nil. A reduction in the terminal operating margin from 10.0% to 9.4% would also reduce headroom to £nil.

9. Assets held for sale and discontinued operations

Wheels & Structures

During the second half of the year, following a strategic review, the Board formally commenced a disposal process aligned to its strategic priority, to dispose of the Wheels & Structures business, with a high expectation that this process will conclude within one year. In accordance with IFRS 5: "Non-current assets held for sale and discontinued operations", associated assets and liabilities have been classified as held for sale and are separately shown on the Balance Sheet, having been remeasured to the fair value less costs of disposal.

Walterscheid Powertrain Group

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 associated with the disposal were £7 million. The loss on disposal was £21 million after the recycling of a net favourable cumulative translation difference of £13 million.

The results of the Walterscheid Powertrain Group and Wheels & Structures business were previously included within the Other Industrial operating segment and are classified as discontinued operations, in accordance with IFRS 5.

Financial performance of discontinued operations:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Revenue	**423**	453
Operating costs[1]	**(503)**	(458)
Operating loss	**(80)**	(5)
Finance costs	**(2)**	(3)
Loss before tax	**(82)**	(8)
Tax	**(3)**	-
Loss after tax	**(85)**	(8)
Loss on disposal of businesses	**(21)**	-
Loss for the year from discontinued operations	**(106)**	(8)

[1] The operating loss in the year includes a £64 million charge on remeasurement to fair values less costs of disposal relating to the Wheels & Structures business on reclassification to assets held for sale.

The major classes of assets and liabilities held for sale or disposed of during the year were as follows:

	Wheels & Structures			Walterscheid Powertrain
	Reclassified £m	Remeasurement £m	Held for sale £m	Group disposed £m
Goodwill and other intangible assets	18	(18)	-	210
Property, plant and equipment	60	(49)	11	110
Interests in equity accounted investments	-	-	-	4
Inventories	22	-	22	74
Deferred tax assets	6	-	6	25
Trade and other receivables	26	-	26	67
Cash and cash equivalents	-	-	-	9
Total assets	132	(67)	65	499
Trade and other payables	(36)	-	(36)	(54)
Lease obligations	(2)	-	(2)	(34)
Retirement benefit obligations	-	-	-	(155)
Provisions	(3)	-	(3)	(10)
Current and deferred tax	(8)	3	(5)	(34)
Total liabilities	(49)	3	(46)	(287)
Net assets	**83**	**(64)**	**19**	**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[1]				178
Less: cash and cash equivalents disposed				(9)
				169

[1] Cash consideration of £185 million net of £7 million of disposal costs charged to the Income Statement.

10. Equity accounted investments

Group share of results from continuing operations	**Year ended 31 December 2019 £m**	Restated Year ended 31 December 2018 £m
Revenue	**625**	493
Operating costs	**(559)**	(434)
Adjusted operating profit	**66**	59
Adjusting items	**(21)**	(15)
Net finance costs	**-**	(1)
Profit before tax	**45**	43
Tax	**(7)**	(9)
Share of results of equity accounted investments	**38**	34

11. Provisions

	Loss-making contracts[1] £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	(83)	(5)	(87)	(54)	(190)	(6)	(425)
Net (credit)/charge to operating profit[2]	(122)	(1)	35	(2)	193	25	128
Unwind of discount[3]	20	-	1	-	-	1	22
Transfers[4]	(10)	(20)	(2)	-	-	-	(32)
Transfer to held for sale	(1)	-	(2)	-	-	-	(3)
Disposal of businesses	(1)	(1)	(1)	(1)	(2)	(4)	(10)
Exchange adjustments	(35)	(2)	(7)	(16)	(3)	(1)	(64)
At 31 December 2019	**384**	**45**	**155**	**324**	**114**	**65**	**1,087**
Current	70	9	86	114	110	23	412
Non-current	314	36	69	210	4	42	675
	384	45	155	324	114	65	1,087

(1) Utilisation of loss-making contracts includes £81 million shown within continuing adjusted operating profit and £2 million within discontinued operating profit.
(2) Includes £36 million of adjusting items and £92 million recognised in adjusted operating profit.
(3) Includes £7 million within finance costs relating to the time value of money and £15 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 (note 4).
(4) Onerous lease liabilities of £20 million have been transferred to the 'right-of-use asset' following the adoption of IFRS 16 on 1 January 2019. Other transfers have occurred due to developments in commercial matters where the expected value and timing of cash outflow have become more certain.

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

Calculation of loss-making contract provisions is based on contract documentation and delivery expectations, along with an estimate of directly attributable costs and represents management's best estimate of the unavoidable costs of fulfilling the contract.

Property related costs
The provision for property related costs represents dilapidation costs for ongoing leases and is expected to result in cash expenditure over the next eight years. Calculation of dilapidation obligations are based on lease agreements with landlords and external quotes, or in the absence of specific documentation, management's best estimate of the costs required to fulfil obligations.

Environmental and litigation
Environmental 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. Liabilities for environmental costs are recognised when environmental assessments are probable and the associated costs can be reasonably estimated.

Provisions are recorded for product and general liability claims which are probable and for which the cost can be reliably estimated. These liabilities include an estimate of claims incurred but not yet reported and are based on actuarial valuations using claim data. Due to their nature, it is not possible to predict precisely when these provisions will be utilised.

The Group has on occasion been required to take legal or other actions to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, considering professional advice received. This represents management's best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain, reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent management's best estimate of the cost of settling future obligations and reflect management's assessment of the likely settlement method, which may change over time. However, no provision is made for proceedings which have been, or might be, brought by other parties against Group companies unless management, considering professional advice received, assess that it is more likely than not that such proceedings may be successful.

Warranty related costs
Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products and subsequently updated for changes in estimates as necessary. The provision for warranty related costs represents the best estimate of the expenditure required to settle the Group's obligations, based on past experience, recent claims and current estimates of costs relating to specific claims. Warranty terms are, on average, between one and five years.

Restructuring
Restructuring provisions relate to committed costs in respect of restructuring programmes, usually resulting in cash spend within one year. A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by either starting to implement the plan or by announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are necessarily entailed by the restructuring programmes.

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

Where appropriate, provisions have been discounted using discount rates between 0% and 7% (31 December 2018: 0% and 9%) depending on the territory in which the provision resides and the length of its expected utilisation.

12. Retirement benefit obligations

Defined benefit plans

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

GKN Group Pension Schemes (Numbers 1 - 4)
On 1 July 2019 the GKN UK 2012 Pension Plan was split into four separate pension schemes which have been allocated to the Aerospace and Automotive segments resulting in no change to the benefits accrued by members or to the amounts recognised by the Group. The four new plans are called the GKN Group Pension Schemes (Numbers 1 - 4). All four schemes are funded plans, closed to new members and were closed to future accrual in 2017. The valuation of the plans was based on a full actuarial valuation as of 5 April 2016, updated to 31 December 2019 by independent actuaries.

Contributions

The Group committed to contribute and has subsequently now fully paid £150 million in total to the GKN UK 2012 and 2016 plans in the first twelve months of ownership, as well as ongoing annual contributions of £60 million. In addition, the Group has committed to contribute £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 to the GKN UK pension plans. These commitments cease when the funding target which has been agreed with Trustees is achieved, being gilts plus 25 basis points for the GKN UK 2016 plan and gilts plus 75 basis points for the GKN Group pension schemes (numbers 1 - 4).

The Group contributed £185 million (2018: £102 million) to defined benefit pension plans and post-employment plans in the year ended 31 December 2019, including £94 million (2018: £56 million) of the Melrose commitment to contribute £150 million to the GKN UK 2012 and 2016 plans within the first twelve months of GKN ownership. Furthermore, in July 2019 the Group contributed £17 million following the disposal of Walterscheid Powertrain Group.

The Group expects to contribute £105 million to defined benefit pension plans and post-employment plans in 2020.

Actuarial assumptions

The major assumptions used by the actuaries in calculating the Group's pension liabilities are as set out below:

	Rate of increase of pensions in payment % per annum	**Discount rate % per annum**	**Price inflation % per annum**
31 December 2019			
GKN Group pension schemes (numbers 1 - 4)	2.8	2.0	2.1
GKN UK – 2016 plan	2.8	2.0	2.1
GKN US plans	n/a	3.1	2.1
GKN Europe plans	1.5	1.1	1.5
Brush UK plan	2.8	2.0	2.1
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

Balance Sheet disclosures

The amount recognised in the Consolidated Balance Sheet arising from net liabilities in respect of defined benefit plans was as follows:

	31 December 2019 £m	31 December 2018 £m
Present value of funded defined benefit obligations	**(3,899)**	(3,937)
Fair value of plan assets	**3,412**	3,273
Funded status	**(487)**	(664)
Present value of unfunded defined benefit obligations	**(634)**	(749)
Net liabilities	**(1,121)**	(1,413)

The plan assets and liabilities at 31 December 2019 were as follows:

	UK Plans[1] £m	US Plans £m	European Plans £m	Other Plans £m	**Total £m**
Plan assets	3,082	262	28	40	**3,412**
Plan liabilities	(3,502)	(417)	(561)	(53)	**(4,533)**
Net liabilities	(420)	(155)	(533)	(13)	**(1,121)**

[1] Includes a net liability in respect of the GKN Group Pension Schemes (numbers 1 - 4) (formerly GKN UK 2012 plan), GKN post-employment medical plans, and the Nortek UK plan and a net asset in respect of the Brush UK pension plan and the GKN UK 2016 pension plan.

13. Cash flow statement

	Notes	Year ended 31 December 2019 £m	Restated Year ended 31 December 2018 £m
Reconciliation of operating profit to cash generated by continuing operations			
Operating profit/(loss)		**318**	(387)
Adjusting items	4	**784**	1,200
Adjusted operating profit	4	**1,102**	813
Adjustments for:			
Depreciation of property, plant and equipment		**434**	229
Amortisation of computer software and development costs		**64**	44
Share of adjusted operating profit of equity accounted investments	10	**(66)**	(59)
Restructuring costs paid and movements in provisions		**(320)**	(198)
Defined benefit pension contributions paid[(1)]		**(183)**	(99)
Change in inventories		**(12)**	(108)
Change in receivables		**72**	172
Change in payables		**(2)**	(160)
Acquisition costs and associated transaction taxes		**(16)**	(125)
Tax paid		**(117)**	(68)
Interest paid on loans and borrowings		**(166)**	(111)
Interest paid on lease obligations		**(21)**	-
Net cash from operating activities		**769**	330

[(1)] 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 year ended 31 December 2019. Furthermore, in July 2019 the Group contributed £17 million to the GKN UK plans following the disposal of Walterscheid Powertrain Group.

Cash flow from discontinued operations	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Net cash (used in)/from discontinued operations	**(16)**	44
Defined benefit pension contributions paid	**(2)**	(3)
Interest paid on lease obligations	**(1)**	-
Tax (paid)/received	**(1)**	2
Net cash (used in)/from operating activities from discontinued operations	**(20)**	43
Purchase of property, plant and equipment	**(12)**	(16)
Disposal costs	**(3)**	-
Proceeds from disposal of property, plant and equipment	**-**	2
Net cash used in investing activities from discontinued operations	**(15)**	(14)
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.

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

	31 December 2019 £m	31 December 2018 £m
Interest-bearing loans and borrowings – due within one year	**(89)**	(377)
Interest-bearing loans and borrowings – due after one year	**(3,464)**	(3,378)
External debt	**(3,553)**	(3,755)
Less:		
Cash and cash equivalents	**317**	415
	(3,236)	(3,340)
Adjustments:		
Impact of cross-currency swaps	**(80)**	(199)
Non-cash acquisition fair value adjustments	**33**	57
Net debt	**(3,283)**	(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 31 December 2019 £m**
External debt	(3,755)	106	-	13	83	**(3,553)**
Cross-currency swaps	(199)	100	-	(5)	24	**(80)**
Non-cash acquisition fair value adjustments	57	-	-	(24)	-	**33**
	(3,897)	206	-	(16)	107	**(3,600)**
Cash and cash equivalents	415	(234)	153	-	(17)	**317**
Net debt	(3,482)	(28)	153	(16)	90	**(3,283)**

14. Post Balance Sheet events

On 2 January 2020 GKN Powder Metallurgy completed the acquisition of FORECAST 3D, a leading US specialist in plastic additive manufacturing and 3D printing services offering a full range of services from concept to series production, for a total consideration of up to £29 million, of which £20 million was paid on 2 January 2020. The acquisition furthers GKN Powder Metallurgy's ambition to achieve global market leadership in industrialising additive manufacturing. In the year ended 31 December 2019 FORECAST 3D achieved sales of approximately £17 million.

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

Revenue	Year ended 31 December 2019 £m	Restated[1] Year ended 31 December 2018 £m
Revenue	**10,967**	8,152
Share of revenue of equity accounted investments	**625**	493
Adjusted revenue	**11,592**	8,645

Operating profit	Year ended 31 December 2019 £m	Restated[1] Year ended 31 December 2018 £m
Operating profit/(loss)	**318**	(387)
Adjusting items (note 4)	**784**	1,200
Adjusted operating profit	**1,102**	813

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Adjusted operating margin</td><td>Operating margin[3]</td><td>Share of revenue of equity accounted investments (note 3) and adjusting items (note 4)</td><td>Adjusted operating margin represents Adjusted operating profit as a percentage of Adjusted revenue.</td></tr>
<tr><td>Adjusted profit before tax</td><td>Profit/(loss) before tax</td><td>Adjusting items (note 4)</td><td>Profit before the impact of adjusting items and tax. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.
<table>
<tr><th>Profit before tax</th><th>Year ended 31 December 2019 £m</th><th>Restated[1] Year ended 31 December 2018 £m</th></tr>
<tr><td>Profit/(loss) before tax</td><td>106</td><td>(542)</td></tr>
<tr><td>Adjusting items (note 4)</td><td>783</td><td>1,214</td></tr>
<tr><td>Adjusted profit before tax</td><td>889</td><td>672</td></tr>
</table></td></tr>
<tr><td>Adjusted profit after tax</td><td>Profit/(loss) after tax</td><td>Adjusting items (note 4)</td><td>Profit after tax but before the impact of the adjusting items. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.
<table>
<tr><th>Profit after tax</th><th>Year ended 31 December 2019 £m</th><th>Restated[1] Year ended 31 December 2018 £m</th></tr>
<tr><td>Profit/(loss) after tax</td><td>55</td><td>(467)</td></tr>
<tr><td>Adjusting items (note 4)</td><td>644</td><td>984</td></tr>
<tr><td>Adjusted profit after tax</td><td>699</td><td>517</td></tr>
</table></td></tr>
<tr><td>Adjusted EBITDA for leverage covenant purposes</td><td>Operating profit/ (loss)[2]</td><td>Adjusting items (note 4), depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge, share of non-controlling interests and other adjustments required for covenant purposes[5]</td><td>Adjusted operating profit for 12 months prior to the reporting date, before depreciation and impairment of property, plant and equipment and before the amortisation and impairment of computer software and development costs.

Adjusted EBITDA for covenant purposes is a measure used by external stakeholders to measure performance.
<table>
<tr><th>Adjusted EBITDA for leverage covenant purposes</th><th>Year ended 31 December 2019 £m</th><th>Year ended[4] 31 December 2018 £m</th></tr>
<tr><td>Adjusted operating profit</td><td>1,102</td><td>847</td></tr>
<tr><td>Depreciation of property, plant and equipment and amortisation of computer software and development costs</td><td>498</td><td>282</td></tr>
<tr><td>Full year impact of acquisitions</td><td>-</td><td>378</td></tr>
<tr><td>Imputed lease charge</td><td>(91)</td><td>(6)</td></tr>
<tr><td>Non-controlling interests</td><td>(6)</td><td>-</td></tr>
<tr><td>Other adjustments required for covenant purposes[5]</td><td>2</td><td>(9)</td></tr>
<tr><td>Adjusted EBITDA for leverage covenant purposes</td><td>1,505</td><td>1,492</td></tr>
</table></td></tr>
</table>

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted tax rate	Effective tax rate	Adjusting items, adjusting tax items and the tax impact of adjusting items (note 4 and note 5)	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.

Adjusted tax rate	**Year ended 31 December 2019 £m**	Restated[1] Year ended 31 December 2018 £m
Tax (charge)/credit per Income Statement	**(51)**	75
Tax impact of adjusting items	**(123)**	(221)
Tax impact of restructuring	**(9)**	-
Tax impact of EAIs	**(7)**	(9)
Adjusted tax charge	**(190)**	(155)
Adjusted profit before tax	**889**	672
Adjusted tax rate	**21.4%**	23.1%

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted basic earnings per share	Basic earnings per share	Adjusting items (note 4 and note 7)	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 year.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (note 4 and note 7)	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 year 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.
Interest cover	None	Not applicable	Adjusted EBITDA calculated for covenant purposes (including EBITDA of businesses disposed) as a multiple of net interest payable on bank loans and overdrafts. This measure is used for bank covenant testing.

Interest cover	**Year ended 31 December 2019 £m**	Year ended[4] 31 December 2018 £m
Adjusted EBITDA for leverage covenant purposes	**1,505**	1,492
Adjusted EBITDA from businesses disposed in the year	**36**	-
Removal of full year impact of acquisitions	**-**	(378)
Other adjustments required for covenant purposes	**-**	18
Adjusted EBITDA for interest cover	**1,541**	1,132
Interest on bank loans and overdrafts	**(152)**	(103)
Finance income	**9**	5
Net finance charges for covenant purposes	**(143)**	98
Interest cover	**10.8x**	11.6x

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Balance Sheet Measures			
Working capital	Inventories, trade and other receivables less trade and other payables	Not applicable	Working capital comprises inventories, current and non-current trade and other receivables and current and non-current trade and other payables.
Net debt	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Reconciliation of net debt (note 13)	Net debt comprises cash and cash equivalents, interest-bearing loans and borrowings and cross-currency swaps but excludes non-cash acquisition fair value adjustments. Net debt is one measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of the indebtedness of the Group.
Bank covenant definition of net debt at average rates and leverage	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Impact of foreign exchange and adjustments for bank covenant purposes	Net debt (as above) is presented in the Balance Sheet translated at year end exchange rates. For bank covenant testing purposes net debt is converted using average exchange rates for the previous 12 months. Leverage is calculated as the bank covenant definition of net debt divided by adjusted EBITDA for leverage covenant purposes. This measure is used for bank covenant testing.

Net debt	**31 December 2019 £m**	31 December 2018 £m
Net debt at closing rates (note 13)	**3,283**	3,482
Impact of foreign exchange	**94**	(86)
Net debt at average rates	**3,377**	3,396
Other adjustments required for covenant purposes	**8**	11
Bank covenant definition of net debt at average rates	**3,385**	3,407
Leverage	**2.25x**	2.28x

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
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 lease obligation payments, the positive non-cash impact from loss-making contracts and movements in working capital. Adjusted operating cash flow (pre-capex) conversion is adjusted operating cash flow (pre-capex) divided by adjusted profit before depreciation and amortisation 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	Year ended 31 December 2019 £m	Restated[(1)] Year ended 31 December 2018 £m
Adjusted operating profit	**1,102**	813
Share of adjusted operating profit of equity accounted investments (note 10)	**(66)**	(59)
Depreciation of owned property, plant and equipment and amortisation of computer software and development costs	**426**	273
Depreciation of leased property, plant and equipment and amortisation of leased computer software and development costs	**72**	-
Lease obligation payments	**(70)**	-
Positive non-cash impact from loss-making contracts	**(81)**	(63)
	1,383	964
Change in inventories	**(12)**	(108)
Change in receivables	**72**	172
Change in payables	**(2)**	(160)
Adjusted operating cash flow (pre-capex)	**1,441**	868
Adjusted operating cash flow conversion	**104%**	90%

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Movement in net trade working capital and percentage change	Change in inventories, change in receivables and change in payables as included within net cash from operating activities (note 13)	The year-on-year movement in non-trade working capital comprising movements in other receivables and other payables	Movement in net trade working capital represents the cash flow from inventories, net trade receivables and trade payables during the year. The percentage reduction in net trade working capital is the movement in net trade working capital divided by net trade working capital as at 31 December 2018.

Movement in net trade working capital	Year ended 31 December 2019 £m
Change in inventories (note 13)	**(12)**
Change in receivables (note 13)	**72**
Change in payables (note 13)	**(2)**
Movement in working capital	**58**
Removal of change in other receivables and change in other payables	**37**
Movement in net trade working capital	**95**

Net trade working capital at 31 December 2018 comprises:

Inventories	**1,489**
Trade receivables	**1,877**
Allowance for doubtful receivables	**(42)**
Trade payables	**(1,307)**
Net trade working capital	**2,017**
Percentage reduction in net trade working capital	**5%**

<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>Free cash flow</td><td>Net increase/ decrease in cash and cash equivalents</td><td>Acquisition related cash flows, dividends paid to owners of the parent, foreign exchange, discontinued operating cash flows and other non-cash movements</td><td>Free cash flow represents cash generated from trading from continuing businesses after all costs including restructuring, pension contributions, tax and interest payments.
<table>
<tr><th>Free cash flow</th><th>Year ended 31 December 2019 £m</th><th>Year ended 31 December 2018 £m</th></tr>
<tr><td>Adjusted operating cash flow (pre-capex)</td><td>1,441</td><td>868</td></tr>
<tr><td>Net capital expenditure</td><td>(495)</td><td>(345)</td></tr>
<tr><td>Net interest and tax paid</td><td>(295)</td><td>(174)</td></tr>
<tr><td>Defined benefit pension contributions paid (note 13)</td><td>(183)</td><td>(99)</td></tr>
<tr><td>Restructuring costs paid</td><td>(190)</td><td>(113)</td></tr>
<tr><td>Dividends received from EAIs</td><td>67</td><td>66</td></tr>
<tr><td>Trading net other cash flows[6]</td><td>(55)</td><td>(36)</td></tr>
<tr><td>Free cash flow</td><td>290</td><td>167</td></tr>
</table></td></tr>
<tr><td>Adjusted free cash flow</td><td>Net increase/ decrease in cash and cash equivalents</td><td>Free cash flow, as defined above, adjusted for special pension contributions and restructuring cash flows</td><td>Adjusted free cash flow represents free cash flow adjusted for special pension contributions and restructuring cash flows.
<table>
<tr><th>Adjusted free cash flow</th><th>Year ended 31 December 2019 £m</th><th>Year ended 31 December 2018 £m</th></tr>
<tr><td>Free cash flow</td><td>290</td><td>167</td></tr>
<tr><td>Special pension contributions[7]</td><td>111</td><td>56</td></tr>
<tr><td>Restructuring costs paid</td><td>190</td><td>113</td></tr>
<tr><td>Full year impact of acquisitions</td><td>-</td><td>(143)</td></tr>
<tr><td>Reversal of creditor stretch under previous ownership</td><td>-</td><td>150</td></tr>
<tr><td>Adjusted free cash flow</td><td>591</td><td>343</td></tr>
<tr><td>Increase in adjusted free cash flow</td><td>72%</td><td></td></tr>
</table></td></tr>
<tr><td>Capital expenditure (capex)</td><td>None</td><td>Not applicable</td><td>Calculated as the purchase of owned property, plant and equipment and computer software and expenditure on capitalised development costs during the year, 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.</td></tr>
<tr><td>Capital expenditure to depreciation ratio</td><td>None</td><td>Not applicable</td><td>Net capital expenditure divided by depreciation of owned property, plant and equipment and amortisation of computer software and development costs.</td></tr>
<tr><td>Dividend per share</td><td>Dividend per share</td><td>Not applicable</td><td>Amounts payable by way of dividends in terms of pence per share.</td></tr>
</table>

(1) Results for the year ended 31 December 2018 have been restated for discontinued operations (note 9).
(2) Operating profit/(loss) is not defined within IFRS but is a widely accepted profit measure being profit/(loss) before finance costs, finance income and tax.
(3) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating profit/(loss)[2] divided by revenue.
(4) Year ended 31 December 2018 remains aligned to the original calculations supporting the Group's bank debt compliance certificate, and has not been restated for discontinued operations.
(5) Included within other adjustments required for covenant purposes are dividends received from equity accounted investments, the removal of adjusted operating profit of equity accounted investments and the inclusion of operating profit and depreciation in respect of businesses classified as held for sale.
(6) Trading net other cash flows include cash paid against provisions and dividends paid to non-controlling interests.
(7) Special pension contributions include £94 million of one-off payments, being the balance of the £150 million upfront commitment and a £17 million contribution following the disposal of Walterscheid Powertrain Group.