3 September 2020

MELROSE INDUSTRIES PLC

UNAUDITED RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

Melrose Industries PLC today announces its interim results for the six months ended 30 June 2020 (the "Period").

Highlights

	Adjusted[1] results		Statutory results	
Continuing operations	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Revenue	**4,359**	5,875	**4,121**	5,573
Operating profit/(loss)	**56**	541	**(581)**	8
Profit/(loss) after tax	**(32)**	332	**(560)**	(131)
Diluted earnings per share	**(0.7)p**	6.8p	**(11.5)p**	(2.8)p

Group

- The Group made an adjusted[1] operating profit of £56 million in the Period. The statutory operating loss was £581 million; of the £637 million adjusting items, only £99 million are cash related
- Trading over the summer months has been at the higher end of the Board's expectations, particularly in automotive and key Nortek markets
- Cash generation has been strong in the Period with £213 million of adjusted[1] free cash flow[2]
- In addition to the significant working capital inflow in H1, the Group expects a further c.£300 million of efficiency improvements in working capital to be delivered
- Net debt[1] has been reduced by £93 million[3] and the committed bank facility headroom has increased to nearly £1.2 billion at 30 June 2020 excluding the c.£300 million of cash in hand
- Improved banking terms have been unanimously agreed with the Melrose lending bank syndicate, giving the flexibility if required over the medium-term to continue to improve the businesses
- Restructuring projects are well underway that will improve the Group's trading performance by over £100 million next year. More cost saving projects are to come and there are substantial margin improvement opportunities across the GKN businesses
- Investment in ground-breaking, energy efficient technology has been maintained, including electric and hydrogen powered aircraft technology; eDrive automotive systems; advanced 3D printing capabilities; and Nortek Air Management's revolutionary StatePoint Technology®

- Whilst the Melrose Board understands the importance of dividends to shareholders and is encouraged by the strong cash performance, it does not consider it appropriate to pay an interim dividend to shareholders this year

Divisions

- A substantial reduction of the Aerospace cost structure is underway, to significantly improve the business performance in 2021 without relying on sales growth. Sales in Aerospace reduced by 18% in the Period[3]; however, Defence, which equates to around a third of the business, continued to grow

- There are a number of encouraging signs of recovery in Automotive and Powder Metallurgy with recent trading in China ahead of last year; North America is also improving quickly and there are some positive signs in Europe, although the full speed and shape of improvements still remains uncertain. Automotive and Powder Metallurgy sales were down 36% in the Period[3]

- Nortek Air Management is trading well; its performance has been less impacted by COVID-19 and sales in July and August were up 13% on last year[3]. New business wins are proving to be significant and are both enhancing the quality of the business and giving a strong order book into next year

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

"These are extraordinary times which we have addressed with rigorous cash management and decisive restructuring actions; recently, and encouragingly, we have started to see trading improving in some key end markets. Crucially, we own good businesses with significant improvement opportunities and have an experienced management team with an excellent track record. We have delivered good returns in tough times before and as we continue to make the strategic changes needed to position our businesses within their changed market environments, we are confident of doing so again."

1. Considered by the Board to be a key measure of performance. The adjusted results are described in the glossary to the Interim Financial Statements
2. Adjusted free cash flow in the Period excludes restructuring and cash used in discontinued operations
3. Growth is calculated at constant currency against 2019 results

ENDS

Enquiries:

Montfort Communications: +44 (0) 20 3514 0897
Nick Miles +44 (0) 7739 701634 / Charlotte McMullen +44 (0) 7921 881 800
miles@montfort.london / mcmullen@montfort.london

Investor Relations: +44 (0) 7974 974690
ir@melroseplc.net

CHAIRMAN'S STATEMENT

We report our interim results for the six months ended 30 June 2020 (the "Period"), which are in line with the trading update released on 22 July 2020 ("July update").

RESULTS FOR THE GROUP

These interim results include statutory revenue for the Melrose Group of £4,121 million (2019: £5,573 million), a statutory loss before tax of £685 million (2019: statutory loss of £109 million) and an adjusted loss before tax of £40 million (2019: adjusted profit of £431 million).

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

TRADING

As the July update made clear, the Group has faced numerous challenges presented by the global outbreak of COVID-19 and this is reflected in these results. The decision to favour cash generation over profit in 2020 has been highly successful in not only protecting but building further headroom in our committed bank facilities to just under £1.2 billion, with cash in hand of a further £339 million. It was a significant achievement by our businesses to generate over £200 million of cash, before restructuring spend, in this Period.

As we announced on 4 August, an agreement has been reached with our banking syndicate to amend our banking facilities to reset the financial covenants for a further two years, which will provide us with the time and the flexibility to make the changes needed to create value in our businesses. Once again, we thank them for their support.

This balance sheet strength has allowed us to commence the reshaping of our businesses according to their new market realities and good progress has been made already. Managing significant reorganisations against difficult market backdrops has always been part of the fundamental Melrose skill set. We demonstrated this with the FKI acquisition at the time of the 2008 financial crisis and we are confident of doing this again with the GKN businesses.

While GKN businesses are focused on reorganisations, Nortek Air Management has navigated the challenges of the first half very successfully. The delivery of their market leading StatePoint cooling systems is on track and is generating significant interest in their wider data centre applications, boosting their pipeline of projects. We are excited about their potential. The Board will review strategic options for this business in early 2021.

Pleasingly, trading for our Automotive, Powder Metallurgy and key Nortek Air Management businesses since the end of the Period has been at the higher end of our expectations, with the USA and China continuing to show recovery and Europe also improving. Whilst we cannot be certain this will continue the signs are currently positive. Unfortunately, GKN Aerospace is yet to see the same positive signs of improved trading since the end of the Period.

The Chief Executive's Review provides greater detail on the Group's trading for the Period.

DIVIDEND

Your Board is very aware of the importance of dividends to shareholders. Indeed your directors are significant shareholders themselves. However, the Board concluded it was not appropriate to pay a final dividend for 2019 in May and considers it inappropriate to pay an interim dividend for 2020. We trust that shareholders will appreciate the importance of retaining cash within the Group to ensure net debt is kept under control whilst also funding the necessary restructuring of the Group to position it for the future.

BOARD MATTERS

Co-founder and executive vice chairman David Roper was due to retire in May 2020, but agreed to postpone this to assist the Company in navigating successfully through the COVID-19 crisis. From 1 January 2021, Peter Dilnot, who has made a valuable contribution since joining Melrose in April last year, will join the Board as an Executive Director. We thank David for his ongoing support and congratulate Peter on his appointment.

As expected, the 2017 Long-Term Incentive Scheme which crystallised in May was severely impacted by the COVID-19 crisis and resulted in no award for participants for the three year period despite being on track to do so. In addition, and despite firm support from shareholders, the Board withdrew the replacement 2020 scheme in the face of the uncertainty created by the crisis. With the beginnings of some stability, the Remuneration Committee intends to consult with shareholders on what changes are necessary to the 2020 Incentive Scheme for it to be put into place before the end of the year.

STRATEGY

The Melrose "Buy, Improve, Sell" strategy, already proven to be highly effective during the last global crisis, remains the same. We buy high quality underperforming manufacturing businesses and invest in making them stronger, better businesses for the benefit of all stakeholders, whilst delivering good returns for shareholders. We believe our model will once again deliver in the challenging circumstances of COVID-19 and we are excited about the opportunity to be able to demonstrate this.

OUTLOOK

The first half of 2020 presented unique challenges for the Group and decisive actions were taken quickly to respond. With the support of our banks, shareholders and employees, we have been successful in positioning our Group to emerge well from the crisis. Organically, we see some early signs of recovery in certain geographies, although GKN Aerospace will continue to experience market uncertainty. During the second half of 2020 we will continue to invest in our businesses to build for 2021 and future years. We also expect that 2021, and beyond, are likely to bring acquisition opportunities.

J Dowley

Justin Dowley
Chairman
3 September 2020

CHIEF EXECUTIVE'S REVIEW

Until March this year, our businesses continued their strong performance from 2019, with significant operational and financial improvement made, notably within the GKN businesses. Unfortunately this progress was then severely disrupted by the global outbreak of COVID-19 as governments across the world implemented unprecedented social and economic restrictions in an attempt to halt the pandemic. We were inevitably affected by these constraints and as a result Group revenues for this period were down 27% compared with last year. While these restrictions are at the time of writing beginning to ease, there remains a lot of uncertainty as to the speed and timing of any recovery and different industries will recover at different rates.

Against this challenging backdrop, the Group was quick to implement decisive cash preservation measures and cost controls to mitigate the impact of the disruption caused by COVID-19. These decisive measures included, an intense focus on reducing and aligning working capital with reduced sales, rescheduling capital expenditure and longer-term restructuring projects, and reducing operating costs. The actions taken have been highly successful in ensuring the Group generated gross cash of over £200 million (before restructuring costs) during this period and not only maintained, but grew its facility headroom to just under £1.2 billion as at 30 June 2020.

This involved an outstanding effort by our business unit operational teams and we thank them and all employees for their hard work, as they continue to implement their improvement plans. These actions will be monitored and bolstered during the second half of the year.

In spite of the unprecedented disruption of COVID-19, we are confident that our high quality businesses will deliver good returns for investors. To achieve this, we must adapt the businesses to meet the demands of the new economic environment and continue to focus on cost reduction throughout the Group. Early measures to protect the balance sheet have proved successful and, we are making significant progress in our efforts to reduce costs. Assuming the withdrawal of worldwide government support schemes and furlough takes place as scheduled, we estimate that these cost measures will have a net beneficial contribution to the Group of over £100 million in 2021. An important factor in achieving this has been the agreed amendments to our banking facilities announced on 4 August 2020. We thank our bank syndicate for their unanimous and swift support.

However, and very importantly, while the major focus in the current environment is naturally on cost reduction, we are protecting investment in R&D and continue to develop world leading technologies. Aerospace is investing in ground-breaking technologies for both electric and hydrogen powered aircraft. Automotive pressed ahead with its investment in eDrive auto systems and has produced its millionth eDrive unit. Powder Metallurgy has further developed its 3D printing capability including the acquisition of Forecast 3D. Nortek Air Management continues to deliver its revolutionary StatePoint Technology®, achieving important milestones during the Period, as well as developing a strong demand pipeline in the data centre sector based on its technology leadership. Further development of these and other exciting projects are key to the successful development of the Group.

Your Board will review the strategic future of Nortek Air Management in the early part of next year.

Included below are further trading updates for each of the divisions.

AEROSPACE

In line with the wider aerospace sector, overall sales for GKN Aerospace declined 18% compared to the same period last year. A sales reduction of approximately 25-30% is expected for the full year, with the business broadly breaking even. While operating margins remained in line with targets until mid-March 2020, Civil Airframe and Engines experienced a sharp decline for the rest of the Period prompted by COVID-19 travel restrictions. The impact of this was partially offset by comparatively stronger performance in Defence, where sales grew compared to the same period last year.

Having ensured the strength of its balance sheet, GKN Aerospace management are currently implementing a decisive and wide ranging programme to address the impact of the business disruption caused by COVID-19. Initially focused on strict cash management measures, it is now undertaking a substantial reduction of its cost structure to enable an improved performance in 2021 without reliance on sales returning. Consultations are already well underway with employees and unions worldwide and regrettably a significant reduction in the worldwide workforce is inevitable in the second half of the year. We will report further on this at the year end when substantial progress on this restructuring will have been made. Your Board believes that this division can be returned to a better performance next year.

Despite the disruption of COVID-19, GKN Aerospace continued to implement its previously announced 'One Aerospace' global organisational design plan, to accelerate the improvement of its historically fragmented structure and to serve its global customer base more efficiently, with improved and better integrated commercial and technology offerings. GKN Aerospace has also sought to retain its skills and technology leadership positions through continued R&D investment during the Period.

Moving into the second half of 2020, current market trends are anticipated to persist for Civil Airframe and Engines, but are expected to be partially offset by a comparatively strong Defence sector. Whilst the next 12-18 months in particular are likely to be challenging, there is much that can be done to improve this world leading business further. Whilst medium-term operating margin targets do need to be adjusted as further detailed in the investor presentation, over time there is the opportunity for substantial improvement of this business. Your Board believes future opportunities will present themselves for organic and acquisition-led growth.

AUTOMOTIVE

During the Period, GKN Automotive continued to face market challenges, which were compounded by the initial impact of COVID-19 in China at the beginning of the year, followed by subsequent restrictions, temporary factory closures and disruption across Europe and North America.

Overall sales declined 37% compared to the same period last year, in line with core markets. However, early signs from sales in the second half are indicating that the recovery may be faster than previously predicted, especially in certain regions. China is currently ahead of last year and in the US, sales are only marginally below prior year levels. Europe is proving a bit slower to recover, but there are nonetheless some encouraging signs.

From the outset of 2020, GKN Automotive was already responding to market challenges by implementing measures to control its costs and working capital to limit the impact of declining sales on its profitability during the first half of 2020. The continuation of these 2019 actions enabled an agile operational flex down and associated cost reduction actions to soften the initial impact of the abrupt decline in sales caused by COVID-19. Your Board believes that this business should still be able to achieve the operating margin targets set for it at acquisition.

Operating cash flow was positive during the first half of 2020 which enabled GKN Automotive to continue its strategic investments in eDrive programmes and achieve further operational improvements. It is expected that continued investment in green technologies and pursuing the launch of five new integrated eDrive systems, will remain the division's core focus during the second half of 2020.

Whilst it is not possible to be certain, there are encouraging signs of recovery in this division and your Board is confident that its management team will continue improving this business.

Existing travel restrictions mean that the Automotive Investor Day in New York, intended to be held in October 2020, will be rescheduled.

POWDER METALLURGY

GKN Powder Metallurgy was similarly affected by the continuing market challenges in the automotive sector and the initial impact of COVID-19 in China. Following the temporary shutdown of certain factories across Europe and North America from mid-March, by late April many of those factories were steadily reopening. Overall, sales declined 32% compared to the same period last year, but this division is now seeing the same indications of recovery as GKN Automotive.

GKN Powder Metallurgy responded quickly to the impacts of COVID-19, shifting its focus to tight management of cash, costs, capital expenditure and working capital. Operating costs were reduced by the prompt implementation of shorter working time arrangements and furlough schemes, with a realignment of indirect and fixed labour costs to production activity levels. This was supplemented by the rationalisation of raw materials, WIP and finished goods to reduce stock levels by 30% during the Period.

Market uncertainties are expected to continue into the second half of 2020, but there is currently a clear rebound in China and North America and signs of recovery in Europe. Strong measures taken to control costs in the first half with plans for further cuts in the second half, are expected to position the division to navigate any challenges that lie ahead. The business should also be in a good position to benefit from what is likely to be a further period of consolidation in its sector, and it is expected this business will still in time be able to achieve its operating margin target.

NORTEK AIR MANAGEMENT

Nortek Air Management includes the Nortek Global HVAC ("HVAC") and Air Quality & Home Solutions ("AQH") segments, representing a range of world class products spanning custom and commercial air solutions for high-performance environments, residential and commercial HVAC and fresh air ventilation systems. It is uniquely poised to capture the growth opportunities in each of its key sectors alongside the significant pent-up demand in its large addressable markets.

The performance of HVAC during the Period has been strong considering the economic backdrop, and has proven the resilience of the business, the robustness of its underlying sector tailwinds, and its market leadership. In the first half, HVAC management focused on future growth for the business, whilst also protecting the cost base and minimising the impact of COVID-19.

Management is focused on the continued development of new sustainable innovations that address important global trends such as air quality, energy reduction and water efficiency. Having successfully commercialised its StatePoint Technology®, which offers a potentially exponential growth lever to complement the core HVAC and AQH offerings, the HVAC business has now moved into the production phase of hyperscale data centre projects and has significantly increased its pipeline of new data centre opportunities. The business' substantial investment in R&D, product development and technology mean it is extremely well positioned to continue gaining market share.

Reassuringly, the rest of HVAC's businesses have also demonstrated their strength during the crisis. The air handling business has performed well given the market backdrop, continuing to execute on its strong backlog with mission critical customers and leveraging the strength of its local relationships to win share in new construction and retrofit projects. The Residential business is now recovering following the initial downward impact of COVID-19. HVAC has seen month-over-month improvements as distributors have taken steps to replenish inventories to supply pent-up demand from homeowners.

AQH started 2020 with momentum from recent product introductions and recovering housing markets in the USA and Canada. That momentum inevitably slowed as a result of certain retailer and distributor closures in the second quarter. Sales were hardest hit in April and have improved in each month of the Period since. AQH quickly implemented strict cost control measures to minimise the impact of the pandemic and continued to optimise production efficiencies.

Overall, the Period has proven the robustness and criticality of Nortek Air Management's products, particularly those ensuring optimal ventilation and air quality in commercial and residential buildings. Furthermore there exist additional opportunities to further expand margins and deliver significant incremental value creation in years to come. We are highly encouraged by the business' relative performance through the crisis and excited about the prospects of its market leading technologies.

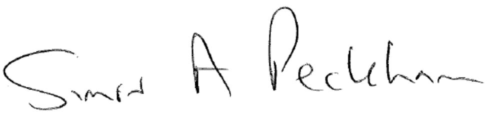
OTHER INDUSTRIAL

Most of the Other Industrial businesses, comprising Brush, Security & Smart Technology ("SST") and Ergotron, demonstrated resilience to the global challenges presented by the COVID-19 pandemic, underpinned by supporting macro trends.

Despite the challenges of COVID-19, Brush has continued to invest in product development across all of its businesses, including broadening its product range in Switchgear and enhancing its Turbogenerators product portfolio. Operationally, Brush has taken proactive measures to control costs, supplemented by tight working capital and cash management initiatives, so that it is emerging a stronger and more agile business. Its significant order backlog is built on a more diversified customer base across a broad range of traditional and emerging end-markets. The business remains confident of a strong performance from its current base in 2020, tempered by the inevitable challenges of COVID-19.

With its end-user markets generally requiring physical attendance of professional installers onsite, a practice which has been heavily restricted during the crisis, SST has seen a significant economic impact from COVID-19, resulting in a sales decline of 31%. However, with the easing of global lockdown restrictions, trading began to improve at the end of the second quarter, and the business is focused on driving that momentum forward into the second half of 2020 to build a longer-term growth trajectory, backed by launches of several key product platform updates.

While Ergotron sales were down compared to last year, this masked a varied experience across its segments. The Healthcare segment benefited strongly from increased hospital demand and there was also good progress in the strategically targeted Asia Pacific region. These were offset by the negative impact of US national lockdown measures on demand for the Office segment, where resellers' activity essentially came to a halt from mid-March until June. Whilst the second half of 2020 will no doubt present some challenges, the business will continue to pursue several growth platforms, including new product launches and improved cost positioning to offset market headwinds, and is optimistic about continuing to take market share in the Healthcare segment.



Simon Peckham
Chief Executive
3 September 2020

FINANCE DIRECTOR'S REVIEW

The Group's trading conditions and results in the six months ended 30 June 2020 have been significantly disrupted by the worldwide impact of COVID-19, with factories in the Automotive and Powder Metallurgy businesses temporarily shut in the second quarter of the year and many factories in the other divisions operating under significantly reduced demand. As a consequence the Group's results are substantially lower than the same period last year.

MELROSE GROUP RESULTS – CONTINUING OPERATIONS

Statutory results:

The statutory IFRS results are shown on the face of the Income Statement and show revenue of £4,121 million (2019: £5,573 million), an operating loss of £581 million (2019: profit of £8 million) and a loss before tax of £685 million (2019: loss of £109 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the period of 4,858 million (2019: 4,858 million), were a loss of 11.5 pence (2019: loss of 2.8 pence).

Adjusted results:

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

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

The adjusted results for the period ended 30 June 2020 show revenue of £4,359 million (2019: £5,875 million), an operating profit of £56 million (2019: £541 million) and a loss before tax of £40 million (2019: profit of £431 million). Adjusted diluted EPS were a loss of 0.7 pence (2019: profit of 6.8 pence).

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

RECONCILIATION OF STATUTORY RESULTS TO ADJUSTED RESULTS

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

Continuing operations:	2020 £m	2019 £m
Statutory revenue	**4,121**	**5,573**
Adjusting item:		
Revenue from equity accounted investments	238	302
Adjusted revenue	**4,359**	**5,875**

Adjusting revenue item:

The Group has some investments in businesses in which it does not hold full control (EAIs), the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems ("SDS"), within the Automotive business. During the period ended 30 June 2020, EAIs in the Group generated £238 million of revenue (2019: £302 million), which is not included in the statutory results but is shown within adjusted revenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit from these EAIs is included.

Continuing operations:	2020 £m	2019 £m
Statutory operating (loss)/profit	**(581)**	**8**
Adjusting items:		
Amortisation of intangible assets acquired in business combinations	263	268
Write down of assets	179	179
Restructuring costs	99	74
Currency movements in derivatives and movements in associated financial assets and liabilities	89	13
Other	7	(1)
Adjustments to statutory operating (loss)/profit	**637**	**533**
Adjusted operating profit	**56**	**541**

Adjusting items to operating (loss)/profit are consistent with prior periods and include:

The amortisation charge on intangible assets acquired in business combinations of £263 million (2019: £268 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.

The write down of assets in the period of £179 million, recognised as a result of the impact of COVID-19, of which £133 million was within the Aerospace division. The ultimate impact of the COVID-19 pandemic is unclear, and the measurement of its impact required a review of the operating assets of the Group, with a significant degree of estimation. This review resulted in £153 million of fixed assets and £26 million of other net operating assets being written down across certain sites within the businesses, as they adapt to new levels of industry demand. The write down of these assets is shown as an adjusting item due to the unprecedented nature of the COVID-19 pandemic, its non-trading nature and size. The charge of £179 million, recognised in 2019, related to impairment of goodwill allocated to the Security & Smart Technology group of CGUs.

Restructuring and other associated costs in the period totalling £99 million (2019: £74 million), shown as adjusting items due to their size and non-trading nature and during the period ended 30 June 2020 they included:

- £43 million (2019: £26 million) relating to the Aerospace division including costs incurred as the business takes its initial steps to substantially reduce its cost structure following the impact of COVID-19 on the aerospace industry; as well as the continuation of its global integration to create "One Aerospace", ensuring the business is well positioned and able to react to changes in its new environment.

- £25 million (2019: £14 million) of costs within the Automotive division, incurred as the business continues to address its high cost base, inherited on acquisition, and best position the business as it begins its recovery post COVID-19.

- £23 million (2019: £5 million) of restructuring costs in the Powder Metallurgy division as it continues footprint consolidation actions which began in 2019, along with additional focus on reducing its fixed cost base to realign the business for future demand.

- A charge of £8 million (2019: £29 million) within the Nortek Air Management, Other Industrial and Corporate divisions, primarily relating to the completion of a factory consolidation within the HVAC business and the finalisation of the changes made in the Security & Smart Technology business to move to a third party contract manufacturing model.

Movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts where hedge accounting is not applied) entered into within the GKN businesses to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts, along with foreign exchange movements on the associated financial assets and liabilities. This totalled a charge of £89 million (2019: £13 million) in the period and is shown as an adjusting item because of its volatility and size.

Other adjusting items include: acquisition and disposal related charges of £4 million (2019: credit of £4 million), excluded from adjusted results due to their non-trading nature; the charge for the Melrose equity-settled Incentive Scheme, including its associated employer's tax charge, of £1 million (2019: £7 million), excluded from adjusted results due to its volatility; an adjustment of £14 million (2019: £14 million) to gross up the post-tax profits of EAIs to be consistent with the adjusted operating profits of subsidiaries within the Group; and the net release of fair value items totalling £12 million (2019: £18 million), shown as an adjusting item to avoid positively distorting adjusted results.

GOODWILL AND IMPAIRMENT REVIEW

The Group's goodwill and intangible assets have been tested for impairment as at 30 June 2020, 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.

Under IAS 36, the value in use basis for calculating the recoverable amount prohibits the inclusion of future uncommitted restructuring plans as at the balance sheet date, whilst the fair value less costs to sell basis of valuation allows the inclusion of these plans if it is deemed that a market participant would also restructure.

With the future benefits of restructuring projects currently forming a material part of valuations for businesses, because they will have to substantially reduce their cost structure to align with the new levels of demand post COVID-19, the fair value less costs to sell basis gives the higher valuation at this point in time and therefore in accordance with IAS 36, has been used in assessing the recoverable amount for the Melrose businesses.

Sensitivity analysis and increased disclosures have been provided in note 14 to these Condensed Interim Financial Statements for the Aerospace, Automotive Driveline, Powder Metallurgy and Security & Smart Technology businesses, being the businesses showing the tightest headroom at 30 June 2020.

Whilst the headroom on impairment testing has inevitably reduced in the period, the Board is comfortable that no impairment is required in respect of the valuation of goodwill and intangible assets in its businesses as at 30 June 2020. The Group's goodwill and intangible assets will continue to be monitored and retested at 31 December 2020.

TAX – CONTINUING OPERATIONS

The statutory results for the period show a tax credit of £125 million (2019: charge of £22 million), arising on a statutory loss before tax of £685 million (2019: loss of £109 million), a blended statutory tax rate of 18%. The Group paid £8 million (2019: £79 million) of tax in the period.

CASH GENERATION AND MANAGEMENT

Following the realisation that COVID-19 was likely to have a significant impact on the global economy, and in particular the end markets in which the Melrose businesses operate, robust cash management was set as the top commercial priority for the Group this year with comprehensive cash preservation actions being successfully implemented in each business.

As a result of these strong cash management initiatives, an adjusted free cash inflow of £213 million before restructuring spend (2019: £269 million before restructuring spend and one-off special contributions to defined benefit pension plans) was achieved in the period.

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

	2020 **£m**	**2019** **£m**
Adjusted operating profit	56	541
Adjusted operating profit from EAIs	(21)	(30)
Depreciation and amortisation	252	243
Lease obligation payments	(38)	(32)
Positive non-cash impact from loss-making contracts	(31)	(45)
Working capital movements	251	(59)
Adjusted operating cash flow (pre-capex)	**469**	**618**
Net capital expenditure	(174)	(231)
Net interest and net tax paid	(73)	(159)
Defined benefit pension contributions	(43)	(111)
Restructuring	(95)	(90)
Dividend income from equity accounted investments	27	67
Net other	7	(9)
Free cash flow	**118**	**85**
Adjusted free cash flow	**213**	**269**

Net working capital was reduced by £251 million in the first half of the year (2019: increase of £59 million), along with net capital expenditure in the period being cut to £174 million (2019: £231 million), representing 0.8x depreciation of owned assets.

Net interest paid in the period was £65 million (2019: £80 million), tax payments were £8 million (2019: £79 million) and ongoing contributions to defined benefit pension schemes were £43 million (2019: £111 million, which included a special contribution of £94 million).

Free cash flow in the period, after restructuring spend of £95 million (2019: £90 million), was an inflow of £118 million (2019: £85 million).

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

	2020 £m	2019 £m
At 1 January	**(3,283)**	**(3,482)**
Non-trading items:		
Net cash flow from disposal and acquisition related activities	(25)	157
Dividend paid to Melrose shareholders	-	(148)
Foreign exchange and other non-cash movements	(209)	(41)
Discontinued operations	-	(25)
Cash flow from non-trading items and discontinued operations	**(234)**	**(57)**
Free cash flow	**118**	**85**
At 30 June at closing exchange rates	**(3,399)**	**(3,454)**
At 30 June at twelve month average exchange rates	**(3,330)**	**(3,404)**

Group net debt at 30 June 2020, translated at closing exchange rates (being US $1.24 and €1.10), was £3,399 million (31 December 2019: £3,283 million).

The movement in net debt during the period consisted of a free cash inflow of £118 million, being more than offset by £25 million of spend on acquisition related activities, primarily relating to the acquisition of FORECAST 3D in the Powder Metallurgy division, and a £209 million increase to net debt in respect of foreign exchange and other non-cash movements.

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 £3,330 million. The Group net debt leverage on this basis at 30 June 2020 was 3.4x EBITDA (31 December 2019: 2.3x EBITDA).

PROVISIONS

Total provisions at 30 June 2020 were £1,108 million (31 December 2019: £1,087 million).

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

	Total £m
At 1 January 2020	**1,087**
Spend against provisions	(142)
Net charge to adjusted operating profit	52
Net charge shown as an adjusting item in the Income Statement	78
Utilisation of loss-making contract provision	(31)
Other (including foreign exchange)	64
At 30 June 2020	**1,108**

The net charge to adjusted operating profit in the period of £52 million, includes £5 million in respect of certain non-cash divisional long-term incentive plan charges. The remainder is primarily in respect of warranty, product liability and workers' compensation charges which are matched by similar cash payments in the period.

The net charge shown as an adjusting item in the Income Statement of £78 million, includes charges of £89 million related to restructuring activities discussed in the adjusting items section of this review. These are partly offset by a net release of £7 million related to loss-making contracts.

During the period £95 million of cash was spent on restructuring.

Included within Other are foreign exchange movements of £56 million, the unwind of discounting on certain provisions of £7 million and the provisions acquired with FORECAST 3D in the period totalling £1 million.

PENSIONS AND POST-EMPLOYMENT OBLIGATIONS

At 30 June 2020 total plan assets of the Melrose Group's defined benefit pension plans were £3,693 million (31 December 2019: £3,412 million) and total plan liabilities were £4,855 million (31 December 2019: £4,533 million), a net deficit of £1,162 million (31 December 2019: £1,121 million), a reduction in the net deficit at constant currency.

The most significant pension schemes in the Group are the GKN UK schemes, with a net accounting deficit of £409 million at 30 June 2020 (31 December 2019: £423 million). The plans had gross assets of £3,027 million (31 December 2019: £2,785 million) and liabilities of £3,436 million (31 December 2019: £3,208 million).

The values of the Group plans were updated at 30 June 2020 by independent actuaries to reflect the latest key assumptions. A summary of the assumptions used are shown in note 12 to the Condensed Interim Financial Statements.

Contributions to the Melrose Group defined benefit pension plans and post-employment medical plans in the period were £43 million.

EXCHANGE RATES USED IN THE PERIOD

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

US Dollar	Average rate	Closing rate
Six months to 30 June 2020	1.26	1.24
Twelve months to 31 December 2019	1.28	1.33
Six months to 30 June 2019	1.29	1.27

Euro		
Six months to 30 June 2020	1.14	1.10
Twelve months to 31 December 2019	1.14	1.18
Six months to 30 June 2019	1.15	1.12

The Group policy on foreign currency risk is explained on pages 43 and 44 of the 2019 Annual Report, a copy of which is available on the Company's website, www.melroseplc.net.

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

£m	USD	EUR	CNY	Other
Movement in adjusted operating profit	43	6	7	5
% impact on adjusted operating profit	7%	1%	1%	1%

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

A 10 percent strengthening in either the US Dollar or Euro would result in a partial natural hedge against the translational movement in profits and would have had the following impact on debt as at 30 June 2020:

£m	USD	EUR
Increase in debt	210	87

FINANCIAL RISKS AND UNCERTAINTIES

The principal financial risks and uncertainties faced by the Group include: liquidity risk; finance cost risk; exchange rate risk; contract and warranty risk; and commodity cost risk and are explained in detail on pages 43 and 44 of the 2019 Annual Report. Further explanations and details of the strategic risk profile of the Group, which includes non-financial risk, are set out on pages 48 to 55 of the 2019 Annual Report.

Following the impact of COVID-19 on the Group businesses and their end markets, the liquidity of the Group has been a key focus in the period.

LIQUIDITY AND COVENANT COMPLIANCE

The Group's net debt position at 30 June 2020 was £3,399 million (31 December 2019: £3,283 million).

The Group's committed bank funding includes: a multi-currency denominated term loan of £100 million and US$960 million that matures in April 2021, with the option at the Company's request to extend the loan for a further three years to April 2024; and a multi-currency denominated revolving credit facility of £1.1 billion, US$2.0 billion and €0.5 billion that matures in January 2023.

As at 30 June 2020, the term loan was fully drawn and there remains a significant amount of headroom on the multi-currency committed revolving credit facility. Applying the exchange rates at 30 June 2020, the headroom equated to £1,174 million.

In addition to the headroom on the multi-currency committed revolving credit facility, cash, deposits and marketable securities in the Group amounted to £339 million at 30 June 2020 (31 December 2019: £317 million).

The Group also holds capital market borrowings as at 30 June 2020 consisting of:

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

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 normally tested half-yearly in June and December.

During the period the Group agreed, with its lending banks, a waiver for its net debt to adjusted EBITDA covenant test as at 30 June 2020 and 31 December 2020. Furthermore, since 30 June 2020, the Group has extended this waiver to cover the test at 30 June 2021 and negotiated a test covenant level of 5.25x at 31 December 2021; 4.75x at 30 June 2022; and 4.0x at 31 December 2022, before returning to 3.5x at 30 June 2023 and onwards.

The interest cover was 6.9x at 30 June 2020, compared to a covenant set at 4.0x (31 December 2019: 10.8x). Subsequent to 30 June 2020 the Group has negotiated a change to the interest cover covenant test such that at 31 December 2020 the test is set at 2.5x; 3.0x at 30 June 2021 and 31 December 2021; and 3.25x at 30 June 2022, before returning to 4.0x from 31 December 2022 onwards.

GOING CONCERN

As part of their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and profit projections, which are based on market and internal data and recent past experience. Given the global political and economic uncertainty resulting from the COVID-19 pandemic, it is difficult to estimate with precision the impact on the Group's prospective financial performance.

The Group has modelled a reasonably possible downside scenario against these future cash forecasts and throughout this scenario the Group would not breach any of the revised financial covenants and would not require any additional sources of financing.

The long-term impact of COVID-19 remains uncertain and the impacts of the pandemic on trading conditions could be more prolonged or severe than that which the Directors have considered in this reasonably possible scenario.

However, the Group's current committed bank facility headroom, its access to liquidity, and the sensible levels of bank covenants recently agreed with the Group's supportive lending banks, allow the Directors to consider it appropriate that the Group can manage its business risks successfully and adopt a going concern basis in preparing these Condensed Interim Financial Statements.

Geoffrey Martin
Group Finance Director
3 September 2020

CAUTIONARY STATEMENT

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

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

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

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

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

c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Simon Peckham
Chief Executive
3 September 2020

Geoffrey Martin
Group Finance Director
3 September 2020

INDEPENDENT REVIEW REPORT TO MELROSE INDUSTRIES PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP.

Deloitte LLP
Statutory Auditor
London, United Kingdom
3 September 2020

Melrose Industries PLC
Condensed Consolidated Income Statement

Continuing operations	Notes	**6 months ended 30 June 2020 Unaudited £m**	Restated[1] 6 months ended 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Revenue	3	**4,121**	5,573	10,967
Cost of sales		**(3,586)**	(4,456)	(8,732)
Gross profit		**535**	1,117	2,235
Share of results of equity accounted investments	8	**7**	16	38
Net operating expenses		**(1,123)**	(1,125)	(1,955)
Operating (loss)/profit	3,4	**(581)**	8	318
Finance costs		**(105)**	(126)	(221)
Finance income		**1**	9	9
(Loss)/profit before tax		**(685)**	(109)	106
Tax	5	**125**	(22)	(51)
(Loss)/profit after tax for the period from continuing operations		**(560)**	(131)	55
Discontinued operations				
Loss for the period from discontinued operations	9	**(8)**	(34)	(106)
Loss after tax for the period		**(568)**	(165)	(51)
Attributable to:				
Owners of the parent		**(569)**	(168)	(60)
Non-controlling interests		**1**	3	9
		(568)	(165)	(51)
Earnings per share				
Continuing operations				
- Basic	6	**(11.5)p**	(2.8)p	0.9p
- Diluted	6	**(11.5)p**	(2.8)p	0.9p
Continuing and discontinued operations				
- Basic	6	**(11.7)p**	(3.4)p	(1.2)p
- Diluted	6	**(11.7)p**	(3.4)p	(1.2)p

Adjusted results from continuing operations

Adjusted revenue	3	**4,359**	5,875	11,592
Adjusted operating profit	3,4	**56**	541	1,102
Adjusted (loss)/profit before tax	4	**(40)**	431	889
Adjusted (loss)/profit after tax	4	**(32)**	332	699
Adjusted basic earnings per share	6	**(0.7)p**	6.8p	14.3p
Adjusted diluted earnings per share	6	**(0.7)p**	6.8p	14.3p

[1] Results for the period ended 30 June 2019 have been restated for discontinued operations (see note 9).

Melrose Industries PLC
Condensed Consolidated Statement of Comprehensive Income

	Notes	**6 months ended 30 June 2020 Unaudited £m**	6 months ended 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Loss after tax for the period		**(568)**	(165)	(51)
Items that will not be reclassified subsequently to the Income Statement:				
Net remeasurement loss on retirement benefit obligations		**(15)**	(151)	(32)
Fair value loss on investments in equity instruments		**(5)**	-	-
Income tax credit relating to items that will not be reclassified	5	**2**	39	15
		(18)	(112)	(17)
Items that may be reclassified subsequently to the Income Statement:				
Currency translation on net investments		**417**	6	(346)
Share of other comprehensive income/(expense) from equity accounted investments		**23**	2	(23)
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations		**-**	(13)	(13)
Losses on hedge relationships		**(97)**	(44)	(17)
Transfer to Income Statement on hedge relationships		**1**	-	-
Income tax credit/(charge) relating to items that may be reclassified	5	**10**	(8)	(19)
		354	(57)	(418)
Other comprehensive income/(expense) for the period		**336**	(169)	(435)
Total comprehensive expense for the period		**(232)**	(334)	(486)
Attributable to:				
Owners of the parent		**(234)**	(337)	(494)
Non-controlling interests		**2**	3	8
		(232)	(334)	(486)

Melrose Industries PLC
Condensed Consolidated Statement of Cash Flows

	Notes	6 months ended 30 June 2020 Unaudited £m	Restated[1] 6 months ended 30 June 2019 Unaudited £m	Year ended 31 December 2019 Audited £m
Operating activities				
Net cash from operating activities from continuing operations	13	**301**	261	769
Net cash from/(used in) operating activities from discontinued operations	13	**1**	(15)	(20)
Net cash from operating activities		**302**	246	749
Investing activities				
Disposal of businesses, net of cash disposed		**-**	172	169
Purchase of property, plant and equipment		**(156)**	(219)	(465)
Proceeds from disposal of property, plant and equipment		**3**	7	24
Purchase of computer software and capitalised development costs		**(21)**	(19)	(54)
Dividends received from equity accounted investments		**27**	67	67
Purchase of investments		**(2)**	-	(50)
Settlement of derivatives used in net investment hedging		**-**	-	(100)
Acquisition of subsidiaries, net of cash acquired		**(21)**	-	-
Interest received		**1**	10	9
Net cash (used in)/from investing activities from continuing operations		**(169)**	18	(400)
Net cash used in investing activities from discontinued operations	13	**(1)**	(8)	(15)
Net cash (used in)/from investing activities		**(170)**	10	(415)
Financing activities				
Repayment of borrowings		**(73)**	(144)	(456)
New bank loans raised		**-**	-	350
Cost of raising debt finance		**(1)**	-	-
Repayment of principal under lease obligations		**(38)**	(32)	(70)
Dividends paid to non-controlling interests		**-**	(5)	(6)
Dividends paid to owners of the parent	7	**-**	(148)	(231)
Net cash used in financing activities from continuing operations		**(112)**	(329)	(413)
Net cash used in financing activities from discontinued operations	13	**-**	(2)	(2)
Net cash used in financing activities		**(112)**	(331)	(415)
Net increase/(decrease) in cash and cash equivalents		**20**	(75)	(81)
Cash and cash equivalents at the beginning of the period		**317**	415	415
Effect of foreign exchange rate changes		**2**	-	(17)
Cash and cash equivalents at the end of the period	13	**339**	340	317

[1] Results for the period ended 30 June 2019 have been restated for discontinued operations (see note 9).

As at 30 June 2020, the Group had net debt of £3,399 million (31 December 2019: £3,283 million). A definition and reconciliation of the movement in net debt is shown in note 13.

Melrose Industries PLC
Condensed Consolidated Balance Sheet

	Notes	**30 June 2020 Unaudited £m**	30 June 2019 Unaudited £m	31 December 2019 Audited £m
Non-current assets				
Goodwill and other intangible assets		**10,039**	10,444	9,784
Property, plant and equipment		**3,422**	3,631	3,432
Investments		**49**	-	48
Interests in equity accounted investments		**439**	439	436
Deferred tax assets		**259**	143	160
Derivative financial assets		**42**	20	38
Trade and other receivables		**501**	422	424
		14,751	15,099	14,322
Current assets				
Inventories		**1,317**	1,504	1,332
Trade and other receivables		**1,518**	2,190	1,970
Derivative financial assets		**10**	38	19
Current tax assets		**18**	38	20
Cash and cash equivalents		**339**	340	317
Assets classified as held for sale		**55**	-	65
		3,257	4,110	3,723
Total assets	3	**18,008**	19,209	18,045
Current liabilities				
Trade and other payables		**2,274**	2,705	2,461
Interest-bearing loans and borrowings		**14**	394	89
Lease obligations		**79**	50	71
Derivative financial liabilities		**182**	218	106
Current tax liabilities		**121**	82	106
Provisions	10	**397**	376	412
Liabilities associated with assets held for sale		**40**	-	46
		3,107	3,825	3,291
Net current assets		**150**	285	432
Non-current liabilities				
Trade and other payables		**438**	403	444
Interest-bearing loans and borrowings		**3,615**	3,235	3,464
Lease obligations		**524**	566	511
Derivative financial liabilities		**371**	303	216
Deferred tax liabilities		**756**	811	772
Retirement benefit obligations	12	**1,162**	1,326	1,121
Provisions	10	**711**	959	675
		7,577	7,603	7,203
Total liabilities	3	**10,684**	11,428	10,494
Net assets		**7,324**	7,781	7,551
Equity				
Issued share capital		**333**	333	333
Share premium account		**8,138**	8,138	8,138
Merger reserve		**109**	109	109
Other reserves		**(2,330)**	(2,330)	(2,330)
Translation and hedging reserve		**431**	438	78
Retained earnings		**615**	1,071	1,197
Equity attributable to owners of the parent		**7,296**	7,759	7,525
Non-controlling interests		**28**	22	26
Total equity		**7,324**	7,781	7,551

Melrose Industries PLC
Condensed Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Other reserves £m	Translation and hedging reserve £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2019	333	8,138	109	(2,330)	495	1,492	8,237	24	8,261
(Loss)/profit for the period	-	-	-	-	-	(168)	(168)	3	(165)
Other comprehensive expense	-	-	-	-	(57)	(112)	(169)	-	(169)
Total comprehensive (expense)/income	-	-	-	-	(57)	(280)	(337)	3	(334)
Dividends paid	-	-	-	-	-	(148)	(148)	(5)	(153)
Equity-settled share-based payments	-	-	-	-	-	7	7	-	7
At 30 June 2019 (unaudited)	333	8,138	109	(2,330)	438	1,071	7,759	22	7,781
Profit for the period	-	-	-	-	-	108	108	6	114
Other comprehensive (expense)/income	-	-	-	-	(360)	95	(265)	(1)	(266)
Total comprehensive (expense)/income	-	-	-	-	(360)	203	(157)	5	(152)
Dividends paid	-	-	-	-	-	(83)	(83)	(1)	(84)
Equity-settled share-based payments	-	-	-	-	-	6	6	-	6
At 31 December 2019 (audited)	333	8,138	109	(2,330)	78	1,197	7,525	26	7,551
(Loss)/profit for the period	-	-	-	-	-	(569)	(569)	1	(568)
Other comprehensive income/(expense)	-	-	-	-	353	(18)	335	1	336
Total comprehensive income/(expense)	-	-	-	-	353	(587)	(234)	2	(232)
Equity-settled share-based payments	-	-	-	-	-	5	5	-	5
At 30 June 2020 (unaudited)	**333**	**8,138**	**109**	**(2,330)**	**431**	**615**	**7,296**	**28**	**7,324**

Notes to the Condensed Interim Financial Statements

1. Corporate information

The interim financial information for the six months ended 30 June 2020 has been reviewed by the auditor, but not audited. The information for the year ended 31 December 2019 shown in this report does not constitute statutory accounts for that year as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor has reported on those accounts. Their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Summary of significant accounting policies

The interim financial information for the six months ended 30 June 2020, which has been approved by the Board of Directors, has been prepared on the basis of the accounting policies set out in the Group's 2019 Annual Report and financial statements on pages 130 to 138. Updated information on the Group's significant estimation uncertainty can be found in note 14.

The Group's 2019 Annual Report and financial statements can be found on the Group's website www.melroseplc.net. These Condensed Interim Financial Statements should be read in conjunction with the 2019 information. The annual financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). These Condensed Interim Financial Statements have been prepared in accordance with IAS 34: "Interim Financial Reporting" as adopted by the European Union.

During the second half of the year ended 31 December 2019, the Group formally commenced a disposal process, aligned to its strategic priority, to dispose of the Wheels & Structures business, with a high expectation this process would conclude within one year. The Wheels & Structures business was previously reported within the Other Industrial operating segment and is shown as a discontinued operation in these Condensed Interim Financial Statements, with the Income Statement, the Statement of Cash Flows and their associated notes for the period ended 30 June 2019 being restated accordingly.

On 2 January 2020, GKN Powder Metallurgy acquired FORECAST 3D, a leading US specialist in plastic additive manufacturing and 3D printing services offering a full range of services from concept to series production, for a total consideration of up to £29 million, of which £21 million was paid on 2 January 2020. During the period to 30 June 2020, the Group has performed a provisional assessment of the assets and liabilities acquired in accordance with IFRS 3: "Business combinations".

Alternative performance measures

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

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

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

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

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

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

Going concern

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

The Group’s liquidity and funding arrangements are described in the Finance Director’s Review. There is significant liquidity/financing headroom (in excess of £1 billion) at 30 June 2020 and throughout the going concern forecast period. There has been a greater focus on forecast covenant compliance which is considered further below.

Covenants

The Group’s banking 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 net debt to adjusted EBITDA covenant test was originally set at 3.5x leverage and the interest cover covenant was originally set at 4.0x for each of the half yearly measurement dates for the remainder of the term of the facility.

Due to the pervasive impact of COVID-19 on certain of the Group’s businesses, it has been necessary to formally renegotiate the financial covenants with lending banks. The revised financial covenants during the period of assessment for going concern and up to 31 December 2021 are as follows:

	31 December 2020	**30 June 2021**	**31 December 2021**
Net debt to adjusted EBITDA	Waived	Waived	5.25x
Interest cover	2.5x	3.0x	3.0x

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 the COVID-19 global pandemic as well as other end market and operational factors throughout the going concern period and has been monitored against the actual results and cash generation in the period since 1 July 2020. Due to the severe impact on trading during the second quarter of 2020, details of which are discussed within the Chief Executive’s Review, along with new ways of working to accommodate social distancing and other regulations in factories, it is difficult to estimate with precision the impact on the Group’s prospective financial performance.

The reasonably possible sensitised case models a more pronounced decline in sales in the fourth quarter of 2020 and in 2021. This additional decline in revenue over and above the base case, ranging from 4% to 12% taking into account the different businesses and geographies affected, has an impact on adjusted operating profit of between 25% and 40% of absolute revenue changes.

Under the reasonably possible sensitised case, no covenant is breached at any of the forecast testing dates being; 31 December 2020 and 30 June 2021, with the testing at 31 December 2021 also favourable, and the Group will not require any additional sources of finance.

The reasonably possible sensitised case has also been used as a ‘reverse stress test’ to consider the point at which the covenants may be breached. This reverse stress test indicates that a significant reduction in sales, beyond what is considered reasonable, would be required in order to breach covenants. In this remote situation, management could take further mitigating actions to protect profits, conserve cash and reduce capital expenditure to minimum maintenance levels. Annual adjusted operating profit would need to fall by more than £950 million from that achieved in the year ended 31 December 2019 before a covenant breach would occur in the assessment period.

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.

During the second half of 2019, a decision was made to explore strategic options for the Nortek Air Management business separate to the Security & Smart Technology business and internal reporting provided to the CODM was revised. As a consequence, the Nortek Air & Security operating segment was revised with the Security & Smart Technology business now included in the Other Industrial operating segment. Other Industrial has also been impacted by the removal of the Wheels & Structures business, which has been included in discontinued operations (note 9). Comparative results for the six month period ended 30 June 2019 have been restated accordingly.

The operating segments are as follows:

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

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

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

Nortek Air Management – comprises the Group’s Air Management businesses, which includes the Air Quality and Home Solutions business (“AQH”) and the Global Heating, Ventilation & Air Conditioning business (“HVAC”). AQH is a leading manufacturer of ventilation products for the professional remodelling and replacement markets, residential new construction market and DIY market. HVAC manufactures and sells split-system and packaged air conditioners, heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets along with custom designed and engineered products and systems for data centres and non-residential applications.

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

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

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

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

The following tables present the results and certain asset and liability information regarding the Group’s operating segments and central cost centres for the six month period ended 30 June 2020 and comparative periods.

a) Segment revenues

6 months ended 30 June 2020

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air Management £m**	**Other Industrial £m**	**Total £m**
Adjusted revenue	1,580	1,541	396	550	292	4,359
Equity accounted investments	(3)	(228)	(7)	-	-	(238)
Revenue	**1,577**	**1,313**	**389**	**550**	**292**	**4,121**

6 months ended 30 June 2019 – restated

Continuing operations	**Aerospace £m**	**Automotive £m**	**Powder Metallurgy £m**	**Nortek Air Management £m**	**Other Industrial £m**	**Total £m**
Adjusted revenue	1,904	2,450	581	578	362	5,875
Equity accounted investments	(13)	(282)	(7)	-	-	(302)
Revenue	**1,891**	**2,168**	**574**	**578**	**362**	**5,573**

3. Segment information (continued)

a) Segment revenues (continued)

Year ended 31 December 2019

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air Management £m	Other Industrial £m	Total £m
Adjusted revenue	3,852	4,739	1,115	1,178	708	11,592
Equity accounted investments	(16)	(593)	(16)	-	-	(625)
Revenue	**3,836**	**4,146**	**1,099**	**1,178**	**708**	**10,967**

b) Segment operating profit

6 months ended 30 June 2020

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air Management £m	Other Industrial £m	Corporate(2) £m	Total £m
Adjusted operating profit/(loss)	**54**	**(64)**	**(3)**	**71**	**18**	**(20)**	**56**
Items not included in adjusted operating profit(1):							
Amortisation of intangible assets acquired in business combinations	(129)	(74)	(24)	(18)	(18)	-	(263)
Impairment and write down of assets	(133)	(18)	(28)	-	-	-	(179)
Restructuring costs	(43)	(25)	(23)	(2)	(4)	(2)	(99)
Movement in derivatives and associated financial assets and liabilities	8	(4)	-	-	-	(93)	(89)
Equity accounted investments adjustments	-	(14)	-	-	-	-	(14)
Acquisition and disposal costs	-	-	-	-	-	(4)	(4)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(1)	(1)
Net release and changes in discount rate of fair value items	18	(12)	5	-	1	-	12
Operating (loss)/profit	**(225)**	**(211)**	**(73)**	**51**	**(3)**	**(120)**	**(581)**
Finance costs							(105)
Finance income							1
Loss before tax							**(685)**
Tax							125
Loss for the period from continuing operations							**(560)**

(1) For further details on adjusting items, refer to note 4.
(2) Corporate adjusted operating loss of £20 million includes £5 million of costs in respect of divisional long-term incentive plans.

3. Segment information (continued)

b) Segment operating profit (continued)

6 months ended 30 June 2019 - restated

Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Nortek Air Management £m	Other Industrial £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	**192**	**186**	**66**	**79**	**46**	**(28)**	**541**
Items not included in adjusted operating profit[1]:							
Amortisation of intangible assets acquired in business combinations	(132)	(73)	(24)	(18)	(21)	-	(268)
Impairment of assets	-	-	-	-	(179)	-	(179)
Restructuring costs	(26)	(14)	(5)	(6)	(19)	(4)	(74)
Equity accounted investments adjustments	-	(14)	-	-	-	-	(14)
Movement in derivatives and associated financial assets and liabilities	2	(2)	-	-	-	(13)	(13)
Melrose equity-settled compensation scheme charges	-	-	-	-	-	(7)	(7)
Net release and changes in discount rate of fair value items	(6)	-	22	2	-	-	18
Acquisition and disposal costs	-	-	-	-	-	4	4
Operating profit/(loss)	**30**	**83**	**59**	**57**	**(173)**	**(48)**	**8**
Finance costs							(126)
Finance income							9
Loss before tax							**(109)**
Tax							(22)
Loss for the period from continuing operations							**(131)**

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

Year ended 31 December 2019

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

[1] For further details on adjusting items, refer to note 4.
[2] Corporate adjusted operating loss of £52 million includes £20 million of costs in respect of divisional long-term incentive plans.

3. **Segment information (continued)**

c) Segment total assets and liabilities

	Total assets			Total liabilities		
	30 June 2020 £m	Restated 30 June 2019 £m	31 December 2019 £m	**30 June 2020 £m**	Restated 30 June 2019 £m	31 December 2019 £m
Aerospace	**7,384**	7,702	7,478	**3,096**	3,112	3,089
Automotive	**5,276**	5,696	5,391	**2,163**	2,419	2,304
Powder Metallurgy	**1,897**	2,117	1,906	**493**	551	472
Nortek Air Management	**1,500**	1,613	1,415	**429**	469	362
Other Industrial	**1,277**	1,393	1,237	**252**	326	259
Corporate	**619**	544	553	**4,211**	4,494	3,962
Continuing operations	**17,953**	19,065	17,980	**10,644**	11,371	10,448
Discontinued operations	**55**	144	65	**40**	57	46
Total	**18,008**	19,209	18,045	**10,684**	11,428	10,494

d) Segment capital expenditure and depreciation

	Capital expenditure(1)			Depreciation of owned assets(1)			Depreciation of leased assets		
	6 months ended 30 June 2020 £m	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Aerospace	**61**	67	178	**65**	68	139	**15**	15	30
Automotive	**54**	95	231	**100**	93	194	**8**	8	16
Powder Metallurgy	**12**	31	55	**31**	30	59	**5**	3	8
Nortek Air Management	**13**	19	37	**13**	11	23	**7**	5	11
Other Industrial	**4**	4	8	**5**	6	11	**2**	3	6
Corporate	**-**	-	-	**-**	-	-	**1**	1	1
Continuing operations	**144**	216	509	**214**	208	426	**38**	35	72
Discontinued operations	**1**	7	11	**-**	8	12	**-**	-	1
Total	**145**	223	520	**214**	216	438	**38**	35	73

(1) Includes computer software and development costs. Capital expenditure excludes lease additions.

e) Geographical information

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

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

	Revenue(1) from external customers			Segment assets		
	6 months ended 30 June 2020 £m	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m	**30 June 2020 £m**	Restated 30 June 2019 £m	31 December 2019 £m
UK	**341**	553	1,048	**2,251**	2,400	2,319
Rest of Europe	**918**	1,262	2,426	**5,272**	5,420	5,136
North America	**2,366**	3,064	6,073	**5,131**	5,199	4,917
Other	**496**	694	1,420	**1,295**	1,414	1,328
Continuing operations	**4,121**	5,573	10,967	**13,949**	14,433	13,700
Discontinued operations	**82**	333	423	**-**	81	-
Total	**4,203**	5,906	11,390	**13,949**	14,514	13,700

(1) Revenue is presented by destination.

4. Reconciliation of adjusted profit measures

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

a) Operating profit

Continuing operations	Notes	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Operating (loss)/profit		**(581)**	8	318
Amortisation of intangible assets acquired in business combinations	a	**263**	268	534
Write down of assets and impairment	b	**179**	179	179
Restructuring costs	c	**99**	74	238
Movement in derivatives and associated financial assets and liabilities	d	**89**	13	(55)
Equity accounted investments adjustments	e	**14**	14	28
Acquisition and disposal costs	f	**4**	(4)	(4)
Melrose equity-settled compensation scheme charges	g	**1**	7	17
Net release and changes in discount rate of fair value items	h	**(12)**	(18)	(153)
Total adjustments to operating (loss)/profit		**637**	533	784
Adjusted operating profit		**56**	541	1,102

a. The amortisation charge on intangible assets acquired in business combinations of £263 million (2019: £268 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. The write down of assets totalling £179 million was recognised as a result of the impact of COVID-19, of which £133 million was within the Aerospace division. The ultimate impact of the COVID-19 pandemic is unclear and the measurement of its impact required a review of the operating assets of the Group, with a significant degree of estimation. This review resulted in £153 million of fixed assets and £26 million of other net operating assets being written down across a number of sites within the businesses, as they adapt to new levels of industry demand. The write down of these assets is shown as an adjusting item due to the unprecedented nature of the COVID-19 pandemic, its non-trading nature and size. The impairment recognised in 2019, of £179 million, related to goodwill allocated to the Security & Smart Technology group of CGUs, following a deterioration in their performance and future prospects at that time.

c. Restructuring and other associated costs in the period totalled £99 million (2019: £74 million) and are shown as adjusting items due to their size and non-trading nature. During the period ended 30 June 2020 they included:

- £43 million (2019: £26 million) relating to the Aerospace division including costs incurred as the business takes its initial steps to substantially reduce its cost structure following the impact of COVID-19 on the aerospace industry; as well as the continuation of its global integration to create “One Aerospace”, ensuring the business is well positioned and able to react to changes in its new environment.

- £25 million (2019: £14 million) of costs within the Automotive division, incurred as the business continues to address its high cost base, inherited on acquisition, and best position the business as it begins its recovery post COVID-19.

- £23 million (2019: £5 million) of restructuring costs in the Powder Metallurgy division as it continues footprint consolidation actions which began in 2019, along with additional focus on reducing its fixed cost base to realign the business for future demand.

- A charge of £8 million (2019: £29 million) within the Nortek Air Management, Other Industrial and Corporate divisions, primarily related to completing the factory consolidation within the HVAC business and the finalisation of the changes made in the Security & Smart Technology business to move to a third-party contract manufacturing model.

d. Hedge accounting is not applied within the GKN businesses for transactional foreign exchange exposure. Consequently, for consistency and because of their volatility and size, the movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts) entered into to mitigate the potential volatility of future cash flows, on long-term foreign currency customer and supplier contracts in the GKN businesses, along with foreign exchange movements on the associated financial assets and liabilities are shown as an adjusting item and totalled a charge of £89 million (2019: £13 million).

4. Reconciliation of adjusted profit measures (continued)

a) Operating profit (continued)

e. The Group has a number of equity accounted investments ("EAIs") in which it does not hold full control, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems ("SDS"), within the Automotive business. The EAIs generated £238 million (2019: £302 million) of revenue in the period, which is not included in the statutory results but is shown within adjusted revenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit earned from these EAIs is included.

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

f. Acquisition and disposal related costs of £4 million (2019: credit of £4 million) were incurred in the period and related to transaction costs in respect of acquisition and disposal activities. These items are excluded from adjusted results due to their non-trading nature and volatility.

g. The charge for the Melrose equity-settled Incentive Scheme, including its associated employer's tax charge, of £1 million (2019: £7 million) is excluded from adjusted results due to its volatility. The shares that would be issued, based on the Scheme's current value at the end of the reporting period, are included in the calculation of the adjusted diluted earnings per share, which the Board considers to be a key measure of performance.

h. Certain items previously recorded as fair value items on acquisitions, have been resolved for more favourable amounts than first anticipated. The net release of fair value items recognised on acquisitions in the period of £12 million (2019: £18 million) included a credit of £17 million relating to certain loss-making contracts recognised on the acquisition of GKN and is partly offset by a £5 million charge relating to the movement in discount rates on the loss-making contracts recognised as fair value items. The net release of any excess fair value item is shown as an adjusting item to avoid positively distorting adjusted results.

b) Profit before tax

Continuing operations	Notes	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
(Loss)/profit before tax		**(685)**	(109)	106
Adjustments to operating (loss)/profit per above		**637**	533	784
Fair value changes on cross-currency swaps	i	**4**	7	(1)
Bank facility negotiation fees	j	**4**	-	-
Total adjustments to (loss)/profit before tax		**645**	540	783
Adjusted (loss)/profit before tax		**(40)**	431	889

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

j. Following the impact of COVID-19, the Group paid fees in negotiating waivers for its bank facility EBITDA to net debt covenants for June and December 2020. These fees were immediately written off and shown as an adjusting item because of their non-trading nature.

4. Reconciliation of adjusted profit measures (continued)

c) Profit after tax

Continuing operations	Notes	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
(Loss)/profit after tax		**(560)**	(131)	55
Adjustments to (loss)/profit before tax per above		**645**	540	783
Tax effect of adjustments to (loss)/profit before tax	5	**(113)**	(73)	(123)
Tax effect of significant restructuring		**-**	-	(9)
Equity accounted investments - tax	k	**(4)**	(4)	(7)
Total adjustments to (loss)/profit after tax		**528**	463	644
Adjusted (loss)/profit after tax		**(32)**	332	699

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

5. Tax

Analysis of the (credit)/charge in the period:	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Continuing operations			
Current tax	**20**	59	146
Deferred tax	**(145)**	(37)	(95)
Total tax (credit)/charge from continuing operations	**(125)**	22	51
Discontinued operations			
Current tax	**-**	2	3
Deferred tax	**-**	-	-
Total tax charge from discontinued operations	**-**	2	3
Total tax (credit)/charge	**(125)**	24	54

Continuing operations:

The effective tax rate in respect of adjusted profit before tax for the half year is 20% (2019: 23%). Adjusted tax has been calculated by applying the expected tax rate for the full year to the adjusted loss before tax of £40 million (2019: profit of £431 million), giving an adjusted tax credit of £8 million (2019: charge of £99 million).

The adjusted tax credit of £8 million (2019: charge of £99 million) excludes a tax credit on adjusting items of £113 million (2019: £73 million). This represents a deferred tax credit on intangible asset amortisation of £39 million (2019: £59 million) and a tax credit on other adjusting items of £74 million (2019: £14 million). The adjusted tax (credit)/charge includes a charge in respect of EAIs of £4 million (2019: £4 million).

In addition to the amount charged to the Income Statement, a credit of £12 million (2019: credit of £31 million) has been recognised directly in the Statement of Comprehensive Income. This represents a tax credit of £10 million (2019: charge of £8 million) in respect of movements on hedge relationships and translation differences and a tax credit of £2 million (2019: credit of £39 million) in respect of the remeasurement of retirement benefit obligations.

6. Earnings per share

Earnings attributable to owners of the parent	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Earnings for basis of earnings per share	**(569)**	(168)	(60)
Less: loss for the period from discontinued operations	**8**	34	106
Earnings for basis of earnings per share from continuing operations	**(561)**	(134)	46

	6 months ended 30 June 2020 Number	6 months ended 30 June 2019 Number	Year ended 31 December 2019 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	**4,858**	4,858	4,858
Further shares for the purposes of diluted earnings per share (million)	**-**	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share (million)	**4,858**	4,858	4,858

Earnings per share	**6 months ended 30 June 2020 pence**	Restated 6 months ended 30 June 2019 pence	Year ended 31 December 2019 pence
Basic earnings per share			
From continuing and discontinued operations	**(11.7)**	(3.4)	(1.2)
From continuing operations	**(11.5)**	(2.8)	0.9
From discontinued operations	**(0.2)**	(0.6)	(2.1)
Diluted earnings per share			
From continuing and discontinued operations	**(11.7)**	(3.4)	(1.2)
From continuing operations	**(11.5)**	(2.8)	0.9
From discontinued operations	**(0.2)**	(0.6)	(2.1)

Adjusted earnings from continuing operations	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Adjusted earnings[(1)] for the basis of adjusted earnings per share	**(33)**	329	693

[(1)] Adjusted earnings for the 6 months ended 30 June 2020 comprises adjusted loss after tax of £32 million (2019: profit after tax of £332 million) net of an allocation of profit to non-controlling interests of £1 million (2019: £3 million). Adjusted earnings for the year ended 31 December 2019 comprises adjusted profit after tax of £699 million, net of an allocation to non-controlling interests of £6 million.

Adjusted earnings per share from continuing operations

	6 months ended 30 June 2020 pence	Restated 6 months ended 30 June 2019 pence	Year ended 31 December 2019 pence
Adjusted basic earnings per share	**(0.7)**	6.8	14.3
Adjusted diluted earnings per share	**(0.7)**	6.8	14.3

7. Dividends

	6 months ended 30 June 2020 £m	6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Final dividend for the year ended 31 December 2018 of 3.05p	**-**	148	148
Interim dividend for the year ended 31 December 2019 of 1.7p	**-**	-	83
Total dividends paid	**-**	148	231

No interim dividend (2019: 1.7p per ordinary share totalling £83 million) is proposed by the Board. The initially proposed final dividend for the year ended 31 December 2019 of 3.4p per ordinary share was withdrawn as announced on 7 May 2020.

8. Share of results of equity accounted investments

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

Continuing operations	**6 months ended 30 June 2020 £m**	6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Revenue	**238**	302	625
Adjusted operating profit	**21**	30	66
Adjusting items	**(10)**	(10)	(21)
Profit before tax	**11**	20	45
Tax	**(4)**	(4)	(7)
Share of results of equity accounted investments	**7**	16	38

9. Discontinued operations and assets held for sale

Wheels & Structures

During the second half of 2019, following a strategic review, the Board formally commenced a disposal process aligned to its strategic priority, to dispose of the Wheels & Structures business, with a high expectation that this process would conclude within one year. In accordance with IFRS 5: "Non-current assets held for sale and discontinued operations", associated assets and liabilities were classified as held for sale at 31 December 2019 and continue to be separately shown on the Balance Sheet at 30 June 2020.

The results of the Wheels & Structures business were previously included within the Other Industrial operating segment for the period ended 30 June 2019 and are now classified as discontinued operations, in accordance with IFRS 5.

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

Financial performance of discontinued operations:

	6 months ended 30 June 2020 £m	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Revenue	**82**	333	423
Operating costs	**(84)**	(342)	(503)
Operating loss[(1)]	**(2)**	(9)	(80)
Finance costs	**-**	(2)	(2)
Loss before tax	**(2)**	(11)	(82)
Tax	**-**	(2)	(3)
Loss after tax	**(2)**	(13)	(85)
Loss on disposal of net assets of discontinued operations, net of recycled cumulative translation differences	**(6)**	(21)	(21)
Loss for the period from discontinued operations	**(8)**	(34)	(106)

[(1)] The operating loss in the year ended 31 December 2019 included a £64 million charge on remeasurement to fair value less costs of disposal relating to the Wheels & Structures business on reclassification to assets held for sale.

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 2020	384	45	155	324	114	65	1,087
Utilised	(31)	(1)	(23)	(22)	(95)	(1)	(173)
Net (credit)/charge to operating profit[(1)]	(7)	1	26	19	89	2	130
Unwind of discount[(2)]	7	-	-	-	-	-	7
Acquisition of businesses	-	1	-	-	-	-	1
Exchange adjustments	17	4	8	20	5	2	56
At 30 June 2020	**370**	**50**	**166**	**341**	**113**	**68**	**1,108**
Current	55	8	97	124	99	14	397
Non-current	315	42	69	217	14	54	711
	370	50	166	341	113	68	1,108

[(1)] Includes £78 million of adjusting items and £52 million recognised in adjusted operating profit.
[(2)] Includes £2 million within finance costs relating to the time value of money and £5 million relating to changes in discount rates on loss-making contract provisions recognised as fair value items on the acquisition of GKN, which has been included as an adjusting item within operating profit.

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

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

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

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

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

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

Where appropriate, provisions have been discounted using discount rates between 0% and 6% (31 December 2019: 0% and 7%) depending on the territory in which the provision resides and the length of its expected utilisation.

11. Financial instruments

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values as at 30 June 2020, 30 June 2019 and 31 December 2019:

	Current £m	Non-current £m	Total £m
30 June 2020			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	339	-	339
Net trade receivables	1,048	-	1,048
Classified as fair value:			
Investments	-	49	49
Derivative financial assets:			
Foreign currency forward contracts	8	27	35
Embedded derivatives	2	15	17
Assets classified as held for sale	55	-	55
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(14)	(3,615)	(3,629)
Government refundable advances	(8)	(63)	(71)
Lease obligations	(79)	(524)	(603)
Other financial liabilities	(1,777)	(21)	(1,798)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(121)	(155)	(276)
Interest rate swaps	(35)	(96)	(131)
Cross-currency swaps	(25)	(112)	(137)
Embedded derivatives	(1)	(8)	(9)
Liabilities associated with assets held for sale	(40)	-	(40)
30 June 2019			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	340	-	340
Net trade receivables	1,762	-	1,762
Classified as fair value:			
Derivative financial assets:			
Foreign currency forward contracts	10	5	15
Interest rate swaps	25	-	25
Embedded derivatives	3	15	18
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(394)	(3,235)	(3,629)
Government refundable advances	(7)	(66)	(73)
Lease obligations	(50)	(566)	(616)
Other financial liabilities	(2,427)	(106)	(2,533)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(98)	(121)	(219)
Interest rate swaps	(11)	(73)	(84)
Cross-currency swaps	(108)	(101)	(209)
Embedded derivatives	(1)	(8)	(9)
31 December 2019			
Financial assets			
Classified as amortised cost:			
Cash and cash equivalents	317	-	317
Net trade receivables	1,426	-	1,426
Classified as fair value:			
Investments	-	48	48
Derivative financial assets:			
Foreign currency forward contracts	17	23	40
Interest rate swaps	-	1	1
Embedded derivatives	2	14	16
Assets classified as held for sale	65	-	65
Financial liabilities			
Classified as amortised cost:			
Interest-bearing loans and borrowings	(89)	(3,464)	(3,553)
Government refundable advances	(7)	(59)	(66)
Lease obligations	(71)	(511)	(582)
Other financial liabilities	(2,023)	(13)	(2,036)
Classified as fair value:			
Derivative financial liabilities:			
Foreign currency forward contracts	(81)	(93)	(174)
Interest rate swaps	(17)	(43)	(60)
Cross-currency swaps	(7)	(73)	(80)
Embedded derivatives	(1)	(7)	(8)
Liabilities associated with assets held for sale	(46)	-	(46)

11. Financial instruments (continued)

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

12. Retirement benefit obligations

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

The most significant defined benefit pension plans in the Group at 30 June 2020 were:

GKN UK Group Pension Schemes (Numbers 1 – 4) (formerly GKN UK 2012 Pension Plan)
The GKN UK Group Pension Schemes (Numbers 1 – 4) are funded plans, closed to new members and were closed to future accrual in 2017. The valuation of the plans was based on a full actuarial valuation as of 5 April 2016, updated to 30 June 2020 by independent actuaries.

GKN UK 2016 Pension Plan
The GKN UK 2016 Pension Plan is a funded plan, closed to new members with no active members, containing assets and liabilities in respect of the pension schemes from various legacy GKN businesses. The valuation of the plan was based on a full actuarial valuation as of 5 April 2016, updated to 30 June 2020 by independent actuaries.

GKN US Consolidated Pension Plan
The GKN US Consolidated Pension Plan is a funded plan, closed to new members and closed to future accrual. The GKN US Consolidated Pension Plan valuation was based on a full actuarial valuation as of 1 January 2019, updated to 30 June 2020 by independent actuaries.

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

Brush UK Pension Plan
The Brush Group (2013) ("Brush UK") Pension Plan is a funded plan, closed to new members and closed to future accrual. The valuation of the Brush UK Pension Plan was based on a full actuarial valuation as of 31 December 2019, updated to 30 June 2020 by independent actuaries.

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

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

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

30 June 2020

	UK plans[1] £m	US plans £m	European plans £m	Other plans £m	**Total £m**
Plan assets	3,357	264	30	42	**3,693**
Plan liabilities	(3,755)	(460)	(586)	(54)	**(4,855)**
Net liabilities	(398)	(196)	(556)	(12)	**(1,162)**

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

30 June 2019

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

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

12. Retirement benefit obligations (continued)

31 December 2019

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

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

Valuations of material plans have been updated at 30 June 2020 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values. The major assumptions were as follows:

	Rate of increase in pensions in payment % p.a.	Discount rate % p.a.	Price inflation (RPI/CPI) % p.a.
30 June 2020			
GKN UK – Group Pension Schemes (Numbers 1 – 4)	2.7	1.5	2.8/2.1
GKN UK – 2016 Pension Plan	2.7	1.5	2.8/2.1
GKN US plans	n/a	2.7	n/a
GKN Europe plans	1.3	1.1	1.3/1.3
Brush UK Pension Plan	2.7	1.5	2.8/2.1
30 June 2019			
GKN UK – 2012 Pension Plan	3.1	2.3	3.2/2.1
GKN UK – 2016 Pension Plan	3.1	2.2	3.2/2.1
GKN US plans	n/a	3.5	n/a
GKN Europe plans	1.7	1.1	1.7/1.7
Brush UK Pension Plan	3.2	2.3	3.2/2.1
31 December 2019			
GKN UK – Group Pension Schemes (Numbers 1 – 4)	2.8	2.0	2.9/2.1
GKN UK – 2016 Pension Plan	2.8	2.0	2.9/2.1
GKN US plans	n/a	3.1	n/a
GKN Europe plans	1.5	1.1	1.5/1.5
Brush UK Pension Plan	2.8	2.0	2.9/2.1

In addition, the defined benefit plan assets and liabilities have been updated to reflect the contributions made to the defined benefit plans and the benefits earned during the period to 30 June 2020.

13. Notes to the Cash Flow Statement

Continuing operations	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Reconciliation of operating (loss)/profit to cash generated from operating activities			
Operating (loss)/profit	**(581)**	8	318
Adjusting items (note 4)	**637**	533	784
Adjusted operating profit	**56**	541	1,102
Adjustments for:			
Depreciation of property, plant and equipment	**222**	211	434
Amortisation of computer software and development costs	**30**	32	64
Share of adjusted operating profit of equity accounted investments	**(21)**	(30)	(66)
Restructuring costs paid and movements in provisions	**(118)**	(139)	(320)
Defined benefit pension contributions paid	**(43)**	(111)	(183)
Change in inventories	**78**	(93)	(12)
Change in receivables	**510**	170	72
Change in payables	**(337)**	(136)	(2)
Acquisition costs and associated transaction taxes	**(2)**	(15)	(16)
Tax paid	**(8)**	(79)	(117)
Interest paid on loans and borrowings	**(57)**	(79)	(166)
Interest paid on lease obligations	**(9)**	(11)	(21)
Net cash from operating activities	**301**	261	769

Cash flow from discontinued operations	**6 months ended 30 June 2020 £m**	Restated 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Net cash from/(used in) discontinued operations	**1**	(13)	(16)
Defined benefit pension contributions paid	**-**	(2)	(2)
Tax paid	**-**	-	(1)
Interest paid on lease obligations	**-**	-	(1)
Net cash from/(used in) operating activities from discontinued operations	**1**	(15)	(20)
Purchase of property, plant and equipment	**(1)**	(8)	(12)
Disposal costs	**-**	-	(3)
Net cash used in investing activities from discontinued operations	**(1)**	(8)	(15)
Repayment of principal under lease obligations	**-**	(2)	(2)
Net cash used in financing activities from discontinued operations	**-**	(2)	(2)

Net debt reconciliation

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

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

13. Notes to the Cash Flow Statement (continued)

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

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Interest-bearing loans and borrowings – due within one year	**(14)**	(394)	(89)
Interest-bearing loans and borrowings – due after one year	**(3,615)**	(3,235)	(3,464)
External debt	**(3,629)**	(3,629)	(3,553)
Less:			
Cash and cash equivalents	**339**	340	317
	(3,290)	(3,289)	(3,236)
Adjustments:			
Impact of cross-currency swaps	**(137)**	(209)	(80)
Non-cash acquisition fair value adjustments	**28**	44	33
Net debt	**(3,399)**	(3,454)	(3,283)

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

	At 31 December 2019 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	**At 30 June 2020 £m**
External debt	(3,553)	73	-	-	(149)	**(3,629)**
Cross-currency swaps	(80)	-	-	(2)	(55)	**(137)**
Non-cash acquisition fair value adjustments	33	-	-	(5)	-	**28**
	(3,600)	73	-	(7)	(204)	**(3,738)**
Cash and cash equivalents	317	45	(25)	-	2	**339**
Net debt	(3,283)	118	(25)	(7)	(202)	**(3,399)**

14. Estimation uncertainty

The full impact of the COVID-19 global pandemic on medium and long-term forecasts is difficult to predict and there could be significant changes from the best information currently available as circumstances continue to evolve. The Group is monitoring the impact on its businesses and assessing the emerging trends which indicate there are a range of potential outcomes. While the uncertainty continues, the Group will consider a range of estimates and assumptions in the application of its accounting policies which particularly affect those areas noted below. For a complete list of estimates, see note 3 of the 2019 Annual Report. In the event that assumed estimates and assumptions prove to be incorrect, there may be an adjustment to the carrying values of assets and liabilities within the next year:

- ***Loss-making contracts***
  Loss-making contract provisions represent the forecast unavoidable costs required to meet the obligations of long-term agreements, in excess of the contractual inflow expected to be generated in respect of these agreements. Calculation of the liability includes estimations of volumes, price and costs to be incurred over the life of the contract, which are discounted to a current value. Future changes within these estimates could have a material impact on the provision in future periods. At 30 June 2020, the carrying value of the loss-making contracts provision in the Group was £370 million (31 December 2019: £384 million).

- ***Estimates of future revenues and costs of long-term contractual arrangements***
  A key judgement is the recognition and measurement of variable consideration, in particular relating to risk and revenue sharing partnerships (“RRSPs”). The forecast revenues and costs in respect of RRSP contracts are inherently imprecise and significant estimates are required to assess the pattern of future maintenance activity, the costs to be incurred and escalation of revenue and costs. The estimates take account of the uncertainties, constraining the expected level of revenue as appropriate.

  Measurement of variable consideration is driven by forecasting aftermarket revenue per delivered engine which is in turn contingent on overall programme success, levels of discounting that might be offered by the engine manufacturers (the Group’s customers), engineering requirements needed for optimal performance of the engine and the allocation of revenue to individual units. Any of these inputs could change in the next year as programmes evolve and due to the size and scale of these contracts, almost any modification could result in material changes in future periods.

14. Estimation uncertainty (continued)

- ***The carrying value of goodwill and other assets***
  In assessing the impairment of non-current assets, estimation and judgement are required including assessment of customer demand. This may impact estimated future cash flows for value in use or fair value less costs to sell assessments and therefore potentially lead to impairment. Specifically, in respect of goodwill, further disclosure is included below.

Impairment Assessment
The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired. In accordance with IAS 36: "Impairment of assets" the Group assesses the carrying value of its groups of cash generating units ("CGUs") against the recoverable amount, being the higher of the value in use basis and the fair value less costs to sell.

The COVID-19 global pandemic is having a significant impact on the global end markets in which certain of the Group's businesses operate which has resulted in indicators of impairment at the interim reporting date for each of the Automotive Driveline, Automotive ePowertrain, Powder Metallurgy, Security & Smart Technology, Aerospace Engine Systems and Aerostructures groups of CGUs. These groups of CGUs saw a sharp decline in revenue during the second quarter and there is a wide range of possible outcomes around the future recovery of end markets.

No indicators of impairment were identified in respect of the AQH, HVAC and Ergotron groups of CGUs, which are principally North America based and have seen less of an impact to date.

The allocation of goodwill that has been subject to detailed impairment testing is shown below:

	30 June 2020 £m	31 December 2019 £m
Nortek businesses:		
Security & Smart Technology	**184**	172
GKN businesses:		
Aerostructures[1]	**615**	595
Aerospace Engine Systems[1]	**370**	346
Automotive Driveline	**716**	688
Automotive ePowertrain	**351**	339
Powder Metallurgy	**532**	503

[1] Following the GKN Aerospace reorganisation, announced in the 2019 Annual Report, the Aerostructures, Aerospace Engine Systems and Aerospace Special Technologies groups of CGUs were changed into Aerospace Engine Systems and Aerostructures effective 1 January 2020.

Assumptions used in the financial forecasts
Due to the impact of COVID-19 the businesses are mitigating the impact of lower levels of demand through cost reduction and efficiency actions, including significant restructuring. Under IAS 36, the value in use basis prohibits the inclusion of benefits from future uncommitted (at 30 June 2020) restructuring plans although this is permitted when applying the fair value less costs to sell basis, to the extent that similar actions would be carried out by a market participant. Recent trading announcements by other market participants support the inclusion of uncommitted restructuring (at 30 June 2020) in the fair value less costs to sell approach and due to the timing of announcements this has resulted in higher valuations than the value in use approach.

When applying the fair value less cost to sell methodology, it has been difficult to assess a sale value using observable market inputs (level 1) or inputs based on market evidence (level 2) in the current environment and so unobservable inputs (level 3) have been used. A combination of discounted cash flows and EBITDA multiples have been used to establish fair values for each of the groups of CGUs. There are three key inputs within the discounted cash flow models.

Cash flows
The Group prepares cash flow forecasts derived from financial budgets and medium-term forecasts. Each forecast has been prepared using a cash flow period deemed most appropriate by management, considering the nature of each group of CGUs and their end markets. There has been no change to the forecast periods used at 31 December 2019. The key assumptions used in forecasting post-tax cash flows relate to future budgeted revenue and operating margins likely to be achieved and the expected rates of long-term growth by market sector.

Revenue assumptions were made using external market data, where available, and also consider the recovery period to return to pre COVID-19 levels. A recovery period of between three years and five years was assumed for the Security & Smart Technology, Powder Metallurgy and Automotive groups of CGUs, whereas the Aerospace groups of CGUs are not assumed to fully recover until after the five year forecast period. The assumptions used to derive operating profit margins take into account an increase from returning sale volumes in addition to normal cost saving activities and a significant contribution from planned restructuring activity. The combination of these results in operating margins aligned to business plans for the medium-term, albeit risk adjusted in the discounted cash flow models.

14. Estimation uncertainty (continued)

Post-tax risk adjusted discount rates
Cash flows are discounted using a post-tax discount rate specific to each group of CGUs. Discount rates reflect the current market assessments of the time value of money and the territories in which the group of CGUs operate. In determining a cost of equity, the Capital Asset Pricing Model ("CAPM") has been used. Under CAPM, the cost of equity is determined by adding a risk premium, based on an industry adjustment ("Beta"), to the expected return of the equity market above the risk-free return. The relative risk adjustment reflects the risk inherent in each group of CGUs relative to all other sectors and geographies on average. The cost of debt is determined using a risk-free rate based on the cost of government bonds, and an interest rate premium equivalent to a corporate bond with a similar credit rating to the Group.

Long-term growth rates
Long-term growth rates are based on long-term forecasts for growth in the sectors and geographies in which the group of CGUs operates. Long-term growth rates are determined using forecasts that take into account the international presence and the markets in which each business operates.

Long-term growth rates are consistent with those used in the impairment testing at the previous year end given the current uncertainty over future forecasts.

Sensitivity analysis
As a consequence of implications from the COVID-19 global pandemic and the substantial impact on certain groups of CGUs, additional sensitivity analysis has been performed to show the impact of a reasonably possible change in the key assumptions. There is no reasonably possible change in the key assumptions that could result in an impairment for the Automotive ePowertrain group of CGUs.

Powder Metallurgy group of CGUs – sensitivity analysis
The forecasts have been prepared using the methodology required by IAS 36 and show headroom of £172 million above the carrying amount for the Powder Metallurgy group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the post-tax discount rate and long-term growth rate from 9.0% to 9.7% or from 2.5% to 1.5% respectively would reduce headroom to £nil. A reduction in the risk adjusted terminal operating margin of 1.6 percentage points ("ppts") would also reduce headroom to £nil.

Automotive Driveline group of CGUs – sensitivity analysis
The forecasts have been prepared using the methodology required by IAS 36 and show headroom of £186 million above the carrying amount for the Automotive Driveline group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the post-tax discount rate and long-term growth rate from 10.3% to 10.9% or from 2.5% to 1.5% respectively would reduce headroom to £nil. A reduction in the risk adjusted terminal operating margin of 1.0 ppts would also reduce headroom to £nil.

Aerospace Engine Systems group of CGUs – sensitivity analysis
The forecasts have been prepared using the methodology required by IAS 36 and show headroom of £131 million above the carrying amount for the Aerospace Engine Systems group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the post-tax discount rate and long-term growth rate from 7.5% to 7.7% or from 3.0% to 2.8% respectively would reduce headroom to £nil. A reduction in the risk adjusted terminal operating margin of 0.9 ppts would also reduce headroom to £nil.

Aerostructures group of CGUs – sensitivity analysis
The forecasts have been prepared using the methodology required by IAS 36 and show headroom of £91 million above the carrying amount for the Aerostructures group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the post-tax discount rate and long-term growth rate from 7.3% to 7.4% or from 2.9% to 2.7% respectively would reduce headroom to £nil. A reduction in the risk adjusted terminal operating margin of 0.3 ppts would also reduce headroom to £nil.

Security & Smart Technology group of CGUs – sensitivity analysis
The forecasts have been prepared using the methodology required by IAS 36 and show headroom of £64 million above the carrying amount for the Security & Smart Technology group of CGUs. Sensitivity analysis has been carried out and a reasonably possible change in the post-tax discount rate and long-term growth rate from 8.5% to 9.5% or from 3.5% to 2.3% respectively would reduce headroom to £nil. A reduction in the risk adjusted terminal operating margin of 1.3 ppts would also reduce headroom to £nil.

As can be seen, there is not a significant level of headroom in certain groups of CGUs and as noted there is inherent difficulty in forecasting in the medium to long-term. However, the Directors have concluded that at this time they are comfortable that no impairment charge is required for any of the groups of CGUs but will keep this assessment under review as end markets recover.

Glossary

Alternative Performance Measures ("APMs")

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

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

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

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

Revenue	**6 months ended 30 June 2020 £m**	Restated[1] 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Revenue	**4,121**	5,573	10,967
Share of revenue of equity accounted investments	**238**	302	625
Adjusted revenue	**4,359**	5,875	11,592

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

Operating profit	**6 months ended 30 June 2020 £m**	Restated[1] 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Operating (loss)/profit	**(581)**	8	318
Adjusting items to operating (loss)/profit (note 4)	**637**	533	784
Adjusted operating profit	**56**	541	1,102

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Adjusted operating margin</td><td>Operating margin[3]</td><td>Share of revenue of equity accounted investments (note 8) and adjusting items (note 4)</td><td>Adjusted operating margin represents Adjusted operating profit as a percentage of Adjusted revenue.</td></tr>
<tr><td>Adjusted profit before tax</td><td>Profit/(loss) before tax</td><td>Adjusting items (note 4)</td><td>Profit before the impact of adjusting items and tax. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.
<table>
<tr><th>Profit before tax</th><th>6 months ended 30 June 2020 £m</th><th>Restated[1] 6 months ended 30 June 2019 £m</th><th>Year ended 31 December 2019 £m</th></tr>
<tr><td>(Loss)/profit before tax</td><td>(685)</td><td>(109)</td><td>106</td></tr>
<tr><td>Adjusting items to (loss)/profit before tax (note 4)</td><td>645</td><td>540</td><td>783</td></tr>
<tr><td>Adjusted (loss)/profit before tax</td><td>(40)</td><td>431</td><td>889</td></tr>
</table></td></tr>
<tr><td>Adjusted profit after tax</td><td>Profit/(loss) after tax</td><td>Adjusting items (note 4)</td><td>Profit after tax but before the impact of the adjusting items. As discussed above, adjusted profit measures are used to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.
<table>
<tr><th>Profit after tax</th><th>6 months ended 30 June 2020 £m</th><th>Restated[1] 6 months ended 30 June 2019 £m</th><th>Year ended 31 December 2019 £m</th></tr>
<tr><td>(Loss)/profit after tax</td><td>(560)</td><td>(131)</td><td>55</td></tr>
<tr><td>Adjusting items to (loss)/profit after tax (note 4)</td><td>528</td><td>463</td><td>644</td></tr>
<tr><td>Adjusted (loss)/profit after tax</td><td>(32)</td><td>332</td><td>699</td></tr>
</table></td></tr>
<tr><td>Adjusted EBITDA for leverage covenant purposes</td><td>Operating profit/ (loss)[2]</td><td>Adjusting items (note 4), depreciation of property, plant and equipment and amortisation of computer software and development costs, imputed lease charge, share of non-controlling interests and other adjustments required for leverage covenant purposes[5]</td><td>Adjusted operating profit for 12 months prior to the reporting date, before depreciation and impairment of property, plant and equipment and before the amortisation and impairment of computer software and development costs.

Adjusted EBITDA for leverage covenant purposes is a measure used by external stakeholders to measure performance.
<table>
<tr><th>Adjusted EBITDA for leverage covenant purposes</th><th>12 months ended 30 June 2020 £m</th><th>12 months[4] ended 30 June 2019 £m</th><th>Year ended[4] 31 December 2019 £m</th></tr>
<tr><td>Adjusted operating profit</td><td>617</td><td>1,074</td><td>1,102</td></tr>
<tr><td>Depreciation of property, plant and equipment and amortisation of computer software and development costs</td><td>507</td><td>449</td><td>498</td></tr>
<tr><td>Imputed lease charge</td><td>(95)</td><td>(51)</td><td>(91)</td></tr>
<tr><td>Non-controlling interests</td><td>(4)</td><td>(9)</td><td>(6)</td></tr>
<tr><td>Other adjustments required for leverage covenant purposes[5]</td><td>(31)</td><td>(5)</td><td>2</td></tr>
<tr><td>Adjusted EBITDA for leverage covenant purposes</td><td>994</td><td>1,458</td><td>1,505</td></tr>
</table></td></tr>
</table>

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted tax rate	Effective tax rate	Adjusting items, adjusting tax items and the tax impact of adjusting items (note 4 and note 5)	The income tax charge for the Group excluding adjusting tax, and the tax impact of adjusting items, divided by adjusted profit before tax. This measure is a useful indicator of the ongoing tax rate for the Group.

Adjusted tax rate	**6 months ended 30 June 2020 £m**	Restated(1) 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Tax credit/(charge) per Income Statement	**125**	(22)	(51)
Tax impact of adjusting items	**(113)**	(73)	(123)
Tax impact of significant restructuring	**-**	-	(9)
Tax impact of EAIs	**(4)**	(4)	(7)
Adjusted tax credit/(charge)	**8**	(99)	(190)
Adjusted (loss)/profit before tax	**(40)**	431	889
Adjusted tax rate	**20.0%**	23.0%	21.4%

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted basic earnings per share	Basic earnings per share	Adjusting items (note 4 and note 6)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial period.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (note 4 and note 6)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of any potentially dilutive options. The Board considers this to be a key measure of performance when all businesses are held for the complete reporting period.
Interest cover	None	Not applicable	Adjusted EBITDA calculated for interest cover covenant purposes (including EBITDA of businesses disposed) as a multiple of net interest payable on bank loans and overdrafts. This measure is used for bank covenant testing.

Interest cover	**12 months ended 30 June 2020 £m**	12 months(4) ended 30 June 2019 £m	Year ended(4) 31 December 2019 £m
Adjusted EBITDA for leverage covenant purposes	**994**	1,458	1,505
Adjusted EBITDA from businesses disposed in the year	**-**	8	36
Adjusted EBITDA for interest cover covenant	**994**	1,466	1,541
Interest on bank loans and overdrafts	**(144)**	(150)	(152)
Finance income	**1**	10	9
Other interest for covenant purposes	**(1)**	-	-
Net finance charges for covenant purposes	**(144)**	**(140)**	**(143)**
Interest cover	**6.9x**	**10.5x**	**10.8x**

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Balance Sheet Measures			
Working capital	Inventories, trade and other receivables less trade and other payables	Not applicable	Working capital comprises inventories, current and non-current trade and other receivables and current and non-current trade and other payables.
Net debt	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Reconciliation of net debt (note 13)	Net debt comprises cash and cash equivalents, interest-bearing loans and borrowings and cross-currency swaps but excludes non-cash acquisition fair value adjustments. Net debt is one measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of the indebtedness of the Group.
Bank covenant definition of net debt at average rates and leverage	Cash and cash equivalents less interest-bearing loans and borrowings and finance related derivative instruments	Impact of foreign exchange and adjustments for bank covenant purposes	Net debt (as above) is presented in the Balance Sheet translated at period 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	**30 June 2020 £m**	30 June[4] 2019 £m	31 December[4] 2019 £m
Net debt at closing rates (note 13)	**3,399**	3,454	3,283
Impact of foreign exchange	**(69)**	(50)	94
Net debt at average rates	**3,330**	3,404	3,377
Other adjustments required for covenant purposes	**-**	14	8
Bank covenant definition of net debt at average rates	**3,330**	3,418	3,385
Leverage	**3.35x**	2.34x	2.25x

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

Adjusted operating cash flow	**6 months ended 30 June 2020 £m**	Restated[1] 6 months ended 30 June 2019 £m	Year ended 31 December 2019 £m
Adjusted operating profit	**56**	541	1,102
Share of adjusted operating profit of EAIs (note 8)	**(21)**	(30)	(66)
Depreciation of owned property, plant and equipment and amortisation of computer software and development costs	**214**	208	426
Depreciation of leased property, plant and equipment	**38**	35	72
Lease obligation payments	**(38)**	(32)	(70)
Positive non-cash impact from loss-making contracts (note 10)	**(31)**	(45)	(81)
	218	677	1,383
Change in inventories	**78**	(93)	(12)
Change in receivables	**510**	170	72
Change in payables	**(337)**	(136)	(2)
Adjusted operating cash flow (pre-capex)	**469**	618	1,441
Adjusted operating cash flow conversion	**215%**	91%	104%

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Free cash flow	Net increase/ decrease in cash and cash equivalents	Acquisition related cash flows, dividends paid to owners of the parent, foreign exchange, discontinued operating cash flows and other non-cash movements	Free cash flow represents cash generated from trading from continuing businesses after all costs including restructuring, pension contributions, tax and interest payments. A reconciliation of free cash flow is included within the Finance Director's Review.
Adjusted free cash flow	Net increase/ decrease in cash and cash equivalents	Free cash flow, as defined above, adjusted for special pension contributions and restructuring cash flows	Adjusted free cash flow represents free cash flow adjusted for special pension contributions and restructuring cash flows.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Capital expenditure (capex)	None	Not applicable	Calculated as the purchase of owned property, plant and equipment and computer software and expenditure on capitalised development costs during the period, excluding any assets acquired as part of a business combination. Net capital expenditure is capital expenditure net of proceeds from disposal of property, plant and equipment.
Capital expenditure to depreciation ratio	None	Not applicable	Net capital expenditure divided by depreciation of owned property, plant and equipment and amortisation of computer software and development costs.
Dividend per share	Dividend per share	Not applicable	Amounts payable by way of dividends in terms of pence per share.

(1) Results for the period ended 30 June 2019 have been restated for discontinued operations (see note 9).
(2) Operating profit/(loss) is not defined within IFRS but is a widely accepted profit measure being profit/(loss) before finance costs, finance income and tax.
(3) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating profit/(loss)[2] divided by revenue.
(4) Year ended 31 December 2019 and period ended 30 June 2019 remain aligned to the original calculations supporting the Group's bank debt compliance certificate, and have not been restated for discontinued operations.
(5) Included within other adjustments required for covenant purposes are dividends received from equity accounted investments, the removal of adjusted operating profit of equity accounted investments and the inclusion of operating profit and depreciation in respect of businesses classified as held for sale.