2 March 2023

MELROSE INDUSTRIES PLC

AUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022

Melrose Industries PLC ("Melrose" or the "Group") today announces its audited results for the year ended 31 December 2022.

Highlights

	Adjusted[1] results		**Statutory results**	
	2022	2021[2]	**2022**	2021[2]
Continuing operations	**£m**	£m	**£m**	£m
Revenue	**8,191**	7,263	**7,537**	6,650
Operating profit/(loss)	**480**	317	**(236)**	(493)
Profit/(loss) before tax	**384**	194	**(307)**	(660)
Diluted earnings per share	**7.0p**	3.1p	**(5.4)p**	(10.3)p
Net debt[1]	**1,139**	950	**n/a**	n/a
Leverage[1]	**1.4x**	1.3x	**n/a**	n/a
Dividend	**2.325p**	1.75p	**n/a**	n/a

Group

- Melrose traded ahead of expectations in 2022 on sales growth, profit and cash generation
- The Group recorded an adjusted[1] earnings per share of 7.0 pence (2021: 3.1 pence), 126% higher than last year. The statutory loss per share was 5.4 pence (2021: 10.3 pence)
- Cash generation exceeded expectations, with a particularly strong second half performance, and therefore Group net debt[1] of £1.14 billion was lower than expected
- The timetable for the demerger of the Dowlais Group[3] is on track, with completion expected on 20 April 2023, subject to shareholder approval on 30 March 2023. Documents relating to the demerger are expected to be published tomorrow
- Melrose will hold an Investor Event for Aerospace on Wednesday 17 May in London
- A second interim dividend of 1.5 pence (50% increase on last year's final dividend) will be paid on 18 April just prior to the proposed demerger. This will replace the final dividend which would normally be approved at the 2023 AGM. The total full year dividend for 2022 is 2.325 pence (33% increase on last year)

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Melrose (Aerospace)

Melrose (Aerospace) adjusted[1] results	**2022**	**2021**
Revenue	£2,957m	£2,543m
Operating profit (pre-PLC costs)	£186m	£112m
Operating profit margin	6.3%	4.4%
EBITDA (pre-PLC costs)	£330m	£258m
EBITDA margin	11.2%	10.1%

- Aerospace is experiencing continued strong momentum and market recovery with 11%[4] sales increase in 2022 and a very positive outlook, resulting in confidence that its performance will significantly exceed expectations in 2023 and beyond

- Demand is very robust, despite some sector supply challenges, with a blended market forecast growth rate of over 15%[5] for 2023. In particular, the outstanding Engines business continues to outperform and is very well positioned to benefit from the recovery of the aerospace industry

- Adjusted[1] operating profit of £186 million was up 51%[4] from volume and business improvement actions; extensive restructuring is underway to deliver further gains. The statutory operating loss was £134 million (2021: £196 million)

Dowlais[3]

Dowlais[3] adjusted[1] results	**2022**	**2021**
Revenue	£5,234m	£4,720m
Operating profit (pre-PLC costs)	£332m	£256m
Operating profit margin	6.3%	5.4%
EBITDA[6] (pre-PLC costs)	£620m	£556m
EBITDA[6] margin	11.8%	11.8%

- Results are slightly above the top end of the range indicated in the announcement on 19 January 2023 with revenue up 7%[4] in the year driven by price increases and growth, particularly in target electrification markets. In line with the latest automotive industry forecasts, the outlook for 2023 is approximately 3%[5] volume growth

- Adjusted[1] operating profit of £332 million was up 24%[4] driven by strong operational performance, restructuring gains and successfully offsetting inflation. The statutory operating profit was £33 million (2021: loss of £98 million)

- Automotive new business wins were over £5 billion in the year, representing a book-to-bill ratio[7] of 128% continuing the very successful track record of orders coming in ahead of annual revenue

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

"We are delighted with these results, and everything is on track for the demerger. We consider a restructured Aerospace business to be one of the best businesses Melrose has ever owned. We are confident that a combination of restructured and refocused high class Engines and Structures businesses, and overall aerospace market recovery, positions these businesses for a significantly better than expected performance in 2023 and beyond."

1. Described in the glossary to the Preliminary Announcement and considered by the Board to be a key measure of performance
2. Restated following the disposal of Ergotron
3. Comprises the Automotive, Powder Metallurgy and Hydrogen businesses
4. Throughout this Preliminary Announcement, like-for-like growth is calculated at constant currency against 2021 results
5. Sources for volume growth: Cirium, Teal and US DoD for Aerospace; S&P global light vehicle production forecast for Dowlais
6. Including depreciation and amortisation from equity accounted investments
7. Book-to-bill ratio defined as new business wins as percentage of adjusted revenue, excluding the China JV

ENDS

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CHAIRMAN'S STATEMENT

I am pleased to report our 20th set of annual results since flotation in 2003.

CALENDAR YEAR 2022

The Group enjoyed another strong year in 2022, ahead of expectations on sales, profit and cash. We achieved statutory revenue for the Melrose Group of £7,537 million (2021: £6,650 million), with an adjusted operating profit of £480 million (2021: £317 million) based on a statutory operating loss of £236 million (2021: £493 million).

Within these results, the key businesses that are intended to be demerged under Dowlais Group PLC (see below for further details), GKN Automotive and GKN Powder Metallurgy, enter into the Demerger having collectively delivered good performances in the year, with sales up 7% and adjusted operating profit up 24%. In the continuing Melrose Group, GKN Aerospace has been executing its improvement strategy together with increasing momentum in line with the market recovery, resulting in sales up 11% and adjusted operating profit up 51%.

We saw continued strong cash generation from all businesses, particularly in the second half, which funded all required restructuring projects. As a result, net debt was lower than expectations at £1.14 billion. This will enable each of Melrose and Dowlais to exit the Demerger with prudent levels of leverage of approximately 1.7x and 1.5x 2022 EBITDA respectively. New standalone bank facilities for Melrose and Dowlais, conditional on the Demerger, have been signed with our supportive banking syndicate and will be used to repay existing facilities in full on completion of the Demerger.

Melrose ran two successful tender exercises during the year. Following the sale of Ergotron, we conducted a £500 million share buyback programme, which completed on 1 August 2022 and resulted in the buyback of 318 million ordinary shares, equating to 7.3% of shares in issue. Then in November 2022, we conducted a tender in respect of the last remaining listed bonds inherited with the GKN acquisition, with 57% of outstanding bonds being repurchased at the tender price of 87 pence.

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 this year.

DEMERGER PROPOSAL

Melrose previously announced its intention to separate its GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen businesses by way of a demerger of shares of Dowlais Group PLC to Melrose shareholders. This will result in two independent and separately listed companies on the London Stock Exchange, Dowlais and Melrose, each with its own distinct strategy and acquisition currency.

To enable both Melrose and Dowlais to initiate at sensible levels, we intend to conduct a 1:3 share consolidation the night before completion of the Demerger, scheduled for 20 April 2023. Shareholders will then receive 1 Dowlais share for every post consolidation Melrose share they hold. In addition, as a result of splitting the Group through the Demerger, there are necessary adjustments required to appropriately reflect the Demerger on the Melrose long term incentive arrangements, which seek to incentivise the creation of shareholder value.

Preparations for the proposed Demerger have progressed well. The Demerger, the Share Consolidation and the adjustments to long term incentives make up the Demerger Proposal that will be presented to shareholders for approval at a general meeting to be held at 10am on 30 March 2023. We intend to post a circular to shareholders tomorrow, 3 March 2023, which will contain the full details of the Demerger Proposal together with the notice of meeting. In parallel, the board of

Dowlais will issue a prospectus in respect of the Dowlais shares proposed to be issued to Melrose shareholders.

MELROSE COMMITMENTS AND DELIVERY

Completion of the Demerger will also coincide with the expiry of our undertakings and commitments in connection with the acquisition of GKN PLC in 2018, including those given to the Takeover Panel and Department for Business and Trade[1]. We continue to invest heavily in research and development, much of it in sustainable technology, at well above the levels promised. We have also invested in the UK's industrial future through the Melrose Skills Fund, which is focused on the next generation of engineers and the UK skills base, whilst also solving the chronic underfunding in the GKN UK pension schemes and securing the future for its members. The latest example of this being a buyout of one of the UK pension schemes in GKN Aerospace that we are announcing today (see below).

We have not only turned around the performance of one of the UK's longest standing industrial businesses, we are now seeking admission onto the London Stock Exchange for Dowlais which should make it the UK's premier listed automotive business. This is aligned with our intentions at the outset, that with our help, these businesses could unlock their potential for the benefit of all stakeholders. We are proud to have more than delivered on the undertakings we gave.

SALE OF ERGOTRON

We completed the sale of Ergotron during the year, marking the end of our ownership of the businesses from the Nortek acquisition in 2016. That acquisition was highly successful both in terms of doubling the initial investment and transforming the businesses themselves, with adjusted operating margins almost doubled and strong cash generation. Together with the £0.8 billion of cash generated by the Nortek businesses under our ownership, their disposals over the past two years produced over £3.1 billion in cash proceeds. Part of these proceeds have enabled Melrose to prepare for the Demerger as well as benefit from a conservative capital structure in what has been a turbulent period for the world economy.

PENSIONS

As stated above, Melrose is rightly proud of its track record in addressing pensions challenges in the businesses we buy and GKN has been no different. We have delivered on our commitments ahead of schedule, overcoming the large funding pension deficit we inherited of almost £1 billion to bring the UK schemes into being materially fully funded as at the end of last year, despite the challenges of COVID-19 and without detracting from our investment in the businesses. With the Demerger Proposal, the schemes attached to GKN Automotive will transfer to Dowlais, benefitting from their much improved position, leaving the continuing Melrose Group with the pension schemes attached to GKN Aerospace. As the next step in securing the future for members, we have now agreed a buyout of approximately half the remaining GKN Aerospace UK pension liabilities for £45 million. This further reduces the pension exposure for the Melrose Group, and gives certainty to the members of the scheme. This is a complete transformation from the situation inherited in 2018 and is testimony to the already strong Melrose track record in respect of pension schemes.

DIVIDEND

Recognising the timetable for the proposed Demerger, the Board has decided to make a second interim dividend for 2022 of 1.5 pence per share instead of a final dividend (2021 final dividend: 1.0 pence), which enables a quicker payment to be made to all shareholders ahead of the intended date of Completion. Combined with the first 2022 interim dividend of 0.825 pence per share paid on 20 October 2022, this represents a total dividend for the year of 2.325 pence per share (2021:

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[1] The measurement period for the Takeover Panel undertaking relating to expensed R&D spend runs to the end of this year, but the Company is already ahead of requirements

1.75 pence), a 33% increase. The second interim dividend will be paid on 18 April 2023 to those shareholders on the register at 10 March 2023.

BOARD MATTERS

As announced in September last year, recognising the material circumstances related to the Demerger, the Board proposed that I extend my tenure as non-executive chairman for two years to 2025 to provide further stability and leadership for the Company, subject to annual re-elections at the Company's AGM. This has been supported in consultations with shareholders since. Accordingly, I have agreed to the Board's request and will be standing for re-election at the Company's Annual General Meeting, to be held on Thursday 8 June 2023, with full details to follow in the notice of meeting published with the 2022 Annual Report and Accounts. There will be no further extensions proposed to my tenure.

Also as previously announced, in addition to continuing their existing Melrose roles and backed by the wider Melrose senior management team pursuant to a transitional services agreement, Simon Peckham and Geoffrey Martin will take up executive director roles with Dowlais for a period post completion of the Demerger to help drive further value creation for shareholders. The Board has discussed and agreed the arrangements, which it considers to be in the best interests of all shareholders.

PURPOSE, STRATEGY AND SUSTAINABILITY

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 manufacturing businesses that are underperforming their potential and then invest heavily to improve performance and productivity as they become stronger, better businesses under our stewardship.

Melrose sees sustainability as a key part of improving a business during our ownership and environmental, social and governance priorities are an important part of our "Buy, Improve, Sell" strategy. We see no reason why these priorities cannot be achieved whilst improving financial returns for our shareholders. There remain plenty of opportunities for further progress, but it has been nonetheless pleasing to see our performance being recognised by several of the key benchmarking agencies, including Sustainalytics which now ranks Melrose in the top ten of our industrial peers. This year we are publishing our second standalone Sustainability Report alongside our Annual Report.

The proposed Demerger is also part of that improvement strategy, providing the separate platforms necessary for all businesses to unlock further value. We are confident that Dowlais is now in the best position to demonstrate the quality of its business for the benefit of shareholders. Our focus within Melrose for the next 12 months is to complete the transformation of GKN Aerospace and position it so as to demonstrate the significant shareholder value that will be created from this business in 2023 and beyond.

J Dowley

Justin Dowley
Non-Executive Chairman
2 March 2023

CHIEF EXECUTIVE'S REVIEW

Continuing Melrose Group

With the Demerger reaching finalisation, much of the focus turns to the remaining business in the continuing Melrose Group, GKN Aerospace. We are very excited about the prospects of this business, which is centred around its Engines and Structures segments (consisting of civil and defence). The Engines segment is an outstanding business with a well-developed commercial strategy that has secured enviable positions on key leading engines platforms through risk and revenue sharing partnership ("RRSP") arrangements. These positions make GKN Aerospace a key partner in the success of each platform and, when considering the long lifetime of an engine, means that it continues to benefit from significant ongoing revenues for decades after delivery. Based on customer projections, these agreements are currently forecast to deliver cash flows of approximately £18.5 billion[2] over the years to come.

In addition to the RRSPs that are entering into their most profitable phase, Engines is focused on achieving further growth through other key strategic initiatives, including additive manufacturing and targeted, profitable aftermarket work that is aligned to its core capabilities and strong structural demand for engine maintenance. For Structures, a comprehensive overhaul of its commercial strategy is underway, with a focus on "design to build" and differentiated products that better reflect its technological expertise and delivers more appropriate margins. Importantly, the business is already on a number of key programmes, increasingly weighted towards single aisle aircraft in the civil market that are benefitting from a significant ramp up in demand in response to the strong recovery in air travel. Both Engines and Structures are also major contributors to the next generation of aircraft, including advanced composites and alternative platforms such as electric, hydrogen and eVTOL.

All of the above has contributed to an 11% growth in revenues for GKN Aerospace in 2022 and a 51% increase in adjusted operating profit. With continuing management actions to address its cost base, we are confident GKN Aerospace will achieve its stated margin target of 14%+, which would result in approximately trebling adjusted operating profit at pre-pandemic volume levels. All restructuring projects required to achieve this result are underway and are expected to be substantially complete by the end of 2023. This includes significant footprint rationalisation in Europe and North America and headcount reductions, as well as enhanced customer quality, which was improved by 23% in 2022, and a reduction in arrears. There has been an ongoing focus on resolving the remaining inherited legacy issues, including non-core or unprofitable contracts.

Across the business, GKN Aerospace was very successful in fully offsetting inflationary pressures, aided by good contractual protections and customer provided material. Progress in managing inventory has been disappointing this year partly due to the need to mitigate supply chain challenges in the context of sector growth and platform ramp ups. Improvement in this area is a key focus for the coming year and beyond. Melrose is focused on ensuring that GKN Aerospace delivers to our increased expectations over the next twelve months and that, having unlocked this value, this is properly reflected in the value of the Group. We will be holding an Investor Event on 17 May 2023 in London to set out in detail the GKN Aerospace business and its strategy.

Dowlais Businesses

The market-leading GKN Automotive and GKN Powder Metallurgy businesses that are due to be demerged have been transformed under Melrose ownership and are now well positioned to deliver shareholder value under Dowlais, an independent, automotive focused company. On acquisition in 2018, each business had well established engineering foundations and were market share leaders with long standing diverse customer relationships. GKN Automotive is the number one global drive system supplier, serving 90% of Global OEMs with content on approximately 50% of passenger vehicles, from 47 manufacturing facilities in 17 countries across the globe. GKN Powder Metallurgy is uniquely vertically integrated as the global leader in sintered metal products

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[2] As presented at the previous GKN Aerospace Capital Market Event on 8 June 2022

and the number two global supplier of powder metals, with 27 manufacturing sites in nine countries across the globe. Despite this, they were each underperforming their potential.

Under Melrose ownership these businesses have undergone a successful and comprehensive transformation. There has been an overhaul of their commercial strategies, which included resolving an approximate £300 million exposure to low margin or loss making contracts. Despite some significant market volatility, we have also driven order intake growth with well over £20 billion of revenue booked under Melrose ownership and a book-to-bill ratio well over 100% each year. Importantly, this growth has been profitable, consistent with the stated operating margin targets. It has also aligned with the global transition to electric vehicles ("EV"), with a growing EV order book which accounted for over 40% of new orders in 2022.

Parallel to this commercial overhaul, we have reshaped the cost base of the businesses, with a focus on improving purchasing performance that has delivered material annual savings alongside robust and increasingly regionalised supply chains. Fixed costs have been reduced, with a productive utilisation of resources and reduced headcount. We also redefined the industrial strategy, with a focus on end to end manufacturing in single plants to better leverage their unique vertical integration, an increase in digitalisation of production, and footprint rationalisation. This has increased efficiency and productivity that has been further boosted through an emphasis on lean manufacturing technology.

A disciplined approach to cash generation has driven rigour and visibility into each of the businesses, resulting in £1.8 billion of cashflow (before capital expenditure) under Melrose ownership, and a cash conversion rate before capital expenditure of 110%. This is a significant improvement from the inherited position, more so given the unique challenges of the global pandemic, and has enabled us to continue to invest heavily in the businesses, with the businesses self-funding their extensive restructuring programmes. Critically, this improvement has been a sustainable change, agreed with its value chain partners. Dowlais will further benefit from the conservative level of leverage of approximately 1.5 times EBITDA intended at Completion. It will also own the early growth business GKN Hydrogen, which is now successfully driving its commercialisation strategy. We believe Dowlais is now very well positioned to deliver value for shareholders in 2023 and beyond.

Please see the divisional reviews for further information on each of the businesses.

AEROSPACE DIVISION

GKN Aerospace made great progress during 2022 in executing its strategic improvement initiatives, refocusing its resources, capabilities and operations on addressing its core markets with greater precision and moving towards achieving its adjusted operating margin target of 14%+, as volume returns. The business enjoys established positions and embedded technology on major civil and defence platforms, including excellent single aisle exposure.

During the year, there was a strong recovery in air travel, leading to an increase in like-for-like revenue by 11% compared to 2021. This was achieved in the face of challenging macro-economic conditions, including global supply chain disruption and inflationary pressures. Airframe OEM build rates and global flight hours continued to improve over the year but nonetheless remain below pre-pandemic levels, giving further confidence of continued recovery.

The Engines and Civil Airframes businesses continued to benefit from the strong recovery in the narrow body market. Performance within the Engines business was particularly strong, driven by its outstanding risk and revenue sharing partnership model and the strength of its position on strategically important engines programmes which will deliver profit growth and cash generation beyond our original expectations. The Defence business continued to refocus its strategy toward positions on higher quality design-to-build platforms, with significant work still to do. These efforts were supplemented by ongoing strategic footprint rationalisation which is progressing and set to be substantially completed during 2023.

Across the business there were many notable commercial wins during 2022. Engines secured its position and technological advantage in the early development stage of the next generation of propulsion systems, looking to partner on the most advanced technology developments such as the CFM RISE and Pratt & Whitney's next generation GTF programmes. The business is also extending its partnership with the European Ariane space programme to deliver additively-enhanced turbines and nozzles for the next 14 rocket launchers, and is OEM of the RM16 engine that will power the next-generation of Gripen fighters. Engines also launched an innovative new business based around its recent acquisition of Permanova, which designs, develops and delivers additively manufactured alternatives to conventional forgings and castings. This will offer significant reduction in manufacturing emissions on structural products for the benefit of both GKN Aerospace and its global customer base, with a number of agreements with key customers to introduce additive manufacturing solutions for major engine structures. The business is on track to commence deliveries in 2023 and will put sustainability at the heart of Engines' approach to manufacturing.

In Civil, successes included securing a long-term narrow body commercial agreement with Airbus and a new award for major structural components on all Gulfstream G800 and G400 business jets, deploying GKN Aerospace's industry-leading thermoplastic technology. Further developments were realised in China, with the construction of GKN Aerospace's new aerostructures joint venture facility with COMAC in Jingjiang progressing well. The Defence business built on its strong relationship with Lockheed Martin, securing further aerostructures work on the F-35 as well as signing a five-year extension to deliver composite structures to Sikorsky for the Black Hawk helicopter. These commercial successes will be delivered from GKN Aerospace sites across the UK, Sweden, the Netherlands, Mexico and the US in the years ahead.

Having commenced all restructuring projects to achieve its stated operating margin target, by the end of 2023 GKN Aerospace will have streamlined its operations reduced costs and increased productivity. These actions have already contributed to an increase in adjusted operating profit of 51% and a 2 percentage point improvement in adjusted operating margins. GKN Aerospace successfully managed its supply chain challenges during 2022, to secure customer deliveries and offset cost inflation. As part of its Lean Operating Model, the business continued to reduce its total suppliers, having cut its supplier roster by approximately 20% over the last four years to secure higher performance from a simpler, more responsive supply chain. This has helped minimise disruption from the ongoing macro-economic headwinds impacting the industry.

In keeping with its core mission to be a leader in the transition to sustainable aviation, GKN Aerospace continued sustainable aviation technology development in 2022. The business supports some of the industry's leading programmes to enhance the aircraft of today, and develop the longer-term zero-emissions solutions of the future including pioneering solutions in electric flight and hydrogen propulsion development. This includes global partnerships with five electric aircraft manufacturers, supporting a more sustainable future while unlocking a potential major new commercial market.

A new Additive Manufacturing (AM) Centre of Excellence in Texas, USA was announced, and the business unveiled its largest AM aerostructure component ever produced. This investment targets significant reductions in cost, energy usage and waste from production, ultimately reducing the weight and emissions of the end product. Looking further ahead, GKN Aerospace continued to explore hydrogen combustion technology for longer-range aircraft through its H2JET programme in Sweden, while delivering innovative solutions for European Clean Sky2 programmes and passing several major milestones in its UK-led H2GEAR project.

Outlook

The recovery in the aerospace sector is well underway. GKN Aerospace's improved performance is expected to be significantly stronger than we anticipated for 2023 and beyond. Supported by pent up demand in civil aviation and increases in defence budgets, double digit revenue growth is expected again this year. GKN Aerospace remains well-placed to support near and medium-term volume ramp-ups, while continuing to execute on its longer-term growth and productivity initiatives. GKN Aerospace is fully committed to offsetting inflationary pressures and managing supply chain issues. The coming years are expected to deliver significant profit and cash generation from its range of best in class Engines platforms.

Looking further ahead, GKN Aerospace's technology investment and expertise will enable it to become a leader in the sustainable transformation of civil aviation, creating market opportunities and profitable growth for years to come.

AUTOMOTIVE DIVISION

GKN Automotive enjoyed another successful year, keeping pace with global industry sales trends, with adjusted revenues increasing by 9% compared to 2021. For the sector, whilst there was some regional variation in production growth, there remains significant opportunity as production rates return to pre-pandemic volume levels. Operationally, although the sector continued to experience challenges, the business delivered a strong performance in 2022, particularly in the second half, with adjusted operating profit increasing by 38% and fully offsetting inflationary pressures through commercial pricing, procurement productivity and disciplined operational efficiency measures.

2022 was an outstanding year for new business bookings. Lifetime revenue of programme wins were over £5 billion, of which over 40% related to pure electric vehicles or plug-in hybrid vehicles. This makes total bookings approximately £20 billion over the last four years, at a book-to-bill ratio of over 100% each year, confirming that GKN Automotive is both securing future top-line growth and more than keeping pace with the accelerated market conversion to electric vehicles, as a result of its continuous portfolio development, product quality and production capabilities. Almost all business wins were achieved at terms consistent with GKN Automotive's margin target. The business is very well-positioned to deliver its stated margin expansion targets as the market continues its recovery to pre-pandemic production volume levels.

In 2022, the business continued to expand its core sideshaft portfolio, with further innovations to match the changing demands of new EV platforms. The business completed 55 new programme launches and continued to secure a significant share of new business wins on electrified vehicle platforms, achieving the milestone of powering two million EVs with its eDrive technology. With over 100 joint types and sizes, 400 active patents, and a highly efficient global manufacturing footprint, the division is the clear industry leader in drive system technology for all propulsion systems.

GKN Automotive also continued to deliver impressive cash returns, with further working capital improvements and strict cash management controls resulting in pre capital expenditure cash generation of £336 million for the year (a conversion rate of 97%).

GKN Automotive's eDrive systems and components portfolio is also benefitting from light vehicle electrification and delivering consistent revenue growth. It is able to offer a full 3-in-1 system whilst maintaining the flexibility to deliver critical individual components building on its AWD expertise. In 2022, GKN Automotive continued to drive innovation of the portfolio, including through the design launch of its next-generation inverter.

Outlook

Supply chain headwinds are expected to continue to ease in 2023, with global light vehicle production forecast to increase by approximately 3%. The business will look to drive further margin expansion and will be focused on repeating its performance in fully offsetting inflationary pressure. The business enters the Demerger with significant momentum and is well-placed to benefit from both market recovery and transition to electric vehicles.

POWDER METALLURGY DIVISION

The year started strongly for GKN Powder Metallurgy with high activity levels driven by global vehicle orderbooks and backlogs. This was impacted by the war in Ukraine, ongoing supply chain disruptions and inflationary headwinds, which tempered results for the rest of the year. Trading in the second half was softer, mainly in the US and largely due to enforcing strict pricing discipline to offset inflationary pressures and under performance at one site, which is being addressed. This led to a reduction in annual volumes, although sales were flat at constant currency, aided by inflation recovery and material surcharges.

Commodity prices for essential production materials such as scrap steel, copper, nickel and molybdenum increased significantly in the first half of the year before dropping back towards the end of the year, albeit remaining higher than pre-pandemic levels. These price variations were substantially recovered by GKN Powder Metallurgy through surcharge mechanisms with over 90% of its customers during the year. In addition, 2022 saw unprecedented increases in energy costs across Europe driven by the ongoing situation in Ukraine.

Despite these challenges, adjusted operating profits for GKN Powder Metallurgy increased £5 million to £96 million, with adjusted operating margins up slightly year-on-year at 9.4% despite the reduction in volume, demonstrating the resilience of the business. During the period, we undertook the closure of facilities in Canada and Germany, with manufacturing transferred to alternative plants. The business continued to invest in operational efficiency projects to improve automation and productivity.

In parallel, as part of its ambitious strategy to be a global leader in the sector's transition to electric vehicles, the business announced that it would enter the market for permanent magnets. The process to manufacture these magnets from rare earth materials builds on what is already a core powder metallurgy process, and forms the established foundations on which GKN Powder Metallurgy intends to become a resilient and dependable supplier of permanent magnets for the European and North American markets, supported by establishing a pilot manufacturing plant, and the business is making good progress with customer trials.

Outlook

The automotive market is expected to grow moderately during 2023 with a significant proportion of the growth coming from electric vehicles. Growth is also expected in the industrial sector supporting new market and product development in the Additive Manufacturing segment. Inflationary pressures are expected to continue throughout 2023 and the business continues to take a proactive approach in recovering increased costs through a mixture of price increases, operational efficiencies and commodity or energy surcharges.

OTHER INDUSTRIAL DIVISION

With the sale of Ergotron during the year, the Other Industrial division consists solely of the GKN Hydrogen business, which will transfer with Dowlais as part of the Demerger. 2022 was another important year in its development, with the performance of pilot programmes demonstrating the viability of its metal hydride technology.

The focus has been on commercialising the GKN Hydrogen storage solution, including refining the value proposition for target markets, such as standalone and backup power supply and energy rebalancing. The modular systems provide safe, green energy to these markets and a growing funnel of potential opportunities has been developed, particularly in North America. In parallel, key milestones have been achieved on the path to industrialisation, with full series production expected to occur in 2024.

Outlook

The business remains on track to deliver increased revenue in 2023 with an expanding pipeline of customers, and it provides an opportunity for Dowlais post Demerger.

Simon Peckham
Chief Executive
2 March 2023

FINANCE DIRECTOR'S REVIEW

The Melrose Group now consists of four continuing businesses, following the disposal of the Ergotron business on 6 July 2022. Ergotron has been classified as a discontinued operation in these Consolidated Financial Statements and the comparative results have been restated to reflect the disposal.

The intention is for three of the remaining businesses: GKN Automotive, GKN Powder Metallurgy and the early growth business GKN Hydrogen Technology, to be demerged in April 2023 and listed as a separate public company, Dowlais Group PLC ("Dowlais"). Following the proposed demerger this will leave one operating business, Aerospace, remaining within the Melrose Group.

MELROSE GROUP RESULTS – CONTINUING OPERATIONS

Statutory results:

The statutory IFRS results for continuing operations are shown on the face of the Income Statement and show revenue of £7,537 million (2021: £6,650 million), an operating loss of £236 million (2021: £493 million) and a loss before tax of £307 million (2021: £660 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the year of 4,218 million (2021: 4,695 million), were a loss of 5.4 pence (2021: loss of 10.3 pence).

Adjusted results:

The adjusted results are also shown on the face of the Income Statement. They are adjusted to include the Group's share of revenue and operating profit from certain investments in which the Group does not control, namely 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 Consolidated Financial Statements.

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

The adjusted results for the year ended 31 December 2022 show revenue of £8,191 million (2021: £7,263 million), an operating profit of £480 million (2021: £317 million) and a profit before tax of £384 million (2021: £194 million). Adjusted diluted EPS, calculated using the weighted average number of shares in issue in the year of 4,218 million (2021: 4,695 million), were 7.0 pence (2021: 3.1 pence).

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

RECONCILIATION OF STATUTORY RESULTS TO ADJUSTED RESULTS

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

Continuing operations:	2022 £m	2021 £m
Statutory revenue	**7,537**	**6,650**
Adjusting item:		
Revenue from equity accounted investments ("EAIs")	654	613
Adjusted revenue	**8,191**	**7,263**

Adjusting item:

Adjusted revenue includes the Group's share of revenue from EAIs, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"), within the Automotive segment. During the year ended 31 December 2022, the Group generated £654 million of revenue from EAIs (2021: £613 million), which is not included in statutory revenue but is shown within adjusted revenue so as not to distort the adjusted operating margins reported in the businesses when the Group's share of adjusted operating profit from these EAIs is included.

Continuing operations:	2022 £m	2021 £m
Statutory operating loss	**(236)**	**(493)**
Adjusting items:		
Amortisation of intangible assets acquired in business combinations	458	436
Restructuring costs	144	269
Currency movements in derivatives and movements in associated financial assets and liabilities	87	114
Write down of assets	20	-
Net release of fair value items	(26)	(49)
Other	33	40
Adjustments to statutory operating loss	**716**	**810**
Adjusted operating profit	**480**	**317**

Adjusting items to statutory operating loss in the year are consistent with prior years and include:

- The amortisation charge on intangible assets acquired in business combinations of £458 million (2021: £436 million), which is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.

- Costs associated with restructuring projects in the year totalling £144 million (2021: £269 million). These are shown as adjusting items due to their size and non-trading nature and these included:

    - A charge of £90 million (2021: £104 million) within the Aerospace business and the central cost centre, both of which will remain within the Melrose Group following the proposed demerger. These costs primarily related to the continuation of significant restructuring projects, necessary for the Aerospace business to achieve its full potential target operating margins. These included further progress on European footprint consolidations in both the Civil and Engines businesses, which commenced in 2021 and are expected to materially conclude in 2023. In addition, further progress has been made in North America on multi-site restructuring programmes across all three Aerospace sub-segments.

- A charge of £54 million (2021: £165 million) relating to Dowlais. These costs related to multiple restructuring projects which concluded during the year, including two significant Automotive footprint consolidation actions in Europe, which commenced in 2021. In addition, restructuring costs were incurred in Automotive in North America, continuing the movement of production from high to low cost countries, along with the costs associated with the closure of a factory in Canada in the Powder Metallurgy business.

- Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts), where hedge accounting is not applied, along with foreign exchange movements on the associated financial assets and liabilities, entered into within the businesses to mitigate the potential volatility of future cash flows on long-term foreign currency customer and supplier contracts. This totalled a charge of £87 million (2021: £114 million) in the year and is shown as an adjusting item because of its volatility and size.

- A write down of assets of £20 million (2021: £nil), recognised in the first half, as a result of exiting any direct trading links with Russian operations as a consequence of the conflict in Ukraine. The asset write downs are predominantly within the Automotive division and are shown as an adjusting item because of their non-trading nature and size.

- The net release of fair value items in the year of £26 million (2021: £49 million) where items have been resolved for more favourable amounts than first anticipated at acquisition. During the year this included a release of £11 million (2021: £22 million) in respect of loss-making contract provisions, 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 is shown as an adjusting item, avoiding positively distorting adjusted results from items booked on acquisition.

- Other adjusting items of £33 million (2021: £40 million), which included items consistent with prior years, the largest of which is an adjustment of £29 million (2021: £28 million) to gross up the Group's share of post-tax profits of EAIs to be consistent with the adjusted operating profits of subsidiaries within the Group.

STATUTORY AND ADJUSTED RESULTS BY REPORTING SEGMENT

The following tables show continuing revenue and operating (loss)/profit split by reporting segment. Adjusting items are described earlier in this review:

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Statutory revenue	**2,954**	**3,586**	**996**	**1**	**7,537**
Reconciling item:					
Revenue from EAIs	3	625	26	-	654
Adjusted revenue	**2,957**	**4,211**	**1,022**	**1**	**8,191**

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate £m	Total £m
Statutory operating (loss)/profit	**(134)**	**11**	**36**	**(14)**	**(135)**	**(236)**
Reconciling item:						
Adjusting items	320	239	60	-	97	**716**
Adjusted operating profit/(loss)	**186**	**250**	**96**	**(14)**	**(38)**	**480**

The adjusted operating loss in the central cost centre of £38 million (2021: £51 million) included £35 million (2021: £34 million) of operating costs and £3 million (2021: £17 million) of costs relating to divisional cash-based long-term incentive plans.

Had the demerger already occurred, the adjusted results of the continuing businesses for the year ended 31 December 2022, shown above, would be split between the remaining Melrose Group and Dowlais as follows:

Adjusted results	**Total Melrose/ Aerospace pre-central costs £m**	**Automotive £m**	**Powder Metallurgy £m**	**Hydrogen £m**	**Total Dowlais pre-central costs £m**
Revenue	2,957	4,211	1,022	1	5,234
Operating profit/(loss)	186	250	96	(14)	332
Operating margin	6.3%	5.9%	9.4%	n/a	6.3%

The performances of each of the reporting segments are discussed in the Chief Executive's Review.

FINANCE COSTS AND INCOME – CONTINUING OPERATIONS

Statutory results:

Total net finance costs shown in the statutory IFRS results in the year ended 31 December 2022 were £71 million (2021: £167 million), of which £98 million (2021: £125 million) are shown within the adjusted results, with a credit of £27 million (2021: charge of £42 million) being treated as adjusting items.

Adjusted results:

Net interest on external bank loans, bonds, overdrafts and cash balances was £72 million (2021: £91 million).

Net finance costs in adjusted results also included: a £10 million (2021: £10 million) amortisation charge relating to the arrangement costs of raising the Group's current bank facility; an interest charge on net pension liabilities of £5 million (2021: £8 million); a charge on lease liabilities of £9 million (2021: £14 million); and a charge for the unwind of discounting on long-term provisions of £2 million (2021: £2 million).

In addition, a credit of £2 million (2021: £2 million), not included in the statutory net finance costs, is included in adjusted results, relating to the gross up of post-tax profits of EAIs to be consistent with the finance costs and income of other subsidiaries within the Group. This results in net adjusted finance costs for the year of £96 million (2021: £123 million).

Adjusting items:

Adjusting items, within finance costs and income, include a £24 million gain (2021: £nil) made on the settlement of a portion of the 2032 bond, acquired with GKN, and a credit of £3 million (2021: £3 million) relating to the fair value changes on cross-currency swaps. Both are shown as adjusting items because of their volatility and non-trading nature.

In the prior year, adjusting items within finance costs and income included a charge of £45 million, relating to the early settlement of certain interest rate swap instruments that were no longer needed following the disposals of the Nortek Air Management and Brush businesses.

DISCONTINUED OPERATIONS

In the year ended 31 December 2022, discontinued operations include the result of the Ergotron business, previously shown within the Other Industrial division, up until 6 July 2022, when it was disposed to funds managed by The Sterling Group for total proceeds of £519 million. Discontinued operations in the prior year include the results of Ergotron, Nortek Air Management, Nortek Control and Brush for their period of Melrose ownership.

Discontinued businesses generated £132 million of revenue and incurred a statutory operating loss of £59 million for the period of the year under ownership (2021: revenue of £1,117 million and statutory operating profit of £47 million).

SHARE BUYBACK AND NUMBER OF SHARES IN ISSUE

The Group commenced a share buyback programme on 9 June 2022, and made market purchases of existing ordinary shares in issue in the capital of the Company. In line with the Group's strategy, the purpose of the programme was to distribute £500 million of capital to shareholders in the most suitable way following the agreed disposal of Ergotron.

The buyback programme completed on 1 August 2022, with 318 million ordinary shares purchased at an average price per share of 157 pence. These ordinary shares were cancelled and the number of ordinary shares in issue reduced by 7.3%, from 4,372 million to 4,054 million. The weighted average number of shares used for earnings per share in calculations in the year ended 31 December 2022 was 4,218 million.

TAX – CONTINUING OPERATIONS

The statutory results show a tax credit of £84 million (2021: £180 million) which arises on a statutory loss before tax on continuing operations of £307 million (2021: £660 million), a statutory tax rate of 27% (2021: 27%).

The effective rate on the adjusted profit before tax for the year ended 31 December 2022 was 22% (2021: 22%).

The statutory tax rate is higher than the adjusted tax rate because the intangible asset amortisation and certain other adjusting items generate adjusting tax credits at rates higher than 22%.

The Group has £856 million (31 December 2021: £792 million) of deferred tax assets on tax losses, retirement benefit obligations and other temporary differences. These are offset by deferred tax liabilities on intangible assets of £923 million (31 December 2021: £993 million) and £179 million (31 December 2021: £163 million) of other deferred tax liabilities. Where they arise in the same territory, deferred tax assets and liabilities must be offset, resulting in deferred tax assets of £373 million (31 December 2021: £250 million) and deferred tax liabilities of £619 million (31 December 2021: £614 million) being shown on the Balance Sheet at 31 December 2022. Most of the tax losses and other deferred tax assets will generate future cash tax savings, whereas the deferred tax liabilities on intangible assets are not expected to give rise to cash tax payments.

Net cash tax paid in the year ended 31 December 2022 was £80 million (2021: £57 million), 21% (2021: 29%) of adjusted profit before tax.

CASH GENERATION AND MANAGEMENT

Robust cash management initiatives continue to be run in each of the businesses within the Group.

Adjusted free cash flow for the Group, in the year ended 31 December 2022, was an inflow of £128 million (2021: £323 million), before restructuring spend of £136 million (2021: £193 million in continuing operations and £5 million in discontinued operations), resulting in a free cash outflow of £8 million (2021: inflow of £125 million).

Both the remaining Melrose Group and Dowlais fully funded all operating costs in the year, including all capital expenditure and restructuring spend.

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

Continuing operations (unless stated otherwise)	**Melrose[1]** **£m**	**Dowlais[1]** **£m**	**2022** **£m**	**2021** **£m**
Adjusted operating profit	148	332	480	317
Adjusted operating profit from EAIs	-	(78)	(78)	(66)
Depreciation and amortisation	145	261	406	421
Lease obligation payments	(29)	(22)	(51)	(53)
Positive non-cash impact from loss-making contracts	(24)	(16)	(40)	(48)
Working capital movements	(147)	(31)	(178)	75
Adjusted operating cash flow (pre-capex)	**93**	**446**	**539**	**646**
Net capital expenditure	(72)	(222)	(294)	(223)
Defined benefit pension contributions – ongoing	(23)	(36)	(59)	(54)
Restructuring	(53)	(83)	(136)	(193)
Dividend income from equity accounted investments	-	59	59	52
Net other	58	(15)	43	3
Cash generated before interest and tax	**3**	**149**	**152**	**231**
Net interest and net tax paid			(175)	(197)
Cash flows from operations discontinued in the year[2]			15	91
Free cash flow			**(8)**	**125**

[1] Melrose includes Aerospace and the continuing central cost centre; Dowlais includes the Automotive, Powder Metallurgy and Hydrogen Technology businesses
[2] Includes £nil (2021: £5 million) of restructuring spend

Adjusted free cash flow			**128**	**323**

The working capital performance of the Group was, as expected, stronger in the second half of the year as supply constraints partially unwound, resulting in a £17 million inflow in the second half despite stronger revenue growth seen in the businesses, compared to an outflow of £195 million in the first half.

Working capital movements in Aerospace of £147 million included a £106 million increase in the unbilled work done contract asset debtor, as a result of the continued growth of certain engine programmes. In addition, £41 million was invested in working capital in the year in the remaining Melrose Group, and £31 million in Dowlais, to fund the year-on-year revenue growth in the businesses.

Net capital expenditure in the Melrose Group in the year ended 31 December 2022 was £294 million (2021: £223 million), split £72 million in Aerospace and £222 million in Dowlais. This capital expenditure represented 0.6x depreciation of owned assets in remaining Melrose and 0.9x in Dowlais. These amounts exclude proceeds on disposal of three disused properties of £62 million, which are shown in the net other category in the table above.

Restructuring spend within the businesses was £136 million (2021: £193 million), split £53 million in Aerospace and £83 million in Dowlais.

In the continuing Group, net interest paid in the year was £95 million (2021: £140 million), net tax payments were £80 million (2021: £57 million) and ongoing contributions to defined benefit pension schemes were £59 million (2021: £54 million). These included £30 million (2021: £30 million) paid into the GKN UK pension plans.

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

	£m
Opening net debt	**(950)**
Adverse foreign exchange movement	(76)
Opening net debt at 31 December 2022 closing exchange rates	**(1,026)**
Free cash flow	(8)
Net cash flow from acquisition and disposal related activities	461
Buy back of own shares	(504)
Dividends paid to shareholders	(77)
Other non-cash movements	15
Net debt at 31 December 2022 at closing exchange rates	**(1,139)**
Net debt at 31 December 2022 at twelve month average exchange rates	**(1,112)**

Group net debt at 31 December 2022, translated at closing exchange rates (being US $1.21 and €1.13), was £1,139 million (31 December 2021: £950 million, translated at closing exchange rates at 31 December 2021).

The movement in net debt during the year included a free cash outflow of £8 million, dividends paid to shareholders of £77 million, £504 million spent buying back shares in the market, a net cash inflow on acquisition and disposal related activities, predominantly being the disposal of Ergotron, of £461 million and other non-cash movements mostly relating to a gain on the part settlement of the £300 million capital market bond acquired with GKN, discussed later in this review.

For bank covenant purposes the Group's net debt is calculated at average exchange rates for the previous twelve months, to better align the calculation with the currency rates used to calculate profits, and was £1,112 million.

The Group net debt leverage on this basis at 31 December 2022 was 1.4x EBITDA (31 December 2021: 1.3x EBITDA).

ASSETS AND LIABILITIES AND IMPAIRMENT REVIEW

The summarised Melrose Group assets and liabilities are shown below:

	2022 £m	2021 £m
Goodwill and intangible assets acquired with business combinations	6,508	7,043
Tangible fixed assets, computer software and development costs	2,937	2,875
Equity accounted investments	435	429
Net working capital	343	159
Net retirement benefit obligations	(488)	(461)
Provisions	(611)	(701)
Deferred tax and current tax	(358)	(495)
Lease obligations	(366)	(376)
Net other	(93)	17
Total	**8,307**	**8,490**

The net assets and liabilities shown in the table above will be split £4,247 million in respect of the remaining Melrose Group business and £4,060 million held within the businesses intended to be demerged into Dowlais. The recoverable amounts of these net assets have been tested in the Group's goodwill impairment review.

The Group's goodwill has been tested for impairment, and in accordance with IAS 36 "Impairment of assets" the recoverable amount has been assessed as being the higher of the fair value less costs to sell and the value in use.

With the future benefits of restructuring projects currently forming a material part of valuations for certain businesses within the Group, the fair value less costs to sell basis gives the higher valuation at this point in time for the groups of cash generating units, and therefore in accordance with IAS 36, has been used in assessing the recoverable amount for these businesses.

The Board is comfortable that no impairment is required in respect of the valuation of goodwill in its businesses as at 31 December 2022.

The assets and liabilities shown above are funded by:

	2022 £m	2021 £m
Net debt	(1,139)	(950)
Equity	(7,168)	(7,540)
Total	**(8,307)**	**(8,490)**

Net debt shown in the table above is defined in the glossary to the Consolidated Financial Statements and is consistent with the banking facility covenant testing definition.

PROVISIONS

Total provisions at 31 December 2022 were £611 million (31 December 2021: £701 million), which included: £200 million for warranty (31 December 2021: £222 million); £108 million for loss-making contracts (31 December 2021: £167 million); £119 million for environmental and litigation issues (31 December 2021: £135 million); £83 million for restructuring (31 December 2021: £81 million); and other provisions of £101 million (31 December 2021: £96 million).

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

	Total £m
At 1 January 2022	**701**
Spend against provisions	(168)
Charge to operating profit[1]	206
Release to operating profit[2]	(99)
Utilisation of loss-making contract provision	(40)
Disposal of businesses	(18)
Other (including foreign exchange)	29
At 31 December 2022	**611**

[1] Includes £130 million of adjusting items and £76 million recognised in adjusted operating profit
[2] Includes £30 million of adjusting items and £69 million recognised in adjusted operating profit

Spend against provisions in the year, of £168 million, included £121 million of cash spent on restructuring activities.

The net charge to operating profit in the Income Statement of £107 million primarily includes net costs associated with restructuring actions of £119 million, discussed within the adjusting items section of this review, net of releases, mainly relating to fair value items settled for an amount more favourable than first anticipated.

The utilisation of the loss-making contract provision was £40 million in the year (31 December 2021: £48 million). Furthermore, £11 million, approximately 9%, 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. At 31 December 2022 the loss-making contract provision was £108 million, approximately 80% lower than when GKN was acquired in 2018.

Movement in provisions in the year also included foreign exchange movements of £36 million, £5 million relating to the Ergotron business transferred to held for sale at 30 June 2022 and discounting on certain provisions of £2 million. These are shown in the other category in the table above.

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 2022 by independent actuaries to reflect the latest key assumptions and are summarised as follows:

	Assets £m	Liabilities £m	Accounting surplus/(deficit) £m
Melrose[1]			
GKN UK Group pension schemes (Numbers 1 & 4)	1,113	(1,100)	**13**
Other Group pension schemes	49	(89)	**(40)**
Total Melrose[1] pension schemes	1,162	(1,189)	**(27)**
Dowlais[1]			
GKN UK Group pension schemes (Numbers 2 & 3)	666	(649)	**17**
Other Group pension schemes	113	(591)	**(478)**
Total Dowlais[1] pension schemes	779	(1,240)	**(461)**
Total Group pension schemes	1,941	(2,429)	**(488)**

[1] Melrose includes Aerospace and the continuing central cost centre; Dowlais includes the Automotive, Powder Metallurgy and Hydrogen Technology businesses

At 31 December 2022, the two Aerospace UK pension plans had aggregate gross assets of £1,113 million (31 December 2021: £1,734 million), gross liabilities of £1,100 million (31 December 2021: £1,627 million) and an aggregate net surplus of £13 million (31 December 2021: £107 million).

At 31 December 2022, the two Automotive UK pension plans had aggregate gross assets of £666 million (31 December 2021: £1,020 million), gross liabilities of £649 million (31 December 2021: £948 million) and an aggregate net surplus of £17 million (31 December 2021: £72 million).

These UK pension plans are closed to new members and to accrual of future benefits for current members.

The largest deficits within the other pension schemes in the Group are held within the Automotive business and relate to German GKN pension plans which provide benefits dependent on final salary and service, and which are generally unfunded and closed to new members. At 31 December 2022, these plans had a net deficit of £414 million (31 December 2021: £530 million).

The Group's funding commitment to the GKN UK Group Pension Schemes, made when GKN was acquired in 2018, was delivered ahead of schedule. The ongoing contributions to these defined benefit pension schemes is £30 million per annum, split equally between the Aerospace and Automotive businesses, with no further requirement to contribute amounts following disposals of businesses.

In total, ongoing contributions to the Group defined benefit pension plans and post-employment medical plans in the year ended 31 December 2022 were £59 million and are expected to be £51 million in 2023, split £33 million in Dowlais and £18 million in the Aerospace business.

Subsequent to the year end, on 9 February 2023, the Trustees of one of the two UK pension plans in the Aerospace division, GKN Group Pension Scheme Number 4, signed a contract with a pension annuity provider to fully secure benefits for all members of the pension plan for a cash settlement by the Company of £45 million. This will result in a full buy-out of the plan. At 31 December 2022, this plan had total liabilities of £433 million (31 December 2021: £628 million) and an accounting surplus of £52 million (31 December 2021: £87 million).

FINANCIAL RISK MANAGEMENT

The financial risks the Group faces continue to be considered and policies are 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 2022 was £1,139 million (31 December 2021: £950 million).

The Group's committed bank facilities include a multi-currency denominated term loan and a multi-currency denominated revolving credit facility that mature in June 2024:

	Local currency			£m
	Size	Drawn	Headroom	Headroom
Term loan:				
USD	788	788	-	-
GBP	30	30	-	-
Revolving credit facility:				
USD	2,000	130	1,870	1,546
GBP	1,100	152	948	948
Euro	500	410	90	80
Bank facility headroom				**2,574**
Net cash in hand				292
Total headroom				**2,866**

At 31 December 2022, the term loan was fully drawn and there were drawings of US$130 million, £152 million and €410 million on the multi-currency revolving credit facility. Applying the exchange rates at 31 December 2022, the headroom on the bank facilities equated to £2.6 billion. There are also a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group.

In addition to the headroom on the multi-currency committed revolving credit facility, cash, deposits and marketable securities, net of overdrafts, in the Group amounted to £292 million at 31 December 2022 (31 December 2021: £468 million).

The Group also holds capital market borrowings. In September 2022, a £450 million bond was repaid and associated cross-currency swaps with aggregate notional values of US$373 million and €284 million were settled. Subsequent to this, in November 2022 a tender offer was launched on the remaining £300 million bond, due to mature in May 2032, that resulted in £170 million of the outstanding value being bought back and cancelled for a total cash cost of £148 million (excluding accrued interest). This represented a gain of £22 million and, together with a £2 million release of the fair value adjustment on the bond recognised on the acquisition of GKN in April 2018, resulted in a total gain of £24 million. This has been reported as an adjusting item within finance income in the Income Statement, discussed earlier in this review.

As at 31 December 2022 the capital market borrowings held by the Group consisted of £130 million outstanding of the original £300 million bond due to mature in May 2032, with a current coupon rate of 4.625%.

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

The net debt to adjusted EBITDA covenant test level is set at 3.75x at 31 December 2022, reducing to 3.5x at 30 June 2023 and onwards. At 31 December 2022, the Group net debt leverage was 1.4x, affording comfortable headroom.

The interest cover test is set at 4.0x for the remaining term of the bank facility. At 31 December 2022, the Group interest cover was 11.6x, again showing comfortable headroom compared to the covenant test.

A limited number of Group trade receivables are subject to non-recourse factoring and customer supply chain finance arrangements. As at 31 December 2022, these amounted to £325 million (31 December 2021: £310 million) and as a result there was a net cash increase in the year of £15 million (2021: net cash reduction of £4 million).

In addition, some suppliers have access to utilise the Group's supplier finance programmes, which are provided by a number of the Group's banks. As at 31 December 2022, suppliers had drawn £200 million (31 December 2021: £102 million) on these facilities. There is no cost to the Group for providing these programmes as the cost is borne by the suppliers. These programmes allow suppliers to choose whether they want to accelerate the payment of their invoices by the financing banks, at a low interest cost, based on the credit rating of the Group as determined by the financing banks. If the Group exited these arrangements or the banks ceased to fund the programmes there could be a potential impact of approximately £94 million (31 December 2021: approximately £60 million) on the Group's cash flows. The risk of this happening is considered low as the Group has extended the number of banks that provide this type of financing to ensure there is not a significant exposure to any one bank.

Finance cost risk management

The long-term policy of the Board is to fix up to 70% of the interest rate exposure of the Group to align with the maturity of its debt facilities. Following the announcement of the intended demerger, negotiations with lender banks commenced for the two new facilities that would be required post demerger: one for the remaining Melrose Group and one for Dowlais.

The bank margin on the current bank facility depends on the Group leverage. Following the extension of the bank facility in December 2021, the bank margins were set as follows:

	31 Dec 2022		31 Dec 2021	
Facility:	Margin	Range	Margin	Range
Term Loan	1.20%	0.75% - 2.0%	0.75%	0.75% - 2.0%
Revolving Credit Facility	1.20%	0.75% - 2.0%	0.75%	0.75% - 2.0%

All cross-currency interest rate swaps held by the Group matured during the year ended 31 December 2022.

The Group's cost of drawn debt for the next 12 months is currently expected to be approximately 5.5%.

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. Typically, in total the Group hedges around 90% of foreign exchange exposures expected over the next twelve months and approximately 60% to 80% of exposures expected between 12 and 24 months. For GKN Aerospace, the Group hedges beyond 24 months due to the longer-term nature of some of its contracts, with the percentage of the expected exposure hedged reducing for each subsequent year. 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 banking facilities 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, 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 example 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	**Average rate**	**Closing rate**
2022	1.24	1.21
2021	1.38	1.35
Euro		
2022	1.17	1.13
2021	1.16	1.19

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**
Melrose[1]				
Increase in adjusted operating profit	29	7	-	-
% impact on adjusted operating profit	10%	3%	-	-
Dowlais[1]				
Increase in adjusted operating profit	18	3	8	12
% impact on adjusted operating profit	5%	1%	2%	3%
Group				
Increase in adjusted operating profit	47	10	8	12
% impact on adjusted operating profit	7%	1%	1%	2%

[1] Melrose includes Aerospace and the continuing central cost centre; Dowlais includes the Automotive, Powder Metallurgy and Hydrogen Technology businesses

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 debt as at 31 December 2022:

	USD	EUR
Increase in debt - £ million	77	36
Increase in debt	5%	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.

GOING CONCERN

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

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

In making the going concern assessment, the Directors have considered the current compilation of the Group, and the circumstance that the proposed demerger occurs in April 2023. A base case model and a reasonably possible downside scenario against future cash flows has been considered for both circumstances.

In all scenarios, when considering a reasonably possible downside scenario for the businesses, there remains sufficient headroom to avoid breaching any of the Group's financial covenants and the Group would not require any additional sources of financing throughout the financial period tested.

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

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

Geoffrey Martin
Group Finance Director
2 March 2023

CAUTIONARY STATEMENT

This announcement contains statements that are, or may be deemed to be “forward-looking statements”. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “potential”, “predicts”, “expects”, “intends”, “may”, “will”, “can”, “likely” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements reflect the Company’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the business, results of operations, financial position, liquidity, prospects, growth and strategies of the Group. Forward-looking statements speak only as of the date they are made.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur or the Company’s or the Group’s actual results, performance or achievements of the Company might be materially different from the expected results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements contained in this announcement speak only as at the date of this announcement. The Company expressly disclaims any obligation or undertaking to update these forward-looking statements contained in this announcement to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Listing Rules and the Disclosure Guidance and Transparency Rules of the FCA or Regulation (EU) 596/2014 as it forms part of the domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018.

Consolidated Income Statement

Continuing operations	Notes	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Revenue	3	**7,537**	6,650
Cost of sales		**(6,458)**	(5,750)
Gross profit		**1,079**	900
Share of results of equity accounted investments	9	**49**	38
Net operating expenses		**(1,364)**	(1,431)
Operating loss	3, 4	**(236)**	(493)
Finance costs		**(104)**	(169)
Finance income		**33**	2
Loss before tax		**(307)**	(660)
Tax	5	**84**	180
Loss after tax for the year from continuing operations		**(223)**	(480)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	8	**(80)**	1,317
(Loss)/profit after tax for the year		**(303)**	837
Attributable to:			
Owners of the parent		**(308)**	833
Non-controlling interests		**5**	4
		(303)	837
Earnings per share			
Continuing operations			
– Basic	7	**(5.4)p**	(10.3)p
– Diluted	7	**(5.4)p**	(10.3)p
Continuing and discontinued operations			
– Basic	7	**(7.3)p**	17.7p
– Diluted	7	**(7.3)p**	17.7p
Adjusted[2] results from continuing operations			
Adjusted revenue	3	**8,191**	7,263
Adjusted operating profit	3, 4	**480**	317
Adjusted profit before tax	4	**384**	194
Adjusted profit after tax	4	**299**	151
Adjusted basic earnings per share	7	**7.0p**	3.1p
Adjusted diluted earnings per share	7	**7.0p**	3.1p

(1) Results for the year ended 31 December 2021 have been restated for discontinued operations (note 1).
(2) Defined in note 2.

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
(Loss)/profit after tax for the year		**(303)**	837
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement (loss)/gain on retirement benefit obligations		**(32)**	297
Fair value (loss)/gain on investments in equity instruments		**(34)**	43
Income tax charge relating to items that will not be reclassified	5	**(1)**	(71)
		(67)	269
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**593**	(101)
Share of other comprehensive income from equity accounted investments		**13**	13
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	8	**(11)**	113
Derivative (losses)/gains on hedge relationships		**(39)**	54
Transfer to Income Statement on hedge relationships		**2**	46
Income tax credit/(charge) relating to items that may be reclassified	5	**5**	(19)
		563	106
Other comprehensive income for the year		**496**	375
Total comprehensive income for the year		**193**	1,212
Attributable to:			
Owners of the parent		**187**	1,208
Non-controlling interests		**6**	4
		193	1,212

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Operating activities			
Net cash from operating activities from continuing operations	12	**187**	222
Net cash from operating activities from discontinued operations	12	**17**	41
Net cash from operating activities		**204**	263
Investing activities			
Disposal of businesses, net of cash disposed		**478**	2,703
Purchase of property, plant and equipment		**(271)**	(218)
Proceeds from disposal of property, plant and equipment(2)		**66**	13
Purchase of computer software and capitalised development costs		**(27)**	(18)
Dividends received from equity accounted investments		**59**	52
Purchase of investments		**–**	(10)
Acquisition of subsidiaries, net of cash acquired		**(4)**	–
Settlement of derivatives used in net investment hedging		**(109)**	–
Equity accounted investment additions		**(3)**	–
Interest received		**4**	2
Net cash from investing activities from continuing operations		**193**	2,524
Net cash used in investing activities from discontinued operations	12	**(1)**	(13)
Net cash from investing activities		**192**	2,511
Financing activities			
Repayment of borrowings		**(598)**	(1,555)
Drawings on borrowings facilities		**632**	–
Costs of raising debt finance		**–**	(4)
Repayment of principal under lease obligations		**(51)**	(53)
Settlement of interest rate swaps		**–**	(47)
Purchase of own shares, including associated costs		**(504)**	–
Return of capital		**–**	(729)
Return of capital costs		**–**	(1)
Dividends paid to owners of the parent	6	**(77)**	(69)
Net cash used in financing activities from continuing operations		**(598)**	(2,458)
Net cash used in financing activities from discontinued operations	12	**(1)**	(8)
Net cash used in financing activities		**(599)**	(2,466)
Net (decrease)/increase in cash and cash equivalents, net of bank overdrafts		**(203)**	308
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	12	**468**	160
Effect of foreign exchange rate changes	12	**27**	–
Cash and cash equivalents, net of bank overdrafts at the end of the year	12	**292**	468

(1) Results for the year ended 31 December 2021 have been restated for discontinued operations (note 1).
(2) Includes proceeds from the disposal of a corporate property, held for sale at 30 June 2022.

As at 31 December 2022, the Group had net debt of £1,139 million (31 December 2021: £950 million). A definition and reconciliation of the movement in net debt is shown in note 12.

Consolidated Balance Sheet

	Notes	31 December 2022 £m	31 December 2021 £m
Non-current assets			
Goodwill and other intangible assets		**6,846**	7,390
Property, plant and equipment		**2,599**	2,528
Investments		**62**	87
Interests in equity accounted investments		**435**	429
Deferred tax assets		**373**	250
Derivative financial assets		**36**	47
Other receivables		**670**	523
Retirement benefit surplus	11	**93**	184
		11,114	11,438
Current assets			
Inventories		**1,025**	893
Trade and other receivables		**1,426**	1,184
Derivative financial assets		**38**	23
Current tax assets		**29**	11
Cash and cash equivalents		**355**	473
		2,873	2,584
Total assets	3	**13,987**	14,022
Current liabilities			
Trade and other payables		**2,347**	2,051
Interest-bearing loans and borrowings		**63**	462
Lease obligations		**60**	57
Derivative financial liabilities		**86**	119
Current tax liabilities		**141**	142
Provisions	10	**281**	293
		2,978	3,124
Net current liabilities		**(105)**	(540)
Non-current liabilities			
Other payables		**431**	390
Interest-bearing loans and borrowings		**1,433**	903
Lease obligations		**306**	319
Derivative financial liabilities		**141**	79
Deferred tax liabilities		**619**	614
Retirement benefit obligations	11	**581**	645
Provisions	10	**330**	408
		3,841	3,358
Total liabilities	3	**6,819**	6,482
Net assets		**7,168**	7,540
Equity			
Issued share capital		**309**	333
Share premium account		**3,271**	3,271
Merger reserve		**109**	109
Capital redemption reserve		**753**	729
Other reserves		**(2,330)**	(2,330)
Translation and hedging reserve		**638**	76
Retained earnings		**4,379**	5,319
Equity attributable to owners of the parent		**7,129**	7,507
Non-controlling interests		**39**	33
Total equity		**7,168**	7,540

The Financial Statements were approved and authorised for issue by the Board of Directors on 2 March 2023 and were signed on its behalf by:

Geoffrey Martin
Group Finance Director

2 March 2023

Simon Peckham
Chief Executive

2 March 2023

Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Translation and hedging reserve £m	Retained earnings £m	**Equity attributable to owners of the parent £m**	Non-controlling interests £m	**Total equity £m**
At 1 January 2021	333	8,138	109	–	(2,330)	(30)	861	**7,081**	29	**7,110**
Profit for the year	–	–	–	–	–	–	833	**833**	4	**837**
Other comprehensive income	–	–	–	–	–	106	269	**375**	–	**375**
Total comprehensive income	–	–	–	–	–	106	1,102	**1,208**	4	**1,212**
Capital reduction[1]	–	(4,138)	–	–	–	–	4,138	**–**	–	**–**
Return of capital[1]	–	(729)	–	729	–	–	(729)	**(729)**	–	**(729)**
Dividends paid	–	–	–	–	–	–	(69)	**(69)**	–	**(69)**
Equity-settled share-based payments	–	–	–	–	–	–	16	**16**	–	**16**
At 31 December 2021	333	3,271	109	729	(2,330)	76	5,319	**7,507**	33	**7,540**
(Loss)/profit for the year	–	–	–	–	–	–	(308)	**(308)**	5	**(303)**
Other comprehensive income/(expense)	–	–	–	–	–	562	(67)	**495**	1	**496**
Total comprehensive income/(expense)	–	–	–	–	–	562	(375)	**187**	6	**193**
Purchase of own shares[1]	(24)	–	–	24	–	–	(504)	**(504)**	–	**(504)**
Dividends paid	–	–	–	–	–	–	(77)	**(77)**	–	**(77)**
Equity-settled share-based payments	–	–	–	–	–	–	16	**16**	–	**16**
At 31 December 2022	**309**	**3,271**	**109**	**753**	**(2,330)**	**638**	**4,379**	**7,129**	**39**	**7,168**

(1) Further information is set out in note 1.

Notes to the Financial Statements

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 2022 or 31 December 2021 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 2021 have been delivered to the Registrar of Companies and those for the year ended 31 December 2022 will be delivered to the Registrar of Companies during April 2023. 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 pursuant to IFRSs as issued by the IASB, 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 2023.

Corporate structure

Discontinued operations and disposals

On 6 July 2022, the Group completed the disposal of the Ergotron business, previously included in the Other Industrial segment. The results of Ergotron have been classified within discontinued operations for both years presented; with the Income Statement, the Statement of Cash Flows and their associated notes being restated accordingly. At 30 June 2022, the Ergotron business met the criteria within IFRS 5: Non-current Assets Held for Sale and Discontinued Operations to be classified as an asset held for sale.

The Aerospace business disposed of a non-core entity during the year, which has not been treated as a discontinued operation. Further detail is shown in note 8.

In addition, discontinued operations for 2021 include the results of the Nortek Air Management, Brush and Nortek Control businesses, which were disposed of during 2021.

Capital structure

On 9 June 2022, the Group commenced a £500 million share buyback programme, which completed on 1 August 2022 with 318,003,512 shares repurchased and subsequently cancelled. Costs associated with the share buyback programme were £4 million.

In 2021, following the disposals of Nortek Air Management and Brush, a return of capital of £729 million, alongside a court approved capital reduction of the Company's share premium account and a 9 for 10 share consolidation took place.

Proposed demerger

On 8 September 2022, the Group announced its intention to demerge Automotive, Powder Metallurgy and Hydrogen Technology. In this Preliminary Announcement, the businesses intended for demerger have been treated as continuing operations because at the balance sheet date there were actions, such as the formation of a board of directors and the arrangement of banking facilities, which meant that a demerger could not have taken place. The demerger was also still subject to Board approval and shareholder consent at 31 December 2022.

Acquisitions

On 1 October 2022, the Aerospace segment completed the acquisition of Permanova Lasersystem AB, a leader in advanced laser technology and cell integration, for consideration of £4 million.

Going concern

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

The Group's liquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom of £2.6 billion at 31 December 2022 and sufficient headroom throughout the going concern forecast period. Forecast covenant compliance is considered further below.

None of the Group's banking facilities mature in the going concern period following an extension agreed during 2021. The next contractual maturity is in June 2024 and whilst changes to banking arrangements are being considered following the announced intention to demerge GKN Automotive, GKN Powder Metallurgy and GKN Hydrogen, these will only be enacted if the shareholders approve the demerger. As part of its preparation for the intended demerger, the Group has agreed revised banking documentation split between the demerger businesses and remaining business, which is comparable in nature with existing arrangements and would provide both businesses with sufficient liquidity albeit contingent on shareholder approval of the demerger.

Covenants

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

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

	31 December 2022	30 June 2023	31 December 2023
Net debt to adjusted EBITDA	**3.75x**	3.5x	3.5x
Interest cover	**4.0x**	4.0x	4.0x

Testing

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

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

The reasonably possible sensitised case models more conservative sales assumptions for 2023 and the first half of 2024. The sensitised assumptions are specific to each business taking into account their markets, but on average represents a c. 10% and c. 15% reduction to the Group's forecast revenue in each of 2023 and the first half of 2024 respectively. The sensitised revenues have had a consequential impact on profit and cash flow, along with a further downside sensitivity applied to increase working capital by approximately 2% of revenue. Given that there is liquidity headroom of £2.6 billion and the Group's leverage was 1.4x, comfortably below the covenant test at 31 December 2022, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at the forecast testing dates being 30 June 2023 and 31 December 2023, and the Group will not require any additional sources of finance. Testing at 30 June 2024 is also favourable, assuming arrangements similar in nature with existing agreements.

The Group has also considered the circumstance that the proposed demerger occurs in April 2023. Modelling of both a base case and a reasonably possible sensitised case has also been prepared for the remaining Group and due to revised banking documents having been formally agreed, consistent with the conclusion above, the Group will not require any additional sources of finance and no covenant is breached at the forecast testing dates being 30 June 2023 and 31 December 2023.

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 project costs and other associated costs, including losses incurred following the announcement of closure for identified businesses, arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- Acquisition and disposal related gains and losses;
- Impairment charges that are considered to be significant in nature and/or value to the trading performance of the business;
- Movement in derivative financial instruments not designated in hedging relationships, including revaluation of associated financial assets and liabilities;
- 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; and
- The net release of fair value items booked on acquisitions.

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

- Acceleration of unamortised debt issue costs written off as a consequence of Group refinancing;
- Significant settlement gains and losses associated with debt instruments including interest rate swaps following acquisition or disposal related activity or non-trading transactions; and
- The fair value changes on cross-currency swaps, entered into by GKN prior to acquisition, relating to cost of hedging which are not deferred in equity.

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

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

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

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

Adjusted profit is not a defined term under IFRS and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current 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 the disposal of the Ergotron business during the year its results, which were previously included within the Other Industrial segment, are classified within discontinued operations and the comparative results for 2021 have been restated accordingly. In addition, the results of the Nortek Air Management, Brush and Nortek Control businesses, which were disposed of in the prior year, are also classified as discontinued operations.

The operating segments are as follows:

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

Automotive – a global technology and systems engineer which designs, develops, manufactures and integrates an extensive range of driveline technologies, including electric vehicle components.

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

Other Industrial – comprises the Group's Hydrogen Technology business which was launched in the prior year.

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

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

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

The following tables present the results and certain asset and liability information regarding the Group's operating segments and central cost centre for the year ended 31 December 2022.

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 2022 **Continuing operations**	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Adjusted revenue	**2,957**	**4,211**	**1,022**	**1**	**8,191**
Equity accounted investments	(3)	(625)	(26)	–	(654)
Revenue	**2,954**	**3,586**	**996**	**1**	**7,537**
Timing of revenue recognition					
At a point in time	2,030	3,586	996	1	6,613
Over time	924	–	–	–	924
Revenue	**2,954**	**3,586**	**996**	**1**	**7,537**

Year ended 31 December 2021 – restated(1) Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Adjusted revenue	**2,543**	**3,745**	**975**	–	**7,263**
Equity accounted investments	(5)	(581)	(27)	–	(613)
Revenue	**2,538**	**3,164**	**948**	–	**6,650**
Timing of revenue recognition					
At a point in time	1,601	3,164	948	–	5,713
Over time	937	–	–	–	937
Revenue	**2,538**	**3,164**	**948**	–	**6,650**

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

b) Segment operating profit

Year ended 31 December 2022 Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate[1] £m	Total £m
Adjusted operating profit/(loss)	**186**	**250**	**96**	**(14)**	**(38)**	**480**
Items not included in adjusted operating profit[2]:						
Amortisation of intangible assets acquired in business combinations	(260)	(147)	(51)	–	–	(458)
Restructuring costs	(88)	(37)	(17)	–	(2)	(144)
Movement in derivatives and associated financial assets and liabilities	21	(7)	(1)	–	(100)	(87)
Equity accounted investments adjustments	–	(29)	–	–	–	(29)
Impairment of assets	–	(20)	–	–	–	(20)
Melrose equity-settled compensation scheme charges	–	–	–	–	(15)	(15)
Net release and changes in discount rates of fair value items	12	5	9	–	–	26
Acquisition and disposal related gains and losses	(5)	(4)	–	–	20	11
Operating (loss)/profit	**(134)**	**11**	**36**	**(14)**	**(135)**	**(236)**
Finance costs						(104)
Finance income						33
Loss before tax						**(307)**
Tax						84
Loss for the year from continuing operations						**(223)**

Year ended 31 December 2021 – restated[3] Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate[1] £m	Total £m
Adjusted operating profit/(loss)	**112**	**172**	**91**	**(7)**	**(51)**	**317**
Items not included in adjusted operating profit[2]:						
Amortisation of intangible assets acquired in business combinations	(245)	(142)	(49)	–	–	(436)
Restructuring costs	(92)	(147)	(18)	–	(12)	(269)
Movement in derivatives and associated financial assets and liabilities	4	(1)	(3)	–	(114)	(114)
Equity accounted investments adjustments	–	(28)	–	–	–	(28)
Melrose equity-settled compensation scheme charges	–	–	–	–	(19)	(19)
Net release and changes in discount rates of fair value items	23	14	11	–	1	49
Acquisition and disposal related gains and losses	2	1	8	–	(4)	7
Operating (loss)/profit	**(196)**	**(131)**	**40**	**(7)**	**(199)**	**(493)**
Finance costs						(169)
Finance income						2
Loss before tax						**(660)**
Tax						180
Loss for the year from continuing operations						**(480)**

(1) Corporate adjusted operating loss of £38 million (2021: £51 million), includes £3 million (2021: £17 million) of costs in respect of divisional management long-term incentive plans.
(2) Further details on adjusting items are discussed in note 4.
(3) Restated for discontinued operations (note 1).

c) Segment total assets and liabilities

	Total assets		Total liabilities	
	31 December 2022 £m	Restated[1] 31 December 2021 £m	**31 December 2022 £m**	Restated[1] 31 December 2021 £m
Aerospace	**6,692**	6,267	**2,517**	2,231
Automotive	**4,711**	4,608	**2,033**	2,042
Powder Metallurgy	**1,791**	1,669	**421**	405
Other Industrial	**17**	14	**5**	–
Corporate	**776**	847	**1,843**	1,718
Continuing operations	**13,987**	13,405	**6,819**	6,396
Discontinued operations	**–**	617	**–**	86
Total	**13,987**	14,022	**6,819**	6,482

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

d) Segment capital expenditure and depreciation

	Capital expenditure[1]		Depreciation of owned assets[1]		Depreciation of leased assets	
	Year ended 31 December 2022 £m	Restated[2] Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Restated[2] Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Restated[2] Year ended 31 December 2021 £m
Aerospace	**77**	66	**123**	122	**21**	24
Automotive	**187**	113	**184**	198	**14**	15
Powder Metallurgy	**44**	40	**53**	51	**10**	9
Other Industrial	**–**	1	**–**	–	**–**	–
Corporate	**–**	–	**–**	1	**1**	1
Continuing operations	**308**	220	**360**	372	**46**	49
Discontinued operations	**–**	14	**1**	20	**1**	8
Total	**308**	234	**361**	392	**47**	57

(1) Including computer software and development costs. Capital expenditure excludes lease additions.
(2) Restated for discontinued operations (note 1).

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 derivative financial assets; non-current other receivables; and non-current retirement benefit surplus) by geographical location are detailed below:

	Revenue[1] from external customers		Segment assets	
	Year ended 31 December 2022 £m	Restated[2] Year ended 31 December 2021 £m	**31 December 2022 £m**	Restated[2] 31 December 2021 £m
UK	**682**	570	**1,785**	1,977
Rest of Europe	**1,902**	1,824	**4,453**	4,374
North America	**3,906**	3,275	**2,562**	2,404
Other	**1,047**	981	**1,142**	1,145
Continuing operations	**7,537**	6,650	**9,942**	9,900
Discontinued operations	**132**	1,117	**–**	534
Total	**7,669**	7,767	**9,942**	10,434

(1) Revenue is presented by destination.
(2) Restated for discontinued operations (note 1).

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 2022 £m**	Restated[1] Year ended 31 December 2021 £m
Operating loss		**(236)**	(493)
Amortisation of intangible assets acquired in business combinations	a	**458**	436
Restructuring costs	b	**144**	269
Movement in derivatives and associated financial assets and liabilities	c	**87**	114
Equity accounted investments adjustments	d	**29**	28
Impairment of assets	e	**20**	–
Melrose equity-settled compensation scheme charges	f	**15**	19
Net release and changes in discount rates of fair value items	g	**(26)**	(49)
Acquisition and disposal related gains and losses	h	**(11)**	(7)
Total adjustments to operating loss		**716**	810
Adjusted operating profit		**480**	317

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

a. The amortisation charge on intangible assets acquired in business combinations of £458 million (2021: £436 million) is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.

b. Restructuring and other associated costs in the year totalled £144 million (2021: £269 million), including a write down of assets in affected sites of £11 million (2021: £112 million). These are shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2022 these included:

   - A charge of £88 million (2021: £92 million) within the Aerospace division primarily relating to the continuation of significant restructuring projects, necessary for the Aerospace business to achieve its full potential target operating margins. These included further progress on European footprint consolidations in both the Civil and Engines businesses, which commenced in 2021 and are expected to materially conclude in 2023. In addition, further progress has been made in North America on multi-site restructuring programmes across all three Aerospace sub-segments. There are three significant ongoing multi-year restructuring programmes, impacting multiple sites across the Aerospace division, incurring a combined charge of £79 million in the year. Since commencement in 2020, the cumulative charge on these three restructuring programmes at 31 December 2022 was £155 million (31 December 2021: £76 million, 31 December 2020: £7 million). As at 31 December 2022, these projects on average are approximately 75% complete and are expected to be substantially complete by the end of 2023. In addition to the remaining charges to be incurred on these projects, £40 million is included in restructuring provisions at 31 December 2022 to be settled in cash in the next twelve months.
   - A charge of £37 million (2021: £147 million) within the Automotive division. These included multiple restructuring projects which concluded within the year, including two significant footprint consolidation actions in Europe, which commenced last year. In addition, restructuring costs were incurred in North America, continuing the movement of production from high to low cost countries.
   - A charge of £17 million (2021: £18 million) within the Powder Metallurgy division. Multiple restructuring projects in the business concluded within the year, including the closure of a factory in Canada.
   - A net charge of £2 million (2021: £12 million) within the central cost centre.

c. Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts where hedge accounting is not applied) entered into to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts, including foreign exchange movements on the associated financial assets and liabilities are shown as an adjusting item because of its volatility and size. This totalled a charge of £87 million (2021: £114 million) in the year.

d. The Group has a number of equity accounted investments ("EAIs") in which it does not hold full control, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"), within the Automotive business. The EAIs generated £654 million (2021: £613 million) of revenue in the year, 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. A write down of assets of £20 million (2021: £nil), has been recognised as a result of exiting any direct trading links with Russian operations as a result of the conflict in Ukraine. The write down of these assets are predominantly within the Automotive division and are shown as an adjusting item due to their non-trading nature and size.

f. The charge for the Melrose equity-settled Employee Share Scheme, including its associated employer's tax charge, of £15 million (2021: £19 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.

g. The net release of fair value items in the year of £26 million (2021: £49 million) where items have been resolved for more favourable amounts than first anticipated are shown as an adjusting item, avoiding positively distorting adjusted operating profit. During the year this included a net release of £11 million in respect of loss-making contract provisions, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period.

h. An acquisition and disposal related net credit of £11 million (2021: £7 million) arose in the year which primarily includes the net profits on disposal of two disused properties, a loss on disposal of a non-core Aerospace business and the initial costs incurred in respect of the proposed demerger. These items are excluded from adjusted results due to their non-trading nature.

b) Profit before tax

Continuing operations	Notes	**Year ended 31 December 2022 £m**	Restated[1] Year ended 31 December 2021 £m
Loss before tax		**(307)**	(660)
Adjustments to operating loss as above		**716**	810
Equity accounted investments – interest	i	**2**	2
Settlement of bonds	j	**(24)**	–
Fair value changes on cross-currency swaps	k	**(3)**	(3)
Settlement of interest rate swaps	l	**–**	45
Total adjustments to loss before tax		**691**	854
Adjusted profit before tax		**384**	194

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

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

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

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. On disposal of Nortek Air Management and Brush in the prior year, the significant proceeds received together with expectations of debt requirements enabled the Group to settle certain interest rate swap instruments that were no longer needed. Specific recycling from the cash flow hedge reserve, under IFRS 9, of £45 million was accelerated and shown as an adjusting item due to its non-trading nature.

c) Profit after tax

Continuing operations	Notes	**Year ended 31 December 2022 £m**	Restated[1] Year ended 31 December 2021 £m
Loss after tax		**(223)**	(480)
Adjustments to loss before tax as above		**691**	854
Tax effect of adjustments to loss before tax	5	**(170)**	(176)
Equity accounted investments – tax	i	**(9)**	(9)
Tax effect of significant legislative changes	5	**–**	(70)
Tax effect of significant restructuring	5	**10**	32
Total adjustments to loss after tax		**522**	631
Adjusted profit after tax		**299**	151

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

5. Tax

Continuing operations	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Analysis of tax credit in the year:		
Current tax		
Current year tax charge	**73**	53
Adjustments in respect of prior years	**(9)**	(1)
Total current tax charge	**64**	52
Deferred tax		
Origination and reversal of temporary differences	**(118)**	(125)
Adjustments in respect of prior years	**(20)**	(4)
Tax on the change in value of derivative financial instruments	**(24)**	(27)
Adjustments to deferred tax attributable to changes in tax rates	**1**	(5)
Non-recognition of deferred tax	**13**	4
Recognition of previously unrecognised deferred tax assets	**–**	(75)
Total deferred tax credit	**(148)**	(232)
Tax credit on continuing operations	**(84)**	(180)
Tax charge on discontinued operations	**5**	61
Total tax credit for the year	**(79)**	(119)
Analysis of tax credit on continuing operations in the year:	**£m**	£m
Tax charge in respect of adjusted profit before tax	**85**	43
Tax credit recognised as an adjusting item	**(169)**	(223)
Tax credit on continuing operations	**(84)**	(180)

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

The tax charge of £85 million (2021: £43 million) arising on adjusted profit before tax of £384 million (2021: £194 million), results in an effective tax rate of 22.1% (2021: 22.2%).

The £169 million (2021: £223 million) tax credit recognised as an adjusting item includes a credit of £170 million (2021: £176 million) in respect of tax credits on adjustments to loss before tax of £691 million (2021: £854 million), £9 million (2021: £9 million) in respect of the tax on equity accounted investments, a charge of £10 million (2021: £32 million) in respect of internal Group restructuring and £nil (2021: credit of £70 million) in respect of additional deferred tax asset recognition from legislative changes.

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

	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
(Loss)/profit before tax:		
Continuing operations	**(307)**	(660)
Discontinued operations (note 8)	**(59)**	45
	(366)	(615)
Tax credit on loss before tax at the weighted average rate of 25.0% (2021: 23.0%)	**(91)**	(141)
Tax effect of:		
Disallowable expenses and other permanent differences within adjusted profit	**4**	(2)
Disallowable items included within adjusting items	**(2)**	31
Temporary differences not recognised in deferred tax	**13**	4
Recognition of previously unrecognised deferred tax assets	**–**	(75)
Tax credits, withholding taxes and other rate differences	**15**	11
Adjustments in respect of prior years	**(29)**	(5)
Tax charge classified within adjusting items – continuing operations	**10**	32
Tax charge classified within adjusting items – discontinued operations	**–**	31
Effect of changes in tax rates	**1**	(5)
Total tax credit for the year	**(79)**	(119)

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

The reconciliation has been performed at a blended Group tax rate of 25.0% (2021: 23.0%) which represents the weighted average of the tax rates applying to profits and losses in the jurisdictions in which those results arose in the year.

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

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Deferred tax on retirement benefit obligations	**1**	71
Deferred tax on hedge relationship gains and losses	**(5)**	19
Total (credit)/charge for the year	**(4)**	90

6. Dividends

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Interim dividend for the year ended 31 December 2022 of 0.825p	**33**	–
Final dividend for the year ended 31 December 2021 of 1.0p	**44**	–
Interim dividend for the year ended 31 December 2021 of 0.75p	**–**	33
Final dividend for the year ended 31 December 2020 of 0.75p	**–**	36
	77	69

A second interim dividend for the year ended 31 December 2022 of 1.5p per share totalling £61 million is declared by the Board. The second interim dividend of 1.5p per share was declared by the Board on 2 March 2023 and in accordance with IAS 10: Events after the reporting period, has not been included as a liability in the Consolidated Financial Statements.

During the year, the Group undertook a £500 million share buy back programme (note 1). In the prior year, a return of capital of 15p per ordinary share, totalling £729 million was paid.

7. Earnings per share

Earnings attributable to owners of the parent	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Earnings for basis of earnings per share	**(308)**	833
Less: earnings from discontinued operations (note 8)	**80**	(1,317)
Earnings for basis of earnings per share from continuing operations	**(228)**	(484)

	Year ended 31 December 2022 Number	Year ended 31 December 2021 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	**4,218**	4,695
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)	**4,218**	4,695

On 9 June 2022, the Group commenced a £500 million share buyback programme, which completed on 1 August 2022 with 318,003,512 shares repurchased and subsequently cancelled.

Earnings per share	Year ended 31 December 2022 pence	Restated[1] Year ended 31 December 2021 pence
Basic earnings per share		
From continuing and discontinued operations	**(7.3)**	17.7
From continuing operations	**(5.4)**	(10.3)
From discontinued operations	**(1.9)**	28.0
Diluted earnings per share		
From continuing and discontinued operations	**(7.3)**	17.7
From continuing operations	**(5.4)**	(10.3)
From discontinued operations	**(1.9)**	28.0

Adjusted earnings from continued operations	**Year ended 31 December 2022 £m**	Restated[(1)] Year ended 31 December 2021 £m
Adjusted earnings for the basis of adjusted earnings per share[(2)]	**294**	147

Adjusted earnings per share from continuing operations

	Year ended 31 December 2022 pence	Restated[(1)] Year ended 31 December 2021 pence
Adjusted basic earnings per share	**7.0**	3.1
Adjusted diluted earnings per share	**7.0**	3.1

(1) Restated for discontinued operations (note 1).
(2) Adjusted earnings for the year ended 31 December 2022 comprises adjusted profit after tax of £299 million (2021: £151 million) (note 4), net of an allocation to non-controlling interests of £5 million (2021: £4 million).

8. Discontinued operations

At 30 June 2022, the Ergotron business, previously included within the Other Industrial division, met the criteria within IFRS 5: Non-current Assets Held for Sale and Discontinued Operations to be classified as an asset held for sale. On 6 July 2022, the Group completed the sale of the Ergotron business for cash consideration of £496 million. The costs charged to the Income Statement associated with the disposal, in the year, were £7 million. The loss on disposal was £16 million after the recycling of cumulative translation gains of £11 million.

A corporate property with a carrying value of £10 million was classified as held for sale at 30 June 2022 and subsequently sold for cash consideration of £31 million. The profit on disposal of £21 million has been included within acquisition and disposal related gains and losses shown as an adjusting item (note 4).

During the year, Aerospace disposed of a non-core business. Consideration was £nil and the loss on disposal was £5 million, which has been included in acquisition and disposal related gains and losses shown as an adjusted item (note 4).

Discontinued operations for 2021 include the results of the Nortek Air Management, Brush and Nortek Control businesses which were disposed during 2021.

Financial performance of discontinued operations:

	Year ended 31 December 2022 £m	Restated[(1)] Year ended 31 December 2021 £m
Revenue	**132**	1,117
Operating costs[(2)]	**(191)**	(1,070)
Operating (loss)/profit	**(59)**	47
Finance costs	**–**	(2)
(Loss)/profit before tax	**(59)**	45
Tax	**(5)**	(61)
Loss after tax	**(64)**	(16)
(Loss)/gain on disposal of net assets of discontinued operations, net of recycled cumulative translation differences	**(16)**	1,333
(Loss)/profit for the year from discontinued operations	**(80)**	1,317

(1) Restated for discontinued operations (note 1).
(2) Operating costs included an £86 million charge on remeasurement to fair value less costs of disposal relating to the Ergotron business on reclassification to assets held for sale (2021: £85 million relating to the Nortek Control business).

	Held for sale			
	Reclassified to assets classified as held for sale	Remeasured	Disposed	Businesses disposed
	£m	£m	£m	£m
Goodwill and other intangible assets	571	(86)	485	–
Property, plant and equipment[(1)]	27	–	27	–
Inventories	51	–	51	9
Trade and other receivables	51	–	51	5
Derivative financial assets	1	–	1	–
Cash and cash equivalents	26	–	26	6
Total assets	727	(86)	641	20
Trade and other payables	(63)	–	(63)	(4)
Lease obligations	(7)	–	(7)	(3)
Provisions	(5)	–	(5)	(18)
Derivative financial liabilities	(1)	–	(1)	–
Current and deferred tax	(21)	–	(21)	10
Total liabilities	(97)	–	(97)	(15)
Net assets	**630**	**(86)**	**544**	**5**
Movement in the value of net assets classified as held for sale in the period prior to disposal[(2)]			(18)	
Net assets held for sale disposed			526	526
Total net assets disposed				**531**
Consideration, net of costs[(3)]				520
Cumulative translation difference recycled on disposals				11
Profit on disposal of businesses and disposal groups of assets				–
Analysed as:				
Profit on disposal of assets classified as continuing operations				16
Loss on disposal of businesses classified as discontinued operations				(16)
Net cash inflow arising on disposal of businesses and disposal groups of assets:				
Consideration received in cash and cash equivalents, net of costs[(4)]				519
Less: cash and cash equivalents disposed				(10)
				509

(1) Includes £10 million relating to a corporate property.
(2) Includes £23 million of cash extracted from the business prior to disposal.
(3) Includes cash consideration of £496 million and £7 million of related disposal costs following the disposal of Ergotron and £31 million of proceeds from the sale of a corporate property.
(4) Includes cash consideration of £496 million and £8 million of related cash disposal costs following the disposal of Ergotron and £31 million of proceeds from the sale of a corporate property.

9. Equity accounted investments

Group share of results from continuing operations	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Revenue	**654**	613
Operating costs	**(576)**	(547)
Adjusted operating profit	**78**	66
Adjusting items	**(22)**	(21)
Net finance income	**2**	2
Profit before tax	**58**	47
Tax	**(9)**	(9)
Share of results of equity accounted investments	**49**	38

10. Provisions

	Loss-making contracts £m	Property related costs £m	Environmental and litigation £m	Warranty related costs £m	Restructuring £m	Other £m	Total £m
At 1 January 2022	167	29	135	222	81	67	701
Utilised	(40)	–	(16)	(29)	(121)	(2)	(208)
Charge to operating profit(1)	–	2	16	48	130	10	206
Release to operating profit(2)	(15)	–	(21)	(50)	(11)	(2)	(99)
Disposal of businesses(3)	(9)	(5)	–	(2)	–	(2)	(18)
Transfer to held for sale(4)	–	–	(2)	(3)	–	–	(5)
Unwind of discount(5)	(3)	–	–	–	–	1	(2)
Exchange adjustments	8	2	7	14	4	1	36
31 December 2022	**108**	**28**	**119**	**200**	**83**	**73**	**611**
Current	40	4	61	98	67	11	281
Non-current	68	24	58	102	16	62	330
	108	**28**	**119**	**200**	**83**	**73**	**611**

(1) Includes £130 million of adjusting items and £76 million recognised in adjusted operating profit.
(2) Includes £30 million of adjusting items and £69 million recognised in adjusted operating profit.
(3) Disposal of businesses in 2022 relates to the sale of a non-core entity.
(4) Transfer to held for sale relates to the Ergotron business, which was subsequently disposed of during the second half of the year (note 1).
(5) Includes £2 million within finance costs relating to the time value of money and a £4 million credit 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).

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. At 31 December 2022, the loss-making contracts provision within Aerospace totalled £62 million (31 December 2021: £98 million), Automotive £39 million (31 December 2021: £54 million) and Powder Metallurgy £7 million (31 December 2021: £15 million).

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.

Utilisation during the year of £40 million (2021: £48 million) has benefited adjusted operating profit with £23 million (2021: £23 million) recognised in Aerospace, £15 million (2021: £21 million) recognised in Automotive, £2 million (2021: £4 million) recognised in Powder Metallurgy. In addition, £15 million (2021: £22 million) has been released on a net basis with £11 million (2021: £22 million) shown as an adjusting item, as described in note 4, as part of the release of fair value items split; £4 million (2021: £4 million) in Aerospace, £nil (2021: £8 million) in Automotive and £7 million (2021: £10 milion) in Powder Metallurgy.

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

There are environmental provisions amounting to £26 million (31 December 2021: £26 million) relating 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 amounting to £93 million (31 December 2021: £109 million). 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, as described in note 4, 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 during the next four years.

Where appropriate, provisions have been discounted using discount rates between 0% and 14% (31 December 2021: 0% and 11%) depending on the territory in which the provision resides and the length of its expected utilisation.

11. 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.

Contributions

During the prior year, the funding target agreed on acquisition of GKN was achieved, being gilts plus 25 basis points for the GKN UK 2016 Pension Plan and gilts plus 75 basis points for the GKN Group Pension Schemes (Numbers 1 – 4). The commitments from acquisition ceased as a result and the Group now contributes £30 million per year into the GKN Group Pension Schemes (Numbers 1 – 4).

The Group contributed £59 million (2021: £128 million) to defined benefit pension plans and post-employment plans in the year ended 31 December 2022. The Group expects to contribute £51 million in 2023.

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 %	Price inflation (RPI/CPI) %
31 December 2022			
GKN Group Pension Schemes (Numbers 1 – 4)	**2.7**	**4.8**	**3.2/2.7**
GKN US plans	**n/a**	**5.0**	**n/a**
GKN Europe plans	**2.6**	**3.7**	**2.6/2.6**
31 December 2021			
GKN Group Pension Schemes (Numbers 1 – 4)	2.7	2.0	3.2/2.7
GKN US plans	n/a	2.7	n/a
GKN Europe plans	2.1	1.1	2.1/2.1

Balance Sheet disclosures

The amounts recognised in the Consolidated Balance Sheet in respect of defined benefit plans were as follows:

	31 December 2022 £m	31 December 2021 £m
Present value of funded defined benefit obligations	**(1,931)**	(2,848)
Fair value of plan assets	**1,941**	3,010
Funded status	**10**	162
Present value of unfunded defined benefit obligations	**(498)**	(623)
Net liabilities	**(488)**	(461)
Analysed as:		
Retirement benefit surplus(1)	**93**	184
Retirement benefit obligations	**(581)**	(645)
Net liabilities	**(488)**	(461)

(1) Retirement benefit surplus at 31 December 2021 was previously shown within other receivables.

The net retirement benefit obligation in continuing businesses is attributable to Aerospace: liability of £27 million (31 December 2021: asset of £67 million), Automotive: liability of £427 million (31 December 2021: £484 million), Powder Metallurgy: liability of £34 million (31 December 2021: £37 million) and Corporate: liability of £nil (31 December 2021: liability of £7 million).

The plan assets and liabilities at 31 December 2022 were as follows:

	UK Plans(1) £m	US Plans £m	European Plans £m	Other Plans £m	**Total £m**
Plan assets	1,779	120	20	22	**1,941**
Plan liabilities	(1,755)	(202)	(443)	(29)	**(2,429)**
Net assets/(liabilities)	24	(82)	(423)	(7)	**(488)**

(1) Includes a liability in respect of the GKN post-employment medical plans of £6 million and a net surplus in respect of the GKN Group Pension Scheme (Numbers 1 – 4) of £30 million.

12. Cash flow statement

	Notes	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Reconciliation of operating loss to net cash from operating activities generated by continuing operations			
Operating loss		**(236)**	(493)
Adjusting items	4	**716**	810
Adjusted operating profit	4	**480**	317
Adjustments for:			
Depreciation of property, plant and equipment		**356**	370
Amortisation of computer software and development costs		**50**	51
Share of adjusted operating profit of equity accounted investments	9	**(78)**	(66)
Restructuring costs paid and movements in provisions		**(195)**	(233)
Defined benefit pension contributions paid(2)		**(59)**	(88)
Change in inventories		**(119)**	(14)
Change in receivables		**(268)**	89
Change in payables		**209**	–
Tax paid		**(80)**	(57)
Interest paid on loans and borrowings		**(87)**	(128)
Interest paid on lease obligations		**(12)**	(14)
Acquisition and disposal costs		**(10)**	(5)
Net cash from operating activities		**187**	222

(1) Restated for discontinued operations (note 1).
(2) The year ended 31 December 2021 includes £34 million paid to the GKN UK Pension Schemes following the disposal of Nortek Air Management, satisfying the funding commitment made on the acquisition of GKN.

Reconciliation of cash and cash equivalents, net of bank overdrafts	31 December 2022 £m	31 December 2021 £m
Cash and cash equivalents per Balance Sheet	**355**	473
Bank overdrafts included within current interest-bearing loans and borrowings	**(63)**	(5)
Cash and cash equivalents, net of bank overdrafts per Statement of Cash Flows	**292**	468

Cash flow information relating to discontinued operations is as follows:

Cash flow from discontinued operations	Year ended 31 December 2022 £m	Restated(1) Year ended 31 December 2021 £m
Net cash from discontinued operations	**26**	133
Defined benefit pension contributions paid	**–**	(40)
Interest paid on lease obligations	**–**	(2)
Tax paid	**(9)**	(50)
Net cash from operating activities from discontinued operations(2)	**17**	41
Purchase of property, plant and equipment	**(1)**	(14)
Proceeds from disposal of property, plant and equipment	**–**	2
Purchase of computer software and capitalised development costs	**–**	(1)
Net cash used in investing activities from discontinued operations	**(1)**	(13)
Repayment of principal under lease obligations	**(1)**	(8)
Net cash used in financing activities from discontinued operations	**(1)**	(8)

(1) Restated for discontinued operations (note 1).
(2) The year ended 31 December 2021 includes tax paid in the year of £32 million following the extraction of Ergotron and Nortek Control from the Nortek tax group prior to the disposal of Nortek Air Management and specific defined benefit pension contributions of £39 million paid on disposal of Nortek Air Management and Brush.

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, used as a basis for banking covenant calculations, is given below:

	31 December 2022 £m	31 December 2021 £m
Interest-bearing loans and borrowings – due within one year	**(63)**	(462)
Interest-bearing loans and borrowings – due after one year	**(1,433)**	(903)
External debt	**(1,496)**	(1,365)
Less:		
Cash and cash equivalents	**355**	473
	(1,141)	(892)
Adjustments:		
Impact of cross-currency swaps	**–**	(69)
Non-cash acquisition fair value adjustments	**2**	11
Net debt	**(1,139)**	(950)

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

	At 31 December 2021 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	**At 31 December 2022 £m**
External debt (excluding bank overdrafts)	(1,360)	(34)	–	21	(60)	**(1,433)**
Cross-currency swaps	(69)	109	–	3	(43)	**–**
Non-cash acquisition fair value adjustments	11	–	–	(9)	–	**2**
	(1,418)	75	–	15	(103)	**(1,431)**
Cash and cash equivalents, net of bank overdrafts	468	(664)	461	–	27	**292**
Net debt	(950)	(589)	461	15	(76)	**(1,139)**

13. Post balance sheet events

Since the balance sheet date, the Board has approved the demerger of the Automotive, Powder Metallurgy and Hydrogen businesses ("the Demerger"). Whilst the Demerger remains subject to shareholder consent, the costs and expenses that are directly attributable to the Demerger are estimated to amount to £70 million. Approximately 75% of this is contingent on the Demerger taking place.

On 9 February 2023, the Trustees of GKN Group Pension Scheme 4 (the Scheme), sponsored by the Aerospace division, signed a contract to fully secure benefits for all members of the Scheme for a cash settlement of approximately £45 million. At 31 December 2022, the Scheme had total liabilities of £433 million (31 December 2021: £628 million) and an accounting surplus of £52 million (31 December 2021: £87 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.

Income Statement Measures

APM
Adjusted revenue

Closest equivalent statutory measure
Revenue

Reconciling items to statutory measure
Share of revenue of equity accounted investments (note 3)

Definition and purpose
Adjusted revenue includes the Group’s share of revenue of equity accounted investments (“EAIs”). This enables comparability between reporting periods.

Adjusted revenue	**Year ended 31 December 2022 £m**	Restated[1] Year ended 31 December 2021 £m
Revenue	**7,537**	6,650
Share of revenue of equity accounted investments (note 3)	**654**	613
Adjusted revenue	**8,191**	7,263

APM
Adjusting items

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Adjusting items (note 4)

Definition and purpose
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.

APM
Adjusted operating profit

Closest equivalent statutory measure
Operating loss[2]

Reconciling items to statutory measure
Adjusting items (note 4)

Definition and purpose
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.

Adjusted operating profit	**Year ended 31 December 2022 £m**	Restated[1] Year ended 31 December 2021 £m
Operating loss	**(236)**	(493)
Adjusting items to operating loss (note 4)	**716**	810
Adjusted operating profit	**480**	317

APM
Adjusted operating margin

Closest equivalent statutory measure
Operating margin[3]

Reconciling items to statutory measure
Share of revenue of equity accounted investments (note 3) and adjusting items (note 4)

Definition and purpose
Adjusted operating margin represents Adjusted operating profit as a percentage of Adjusted revenue. The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performance of the Group.

APM
Adjusted profit before tax

Closest equivalent statutory measure
Loss before tax

Reconciling items to statutory measure
Adjusting items (note 4)

Definition and purpose
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.

Adjusted profit before tax	**Year ended 31 December 2022 £m**	Restated[1] Year ended 31 December 2021 £m
Loss before tax	**(307)**	(660)
Adjusting items to loss before tax (note 4)	**691**	854
Adjusted profit before tax	**384**	194

APM
Adjusted profit after tax

Closest equivalent statutory measure
Loss after tax

Reconciling items to statutory measure
Adjusting items (note 4)

Definition and purpose
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.

Adjusted profit after tax	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Loss after tax	**(223)**	(480)
Adjusting items to loss after tax (note 4)	**522**	631
Adjusted profit after tax	**299**	151

APM
Constant currency

Closest equivalent statutory measure
Income Statement, which is reported using actual average foreign exchange rates

Reconciling items to statutory measure
Constant currency foreign exchange rates

Definition and purpose
The Group uses GBP based constant currency models to measure performance. These are calculated by applying 2022 average exchange rates to local currency reported results for the current and prior year. This gives a GBP denominated Income Statement which excludes any variances attributable to foreign exchange rate movements.

APM
Adjusted EBITDA for leverage covenant purposes

Closest equivalent statutory measure
Operating loss[2]

Reconciling items to statutory measure
Adjusting items (note 4), depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge, share of non-controlling interests and other adjustments required for leverage covenant purposes[4]

Definition and purpose
Adjusted operating profit for 12 months prior to the reporting date, before depreciation of property, plant and equipment and before the amortisation of computer software and development costs.

Adjusted EBITDA for leverage covenant purposes is a measure used by external stakeholders to measure performance.

Adjusted EBITDA for leverage covenant purposes	Year ended 31 December 2022 £m	Year ended[5] 31 December 2021 £m
Adjusted operating profit	**480**	375
Depreciation of property, plant and equipment and amortisation of computer software and development costs	**406**	425
Imputed lease charge	**(63)**	(68)
Non-controlling interests	**(5)**	(4)
Other adjustments required for leverage covenant purposes[4]	**(19)**	(14)
Adjusted EBITDA for leverage covenant purposes	**799**	714

APM
Adjusted tax rate

Closest equivalent statutory measure
Effective tax rate

Reconciling items to statutory measure
Adjusting items, adjusting tax items and the tax impact of adjusting items (note 4 and note 5)

Definition and purpose
The income tax charge for the Group excluding adjusting tax items, 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 2022 £m**	Restated[1] Year ended 31 December 2021 £m
Tax credit per Income Statement	**84**	180
Adjusted for:		
Tax impact of adjusting items	**(170)**	(176)
Tax impact of EAIs	**(9)**	(9)
Tax impact of significant legislative changes	**–**	(70)
Tax impact of significant restructuring	**10**	32
Adjusted tax charge	**(85)**	(43)
Adjusted profit before tax	**384**	194
Adjusted tax rate	**22.1%**	22.2%

APM
Adjusted basic earnings per share

Closest equivalent statutory measure
Basic earnings per share

Reconciling items to statutory measure
Adjusting items (note 4 and note 7)

Definition and purpose
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.

APM
Adjusted diluted earnings per share

Closest equivalent statutory measure
Diluted earnings per share

Reconciling items to statutory measure
Adjusting items (note 4 and note 7)

Definition and purpose
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.

APM
Interest cover

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

Definition and purpose
Adjusted EBITDA calculated for covenant purposes (including adjusted EBITDA of businesses disposed) as a multiple of net interest payable on bank loans and overdrafts.

This measure is used for bank covenant testing.

Interest cover	**Year ended 31 December 2022 £m**	Year ended[5] 31 December 2021 £m
Adjusted EBITDA for leverage covenant purposes	**799**	714
Adjusted EBITDA from businesses disposed in the year	**36**	127
Adjusted EBITDA for interest cover	**835**	841
Interest on bank loans and overdrafts	**(81)**	(138)
Interest receivable	**9**	2
Other interest for covenant purposes[6]	**–**	(6)
Net finance charges for covenant purposes	**(72)**	(142)
Interest cover	**11.6x**	5.9x

Balance Sheet Measures

APM
Working capital

Closest equivalent statutory measure
Inventories, trade and other receivables less trade and other payables

Reconciling items to statutory measure
Not applicable

Definition and purpose
Working capital comprises inventories, current trade and other receivables, non-current other receivables, current trade and other payables and non-current other payables. This measure provides additional information in respect of working capital management.

APM
Net debt

Closest equivalent statutory measure
Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments

Reconciling items to statutory measure
Reconciliation of net debt (note 12)

Definition and purpose
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.

APM
Bank covenant definition of net debt at average rates and leverage

Closest equivalent statutory measure
Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments

Reconciling items to statutory measure
Impact of foreign exchange and adjustments for bank covenant purposes

Definition and purpose
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 2022 £m	31 December[5] 2021 £m
Net debt at closing rates (note 12)	**1,139**	950
Impact of foreign exchange	**(27)**	(3)
Bank covenant definition of net debt at average rates	**1,112**	947
Leverage	**1.4x**	1.3x

Cash Flow Measures

APM
Adjusted operating cash flow (pre-capex) and Adjusted operating cash flow (pre-capex) conversion

Closest equivalent statutory measure
Net cash from operating activities

Reconciling items to statutory measure
Non-working capital items (note 12)

Definition and purpose
Adjusted operating cash flow (pre-capex) is calculated as adjusted operating profit before depreciation and amortisation attributable to subsidiaries, repayment of principal under lease obligations, the positive non-cash utilisation from loss-making contracts and movements in working capital.

Adjusted operating cash flow (pre-capex) conversion is adjusted operating cash flow (pre-capex) divided by adjusted profit before depreciation and amortisation attributable to subsidiaries, less repayment of principal under lease obligations and the positive non-cash utilisation from loss-making contracts.

This measure provides additional useful information in respect of cash generation and is consistent with how business performance is measured internally.

Adjusted operating cash flow (pre-capex)	Year ended 31 December 2022 £m	Restated[1] Year ended 31 December 2021 £m
Net cash from operating activities	**204**	263
Operating activities:		
Net cash from operating activities from discontinued operations	**(17)**	(41)
Restructuring costs paid and movement in provisions[7]	**155**	185
Defined benefit pension contributions paid	**59**	88
Tax paid	**80**	57
Interest paid on loans and borrowings	**87**	128
Interest paid on lease obligations	**12**	14
Acquisition and disposal costs	**10**	5
Debt related:		
Repayment of principal under lease obligations	**(51)**	(53)
Adjusted operating cash flow (pre-capex)	**539**	646
Change in inventories	**119**	14
Change in receivables	**268**	(89)
Change in payables	**(209)**	–
	717	571
Adjusted operating cash flow (pre-capex) conversion	**75%**	113%

APM
Free cash flow

Closest equivalent statutory measure
Net increase/decrease in cash and cash equivalents (net of bank overdrafts)

Reconciling items to statutory measure
Acquisition and disposal related cash flows, dividends paid to owners of the parent, transactions in own shares, movements on borrowing facilities and the settlement of interest rate swaps

Definition and purpose
Free cash flow represents cash generated after all trading costs including restructuring, pension contributions, tax and interest payments.

Free cash flow	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Net (decrease)/increase in cash and cash equivalents (net of bank overdrafts)	**(203)**	308
Debt related:		
Repayment of borrowings	**598**	1,555
Drawings on borrowing facilities	**(632)**	–
Settlement of interest rate swaps	**–**	47
Equity related:		
Dividends paid to owners of the parent	**77**	69
Purchase of own shares, including associated costs	**504**	–
Return of capital	**–**	729
Acquisition and disposal related:		
Disposal of businesses, net of cash disposed	**(478)**	(2,703)
Equity accounted investments additions	**3**	–
Acquisition of subsidiaries, net of cash acquired	**4**	–
Purchase of investments	**–**	10
Acquisition and disposal costs and associated transaction taxes	**10**	5
Settlement of derivatives used in net investment hedging	**109**	–
Extraction tax paid and special pension contributions	**–**	105
Free cash flow	**(8)**	125

APM
Adjusted free cash flow

Closest equivalent statutory measure
Net increase/decrease in cash and cash equivalents (net of bank overdrafts)

Reconciling items to statutory measure
Free cash flow, as defined above, adjusted for restructuring cash flows

Definition and purpose
Adjusted free cash flow represents free cash flow adjusted for restructuring cash flows.

Adjusted free cash flow	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Free cash flow	**(8)**	125
Restructuring costs paid(8)	**136**	198
Adjusted free cash flow	**128**	323

APM
Capital expenditure (capex)

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

Definition and purpose
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.

APM
Capital expenditure to depreciation ratio

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

Definition and purpose
Net capital expenditure divided by depreciation of owned property, plant and equipment and amortisation of computer software and development costs.

APM
Dividend per share

Closest equivalent statutory measure
Dividend per share

Reconciling items to statutory measure
Not applicable

Definition and purpose
Amounts payable by way of dividends in terms of pence per share.

(1) Restated for discontinued operations (note 1).
(2) Operating loss is not defined within IFRS but is a widely accepted profit measure being loss before finance costs, finance income and tax.
(3) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating loss[(2)] divided by revenue.
(4) Included within other adjustments required for covenant purposes are dividends received from equity accounted investments and the removal of adjusted operating profit of equity accounted investments.
(5) Year ended 31 December 2021 remains aligned to the original calculations supporting the Group’s bank debt compliance certificate and has not been restated for discontinued operations.
(6) Other interest for covenant purposes includes bank facility renegotiation fees and debt issue costs paid during the prior year and cash paid to settle interest rate swaps not included in finance costs.
(7) Excludes non-cash utilisation of loss-making contract provisions of £40 million (2021: £48 million).
(8) Includes restructuring costs of £nil (2021: £5 million) relating to operations discontinued in the year.