3 March 2022

MELROSE INDUSTRIES PLC

AUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021

Melrose Industries PLC today announces its audited results for the year ended 31 December 2021.

Highlights

Continuing operations	Adjusted[1] results 2021 Actual rates £m	2020 Constant currency[1] £m	2020 Actual rates £m	Statutory results 2021 Actual rates £m	2020 Actual rates £m
Revenue	**7,496**	**7,351**	7,723	**6,883**	7,132
Operating profit/(loss)	**375**	**122**	141	**(451)**	(487)
Profit/(loss) after tax	**197**	**(36)**	(27)	**(446)**	(565)
Diluted earnings per share	**4.1p**	**(0.8)p**	(0.6)p	**(9.6)p**	(11.7)p
Net debt[1]	**950**	**2,834**	2,847	**n/a**	n/a
Leverage[1]	**1.3x**	**4.1x**	4.1x	**n/a**	n/a

Group

- The results are ahead of expectations with better cash generation and a bigger reduction in net debt[1] and leverage[1]

- At constant currency, despite global supply challenges, sales were up 2% year on year and, notably, Group adjusted[1] operating profit tripled to £375 million, showing the substantial benefit of restructuring actions increasingly coming through

- The Group statutory operating loss was £451 million; of the £826 million adjusting items, only £200 million were cash items, almost all relating to restructuring projects

- All businesses returned to growth, with further benefits coming from restructuring actions. The Melrose businesses are actively working to mitigate the current inflationary pressures through all necessary means and remain fully committed to achieving their previously stated operating margin targets

- Melrose generated free cash flow[1] of £125 million in the year, prior to disposal proceeds, with net debt[1] reduced to £0.95 billion and leverage[1] to 1.3x adjusted[1] EBITDA. All businesses continued to be cash positive, therefore fully funding all their improvement and restructuring costs, with their cash generation qualities transformed since acquisition

- Working capital in the GKN businesses has reduced to 3% of sales from 5% at the GKN acquisition, with further opportunities existing to improve Aerospace inventory levels

- Ahead of plan, the opening net debt[1] of £3.4 billion at the GKN acquisition has been fully repaid in less than four years, save cash returned to shareholders over the period, helping to protect shareholder value and de-risking the GKN transformation during some of the most challenging trading conditions

- The GKN UK pension schemes are now in surplus helped by £1 in every £3 of free cash flow[1] since acquisition being paid into the Group's pension schemes, thereby freeing up more free cash flow[1] in the future

- Melrose has improved its ESG positioning and reporting in the year, including highlighting the substantial benefits delivered by its proprietary sustainable technology. A new stand-alone Melrose Sustainability Report will be published, for the first time, alongside the 2021 Annual Report

- A final dividend of 1.0 pence per share is proposed, up by one third on last year, giving a full year dividend of 1.75 pence per share

Businesses

- Aerospace has seen adjusted[1] operating margins improve by c.4 percentage points and growth return with sales in the second half of 2021 up 18%[2] on 2020. Under new leadership, it has materially advanced the restructuring of its cost base and operations, with all required significant restructuring projects now underway

- The underlying qualities of the Aerospace businesses are being improved including the accelerated development of new sustainable technologies. The Group will also benefit from exceptionally strong long-term future cash flows in Engines. An Aerospace Investor Day is to be held on 8 June 2022 to explain its exciting full shareholder value potential

- Automotive ended the year positively with 2021 fourth quarter sales up 12% on the third quarter, being almost back to levels seen in the first half of the year. Sales in early 2022 have started similarly positively, consistent with the most recent industry data

- Powder Metallurgy sales volume grew at more than double the rate of growth in car production in 2021 due to continued significant market share gains

- In 2021, adjusted[1] operating margins in both Automotive and Powder Metallurgy more than doubled despite the well-publicised supply challenges. During 2022, the full run rate benefits from the required restructuring projects in Automotive and Powder Metallurgy will materialise giving the opportunity to realise this shareholder value

- Life of programme business wins of c.£5 billion in Automotive in 2021, of which more than one third are for pure electric vehicles (BEV), confirm that Automotive is both gaining market share and keeping pace with the faster than expected market conversion to electric vehicles. Importantly, these share gains are being achieved at terms consistent with its higher margin target

- Ergotron is running efficiently, making 25% adjusted[1] operating margins

- The new Hydrogen technology business, which has been separated from Powder Metallurgy, has a dedicated new CEO and management team and is positioned to achieve its first sales this year

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

"We have realised gains for shareholders by doubling the value of Nortek and significantly outperforming all Group cash generation targets, which has de-risked the route to value realisation from GKN. We have transformed the GKN businesses to increase their full potential including investing in sustainable technology and properly funding their pension schemes. With the benefits of significant restructuring increasingly coming through, combined with the strong cash generation, Melrose is positioned to create, and realise, significant value for shareholders."

1. Described in the glossary to the Preliminary Announcement and considered by the Board to be a key measure of performance
2. Based on existing businesses at 31 December 2021

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CHAIRMAN'S STATEMENT

I am pleased to report our 19th set of annual results since flotation in 2003.

CALENDAR YEAR 2021

Melrose performed well in 2021. Despite COVID-19 and well-publicised industry supply chain issues, sales for the Group grew by 2% year-on-year at constant currency[1], and the benefits from improvement actions are increasingly evident in these results, which are ahead of expectations. The statutory revenue for the Melrose Group was £6,883 million (2020: £7,132 million), with adjusted operating profit increasing to £375 million (2020: £141 million), which is triple prior year at constant currency[1], and is based on a statutory operating loss of £451 million (2020: £487 million).

All businesses have returned to growth and seen an increase in sales towards the end of the year, with Aerospace up 18% in the second half year-on-year and Automotive sales up 12% from the third quarter to the fourth. In tandem, improvement actions have increased adjusted operating profit margins at Aerospace by 4 percentage points, while more than doubling those at Automotive and Powder Metallurgy, with plenty more to come as the recovery continues and the full benefits of current and completed projects are delivered.

We have enjoyed another year of good cash performance across the Group, while continuing to invest heavily in sustainable technology and restructuring improvements. We achieved strong free cash flow generation, which has been a feature throughout our ownership of the GKN businesses. Along with disposal proceeds, it has enabled us to repay all of the £3.4 billion of net debt drawn to fund the GKN acquisition. Thus year end net debt is broadly equivalent to the money refunded to shareholders via dividend and the recent return of capital. We have reduced net debt to below £1 billion, which has resulted in a very comfortable level of leverage equal to 1.3x adjusted EBITDA, significantly below the Group's long-term average.

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

M&A

It was a busy year from a transaction perspective as well. We sold approximately a fifth of the Group, including Brush, the last piece of the FKI acquisition which has been a great contributor to the Melrose track record, achieving 2.6 times shareholders' investment. We also sold three of the four businesses from the Nortek acquisition in 2016, putting us firmly on the path to double shareholders' investment again. In each case, the businesses were sold to good homes which are already building on the improvement achieved under our ownership.

PENSIONS

Melrose is also rightly proud of its track record in addressing pensions challenges in the businesses we buy and GKN has been no different. We have delivered on our commitments to trustees early, overcoming a large pension deficit we inherited of almost £1 billion to bring the UK schemes to being fully funded this year. This has been achieved despite the challenges of COVID-19 and without detracting from our investment in the businesses and repayment of debt.

Mindful of our commitment and as a testament to our responsible stewardship, the underlying performance of the businesses has enabled us to invest a third of the free cash flow produced by the Group into the pension schemes under our ownership, helping to secure the future for pension

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[1] Adjusted results for the year ended 2020 at a constant currency showing adjusted revenue of £7,351 million and adjusted operating profit of £122 million

scheme members and improving the position of our shareholders. Given the secure nature of these schemes this naturally frees up more cash flow in the future.

DIVIDEND

The Board is pleased to be able to return to its progressive policy by proposing a final dividend for 2021 of 1.0 pence per share (2020: 0.75 pence). Combined with the 2021 interim dividend of 0.75 pence per share, this represents a total dividend for the year of 1.75 pence per share (2020: 0.75 pence). The final dividend will be paid on 20 May 2022 to those shareholders on the register at 8 April 2022, subject to approval at the Annual General Meeting ("AGM") on 5 May 2022.

RETURN OF CAPITAL

Following the Brush and Nortek sales, we completed a £729 million return of capital to shareholders in September last year. We were clear at the time that, due to lingering uncertainty in the market, we had been conservative in determining the amount of the return in order to ensure a strong balance sheet in the event of further volatility.

We did indicate at that time that should these conditions improve sufficiently, we would move to make a second return of capital this year to rebalance our capital structure more in line with a traditional Melrose approach. While the wider markets still remain below their pre-pandemic levels, there is a visible path to recovery. We have enjoyed a strong performance during the year, with a conservative balance sheet, reset cost bases for each of the businesses and another strong cash flow performance that further reduced leverage, even with fully funding the significant restructuring and improvement plans and taking the UK pension scheme funding to surplus.

In line with the Melrose model, to return proceeds from disposals to shareholders, your Board would have made a second capital return to rebase our capital structure alongside these results. However, the very recent and tragic events unfolding in Ukraine, with the knock on effects for the world markets that at this stage are uncertain and unquantifiable, have led the Board to keep the timing of this return under review at present. Your Board recognises that this is a very conservative position and hopes that the situation will be resolved as quickly as possible, in which case the intention would be to make the return without further delay.

BOARD MATTERS

In keeping with the Board's succession planning, co-founder and executive vice chairman David Roper and non-executive director Archie Kane retired last year and we welcomed to the Board Heather Lawrence and Victoria Jarman. This year, Liz Hewitt will reach the end of her tenure with us and retire from the Board at the close of the AGM in May.

Liz has been a valued member of the Board and all Board committees at various stages during her time with Melrose, most importantly serving as chairman of the Audit Committee for the past five years, as well as holding the position of senior independent director for much of that time, which will be taken up by David Lis on her departure. It has been a period of success and change for the Company and we are very grateful for her tireless efforts. We will miss her and wish her all the best for her continuing roles elsewhere.

PURPOSE, STRATEGY AND SUSTAINABILITY

Melrose was founded in 2003 to empower businesses to unlock their full potential for the collective benefit of stakeholders, whilst providing shareholders with a superior return on their investment. This has been delivered through Melrose's "Buy, Improve, Sell" strategy, which means we buy good quality manufacturing businesses that are underperforming their potential and then invest heavily to improve performance and productivity as they become stronger, better businesses under our stewardship. At the appropriate time, we then find them good owners for the next stage of their development and return the proceeds to shareholders.

Sustainability has always been an important part of this improvement strategy and Melrose has welcomed the increased focus it has received in recent years as an opportunity to demonstrate its commitment as an active participant across a range of key areas. The Melrose centre is small with a tiny carbon footprint, which we nonetheless fully offset. The primary focus is on our businesses under our decentralised model. This year, we have published our targets aligned to our materiality analysis, including short, medium and long-term objectives for the reduction of greenhouse gas emissions, transition to renewable electricity and reduction in waste that will help drive a transformation in the sustainability of their own production.

We also recognise the place of our businesses in the wider economy. Our strategy means we inherit underperforming businesses. We provide the focus and investment which enables our businesses to be active participants in addressing these issues, whether it be through GKN Automotive's position at the heart of the electric vehicle transition, or investing in the establishment of the hydrogen economy through the UK hydrogen production start up HiiROC and the hydrogen storage business GKN Hydrogen. GKN Aerospace is at the forefront of the development of technologies to achieve zero emissions aviation with projects like the hydrogen propulsion system H2Gear, or electric aircraft currently in testing phases like Eviation Alice, Joby and Vertical.

Melrose sees this as a key part of improving a business during our ownership and environmental, social and governance (ESG) priorities are an important part of our "Buy, Improve, Sell" strategy. We see no reason why these improvements cannot be implemented whilst improving returns for our shareholders. It is a journey and there remains plenty of improvement for us to deliver, but it has been nonetheless pleasing to see our improvement to date being recognised by several of the key benchmarking agencies, including MSCI who have given us an "A" rating and Sustainalytics who have placed us in the top quartile of our peers. This year we are publishing our inaugural standalone Sustainability Report alongside our Annual Report and I refer you to that for further details.

Justin Dowley
Non-Executive Chairman
3 March 2022

CHIEF EXECUTIVE'S REVIEW

Against the backdrop of continued turbulence in connection with the global pandemic, 2021 provided the opportunity to demonstrate the strength of the Melrose "Buy, Improve, Sell" model. Over the course of the year, we sold approximately 20% of the Group. Having overseen the complete reshaping of Brush, the power generation and distribution business, we sold it to a good home for the next stage of its development. It was the last business held from the FKI acquisition and its sale caps a successful acquisition for shareholders, who enjoyed a 2.6 times return on their original FKI investment.

Except for Ergotron, all the businesses from the Nortek acquisition were also sold during the year, putting the Company on track to double shareholders' investment in that acquisition. Under our ownership, operating margins of these businesses were approximately doubled while we invested heavily in their transformation.

We converted Nortek Control into a technology business through a mix of organic and acquisition actions, while we refocused and completely revitalised the product portfolio of Broan Nutone that reawakened a sleeping giant previously drifting into decline. Most notably, we were instrumental in Nortek Air Management developing and commercialising the revolutionary Statepoint Liquid Cooling technology, capable of delivering 90% water and 30% energy savings for cooling systems servicing the booming data centre market, it quickly became a clear benchmark for the industry. As a result, Nortek Air Management enjoys an enviable and growing order book and customer list that includes all the key global technology companies.

These are examples of the strong targeted investments we make in businesses under our ownership during the "Improve" phase. We are well progressed in this phase for the GKN businesses with restructuring spend during 2021 of over £190 million in addition to investing £200 million in research and development in the businesses and bringing the GKN UK pension schemes to be fully funded. Critical to this rate of investment has been that each of the GKN businesses has been cash generative throughout our ownership and again this year, with cash conversion equal to 110%[2]. This has enabled us to repay all the debt drawn down as part of the GKN acquisition, net of the amount used to fund dividends and last year's return of capital to shareholders. This is a fantastic result achieved largely in a severe global downturn and shows the outperformance achievable under the Melrose model as we move to realise the potential of the GKN businesses.

For GKN Automotive and GKN Powder Metallurgy, a healthy initial market recovery from the pandemic in the first quarter of 2021 was soon overtaken by the impact of the shortage of semiconductors on the entire automotive sector. Although demand indicators remained strong throughout, supply constraints hampered production until beginning to ease very late in the year. As supply constraints continue to ease, we expect sales growth in coming years to simultaneously meet pent-up demand and support dealers as they rebuild their inventory levels.

Despite these market challenges, Automotive business wins and Powder Metallurgy sales volumes for the year increased ahead of the market growth of 3.4%. In Powder Metallurgy's case this was by more than double as they increased their market share. Alongside this growth, both businesses more than doubled margins as volumes began to return on a substantially reduced cost base, which included some initial benefits from major rationalisations. There is still plenty of margin improvement to come for both businesses as market recovery continues and the full benefit of restructuring projects flow through to results over the course of the coming year. The impact of rising global inflation is also being actively managed through pricing, procurement and productivity, and we remain confident in achieving our margin targets as supply constraints ease.

GKN Automotive is also seeing major benefits from the accelerating transition to electric vehicles, and is converting its decades' long experience in the sector into significant wins on e-Drive platforms for both its 3-in-1 solutions and core sideshaft products for electric vehicles. It was a busy year for production launches and included the award of the first fully outsourced 3-in-1 system

[2] Before capital expenditure and restructuring costs

for a major German manufacturer. Excluding China, GKN Automotive is now a supplier on seven of the top ten global electric vehicle platforms[3] and has an order book that is matching the market in the shift to electric vehicles. This was part of approximately £5 billion in life of programme sales wins secured, of which over a third are for pure battery electric vehicles, representing a record for the business. This demonstrates that GKN Automotive is both gaining market share and keeping pace with the faster than expected electric vehicle transition.

As highlighted in its Capital Markets Day in May, Powder Metallurgy has largely completed its restructuring projects and has spun out its hydrogen storage business, to increase the focus on its core powder, sinter and additive businesses. This has enabled better clarity on its electric vehicle transition strategy, which is well on the way to execution. It has exited some low margin ICE business and is developing a number of exciting opportunities for e-motors and magnet technology for electric vehicles. In addition, its additive manufacturing business continues to grow and explore opportunities in serial component production.

For Aerospace, the continued pandemic related travel restrictions held back the pace of the market recovery. This started to ease toward the back half of the year, having a positive impact on sales which grew 18% year-on-year in the second half. Alongside reorganising the business into Civil, Engines and Defence segments, GKN Aerospace has seen a rebalancing of its market exposure towards the single aisle aircraft segment, which now accounts for 39% of Civil sales and is the segment of the aerospace sector that is leading the recovery. Engines continues to see the benefit of exceptionally strong future cash flows from its key platforms.

We have not let the extended market volatility distract GKN Aerospace from making further progress on its improvement plans and it has had another strong year of cash generation, with a cash conversion rate of 124%[4]. All major restructuring projects from our acquisition plan are now underway, with a refreshed executive team driving hard to deliver the stated 12% operating margin target. While the full run rate benefits are not expected until 2023 or beyond, the business has already achieved an increase of 4 percentage points in operating margins for the year on flat sales.

Looking more broadly across the Group, we have successfully reduced working capital, which now sits at 3% of sales for the GKN businesses, compared to 5% at the time of acquisition. There remains more improvement available, particularly in Aerospace. We continue to invest heavily in technology, with a particular focus on sustainability. GKN Aerospace's network of Global Technology Centres is key to this, with significant success in the development of decarbonising technology like the H2Gear hydrogen propulsion system and the creation of the first prototype of emission free aircraft such as the Eviation Alice.

Ergotron had another good year, with sales growth of 15% and a return to premium levels of operating margins of 25%. Finally, Powder Metallurgy's hydrogen storage business was spun off as a standalone business in the Group, in order to maximise its potential within the emerging hydrogen economy.

Outlook

Automotive and Powder Metallurgy are both well progressed in their Melrose improvement plans and saw the start of some recovery momentum in the final quarter of 2021, close to that seen in the first half. Early signs in the new year show this recovery continuing, and as the constraints of the semiconductor shortage ease further, focus will start to move towards realisation of this value. The aviation market continues to navigate pandemic travel restrictions with our businesses expecting growth for the coming year albeit still below pre-pandemic levels. There is a heavy focus on improvement in Aerospace in 2022 and we are confident this will position the business for a strong future, which we will elaborate on more fully at a Capital Markets Day to be held on 8 June 2022.

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[3] References to electrified vehicle platforms refers to full hybrid or battery electric propulsion systems
[4] Before capital expenditure and restructuring costs

For all businesses, the impact of rising global inflation is a key focus for the year and our management teams remain very focused on ensuring inflation does not affect our businesses' performance, albeit with a potential time lag this year. We are mindful of the very recent events in Ukraine, which our businesses are being proactive in addressing to ensure minimal disruption. Against the backdrop of the ongoing market recovery, with existing improvement projects largely complete for Automotive and Powder Metallurgy and well progressed for Aerospace, there is strong belief in significant further profit improvement as they deliver their stated operating margin targets. We are therefore in good shape to deliver strong returns and realise shareholder value.

Further details of the trading performance of the businesses are contained in the following Divisional Reviews.

AEROSPACE DIVISON

GKN Aerospace is a global multi-technology developer and manufacturer of airframe and engine structures and electrical wiring systems for the global aerospace industry, across both civil and defence platforms. With operations in 12 countries, it is a global leader based on technological innovation, advanced processes and engineering excellence, while its products enable aircraft to fly safely and more efficiently. GKN Aerospace is structured according to its three core customer markets – Civil Airframe, Defence Airframe and Engines. Its technology is used throughout the aerospace industry: from high-use single aisle aircraft and the world's longest haul passenger planes, through to business jets, helicopters, the world's most advanced fighter jets and space launchers.

GKN Aerospace continued to feel the effects of COVID-19 during 2021. While passenger flight hours improved against 2020, global travel restrictions remained prevalent, delaying the recovery of air travel. In total, sales across the Civil Airframe and Civil Engines businesses both made good progress, particularly in the second half which saw an 18% year-on-year increase in GKN Aerospace sales, but remained well below pre-pandemic levels.

Having acted swiftly to reduce its cost base in 2020 in response to COVID-19, GKN Aerospace took further steps to adjust to its new commercial environment at the start of 2021 and improved its profitability, achieving adjusted operating margins of 4.4%. All major restructuring projects from our acquisition plan are now underway and the margin increase reflects the initial benefits of a number of initiatives in line with its 'One Aerospace' approach, including reducing management layers, increasing its customer focus and simplifying its operating structure as it embedded its global Lean Operating Model, to reduce process variation and improve operational efficiency. This is now showing benefits in quality and delivery performance, with substantial further opportunities ahead. Supply chain management has been a strong focus, securing savings and delivery improvements, as well as responsiveness to ensure minimal disruption from situations such as the recent events in Ukraine. There has been some further progress on improving working capital efficiency, which has contributed to the strong cash generation during the year, but again plenty more improvement is still to come.

GKN Aerospace also sharpened its focus through a series of global footprint projects. On the Civil side, it divested two non-core businesses in the Netherlands, as well as completing the planned closure of two subscale sites. In Engines, initiatives to consolidate major product families between the two Nordic sites in Sweden and Norway are well advanced, leveraging the expertise of each site and creating advanced Centres of Excellence. Each of these steps simplified and focused GKN Aerospace during 2021, reducing costs and increasing productivity. Further global footprint optimisation projects are now underway and will be delivered in 2022. This includes significant work required to address profitability issues in the US Defence business and we have recently announced the closure of the St Louis site. This closure will involve exiting approximately £140 million of sales relating to less profitable contracts by 2023.

Despite challenging markets, GKN Aerospace made progress commercially, securing good awards in Civil Airframes for electrical wiring interconnection systems and complex structures components such as empennage and wings. Market dynamics have helped weight the mix of Civil components further towards the single-aisle aircraft market, which is seeing faster recovery and preparing for a significant increase in production rates. Engines further deepened its exposure to core capabilities with key customers, including additive manufacturing, fan blade repair and composites. Focus has been on higher margin, design to build opportunities and growing its attractive aftermarket business. Engines will also benefit from the exceptionally strong future cash flows generated by its key risk and revenue sharing partnership (RRSP) platforms.

During 2021, GKN Aerospace took a further step forward in its sustainability strategy. Investment was made in technology to support and enable this strategy to both achieve reductions in energy, material and waste in our current factories, as well as enable improvements in efficiency and revolutionary capabilities in next generation aircraft and engine platforms, which will assist the future of zero emission flight. At the forefront of this strategy is a new network of Global Technology Centres (GTCs), to develop and demonstrate capability, drive collaboration and accelerate technological breakthroughs in each of its businesses. In 2021 GKN Aerospace opened its £32 million UK GTC in Bristol, as well as its Dutch centre in Hoogeveen, to complement the Swedish and US hubs that are already established.

GKN Aerospace is now developing the next-generation of lighter and more sustainable aerostructures and engine products, as well as lightweight additive manufacturing solutions and future zero-emission propulsion systems. Putting this technology strategy into action, GKN Aerospace established its position at the forefront of four major European propulsion programmes during 2021. Two of these - the £54 million H2GEAR project in the UK and H2JET in Sweden - are groundbreaking hydrogen projects aiming to develop propulsion systems to power aircraft using liquid hydrogen, eliminating carbon dioxide emissions. Through collaboration in the European Clean Sky 2 programme, GKN Aerospace also delivered the first Intermediate Compressor Case for the Rolls-Royce UltraFan™ engine demonstrator, which is expected to achieve significant fuel efficiency improvements compared with current engines.

There were also notable achievements in more sustainable aerostructures solutions. During 2021, GKN Aerospace manufactured and delivered the first fully integrated wings, tail and wiring system for Eviation's Alice electric aircraft, as well as producing and delivering the first composite fixed trailing edge for Airbus' 'Wing of Tomorrow' project, both from its new UK GTC. All of these projects form important ingredients on the sector's path to achieve net zero greenhouse gas emissions by 2050 and helped establish GKN Aerospace's position as a sustainability leader in the aviation industry.

Outlook

Despite the recent unrest in Ukraine, GKN Aerospace expects the recovery of the civil aviation sector to continue in 2022, which will benefit both the Civil and Engines businesses. While uncertainty remains, and there is still some way to go to reach pre-pandemic levels, GKN Aerospace is well placed to support the significant ramp-up of single-aisle aircraft production which is already underway in 2022. The defence market outlook remains solid, which will support the Defence segment while it implements its improvement programme.

Underpinned by the restructuring work already undertaken and with its position on major growth platforms and further optimisation to come, GKN Aerospace is well placed to benefit as the market recovery continues and remains well on track to unlock its potential. The business has already demonstrated positive earnings momentum and it has a clear path to achieving its targeted 12% operating margins when sales return to pre-pandemic levels. Looking further ahead, GKN Aerospace's technology investment and expertise will enable it to be a leader in the sustainable transformation of civil aviation, creating market opportunities and profitable growth for years to come.

AUTOMOTIVE DIVISION

GKN Automotive is the global leader in drive systems, the trusted partner for most of the world's automotive OEMs, specialising in developing, manufacturing, and supplying leading drive systems for conventional and electric vehicles through its Driveline and ePowertrain divisions. Headquartered in the UK and operating in 20 countries, it also has a leading presence in China thanks to its long-standing joint venture Shanghai GKN HUAYU Driveline Systems Co Limited, with local partner HASCO.

GKN Automotive's Driveline division is a global leader that demonstrates strength in depth and breadth, with an extensive portfolio of drive system products that combine value with technological leadership spanning all light vehicle types, from high-volume low-cost to premium models for both conventional and electrified propulsion systems. The ePowertrain division offers solutions for all electrified vehicles and is a go-to technology partner for Global OEMs with decades of experience. Its ability to fully integrate eDrive systems derives from its all-wheel drive heritage and leadership.

The ongoing COVID-19 pandemic, global supply chain disruption, and industry-wide semiconductor shortage significantly stalled the predicted market recovery in 2021. Even with very robust underlying demand, global light vehicle production grew just 3.4% compared to last year, which was well below initial growth projections of 13% at the start of the year and that left production 13% below pre-pandemic levels. Despite these market challenges, GKN Automotive sales grew by 4% year-on-year due to strong growth in its eDrive business, which both gained market share and kept pace with the faster than anticipated transition to electric vehicles and reflects the expansion of GKN Automotive's addressable content per vehicle as a result of electrification.

In 2021, the Driveline division accelerated its shift towards electrification by further adapting its portfolio to match the changing demands of new-energy vehicles. The business completed 48 new programme launches and continued to secure a significant share of new business wins on electrified vehicle platforms, reinforcing the division's industry-leading position through its premium core products. The ePowertrain division is increasingly benefitting from light vehicle electrification and delivering impressive growth. In 2021, the business saw the production launch of 12 new programmes across 11 different global brands powered by GKN Automotive technology.

The next generation of eDrive systems is now in development with a focus on reduced weight and increased efficiency and power density. With deep expertise across all elements of eDrive, a heritage of manufacturing excellence and a global footprint, ePowertrain is a leading development partner for major leading electrified vehicle manufacturers, featuring components on seven of the top ten global platforms outside of China. New business wins in 2021 included the award of the first fully outsourced 3-in-1 system for one of the major German manufacturers.

The total business being won also remains strong, with approximately £5 billion of life of programme revenue secured in new contracts throughout 2021. The propulsion split of those business awards reflects the continuing focus on electrification, with approximately 50% of the secured life of programme revenues attributable to electrified vehicle platforms[5]. A healthy proportion of electric vehicle orders are for core Driveline products, with an increased specification due to the elevated torque requirements of electrified vehicles. For eDrive products, the business has the flexibility to be able to supply any part of the assembly, from sub-components to full 3-in-1 systems and is selective in choosing programmes to develop capabilities and scale. The business being won on electric vehicle platforms is also on terms consistent with GKN Automotive's higher margin target, partly as a result of its premium core product becoming more in demand as the transition accelerates.

Despite the ongoing COVID-19 challenges and industrial inefficiencies related to sector demand fluctuations and supply constraints, GKN Automotive delivered an impressive operating margin expansion. Partly in response to the market challenges outlined above, the business has strengthened its supply chain, maintained close relationships with customers and suppliers and

[5] References to electrified vehicle platforms refers to full hybrid or battery electric propulsion systems

streamlined its operations, which also enables it to minimise disruption from events such as the recent unrest in Ukraine. Disciplined execution of its full potential transformation programme and continued strict cost control more than doubled operating profit margins to 4.6% for the full year. A continued focus on working capital and rigorous cash management throughout 2021 resulted in strong cash generation for the business, that has enabled it to be self-funding, with a cash conversion rate of 96%[6].

The improvement programme has made a major contribution to this performance, delivering approximately £60 million of cost savings in 2021 through initiatives covering procurement, operational efficiency, and fixed cost optimisation. A major part of the programme in 2021 was the continued execution of the new industrial strategy, most notably the conclusion of plant closures in Korea, Germany and the US, the sale and re-industrialisation of a facility in Italy, and the agreement of terms to close the Birmingham site in the UK in the first half of 2022. This contributed to the strong operating results in 2021 and leaves the business well positioned to benefit as the market continues its recovery.

Outlook

It is expected that the past two years of supply restrictions will lead to sustained demand for new light vehicles amongst consumers. While some of last year's market headwinds are expected to continue into 2022, global light vehicle production volumes are nonetheless expected to recover, with increasing electric vehicle penetration. GKN Automotive will benefit from this electrification trend through higher content value and technology differentiation opportunity for both divisions. There is a strong pipeline of over 60 launches across both the divisions during 2022, with the focus for Driveline on margin expansion and ePowertrain on growth and next generation technology.

GKN Automotive's robust operating performance in 2021 provides a strong platform for the business going into 2022. The restructuring initiatives undertaken during extremely volatile market conditions provide every reason to be optimistic about further operating margin expansion, healthy cash generation and profitable order book growth during the coming year. Inflationary pressures look set to persevere across raw materials, energy and labour, with the business fully focused to offset their impact and being proactive in addressing any potential disruption caused by the recent unrest in Ukraine. We are confident that the impact of inflation can be overcome by management actions so that, with its adjusted cost base and as full run rate benefits unfold, GKN Automotive's 10% plus operating margin target will be achieved.

[6] Before capital expenditure and restructuring costs

POWDER METALLURGY DIVISION

GKN Powder Metallurgy is a global leader in metal powders and precision powder parts for the automotive and industrial sectors. It combines the design and production of advanced powder metals with innovative sintering and additive production technologies to create unique metal and polymer products.

The year of 2021 was marked by a strong improvement in activity levels for GKN Powder Metallurgy across all geographies. The pent-up demand for vehicles and other goods in general, combined with the need by the industry to recover from the low stock levels maintained during the previous year, produced very high demand during the first quarter of the year. This high activity level registered in the first three months was followed by lower and more erratic demand, primarily from the automotive industry caused by the semiconductors supply issue. For the full year, GKN Powder Metallurgy achieved a revenue growth of 13% compared with the previous year. Although revenue levels remain below pre-pandemic levels, sales volume growth for the business in 2021 was double the production growth of the wider market, highlighting the increased market share achieved by the business.

As part of the improvement plan, the core business has been streamlined, resulting in the divestment in May 2021 of a non-core low margin structural plant in the USA, and the planned Canada plant closure, which is set to be concluded during 2022. In addition, the closure of a Sinter Metals site in Germany was communicated in November. Having taken it through the initial development phase, GKN Hydrogen, the hydrogen storage business, was also separated into a standalone business under direct Melrose management at the end of the year.

Furthermore, while the year was also characterised by a significant increase in input costs, primarily coming from the cost of commodities, notably metal scrap, copper, nickel and molybdenum, the pass-through mechanisms largely protected the financial performance. The business was also proactive in exiting lower margin sales, particularly on ICE platforms.

These actions have contributed to GKN Powder Metallurgy's very strong performance, with adjusted operating margins for the full year expanding to 9.3% and adjusted operating profit up 162%. This improvement came from the stronger activity level, primarily during the first quarter, tight cost management during the lower activity months and the realisation of benefits arising from restructuring activities initiated during prior years.

Another year of strong cash generation saw the business achieve a cash conversion rate of 107%[7], reflecting the sustainable improvements achieved in working capital. The business made significant investment in new technologies and continued the development of the core business during the year. A key focus has been the development of the transition plan for the switch to electric vehicles. As well as innovative solutions like the launch of an electric pump for hybrid transmission vehicles, the business is well progressed in harnessing its unique powder technologies in connection with break-through technologies for magnets for e-motors.

Other parts of the business made good progress as well. For Powders/Hoeganaes, the hydride powder for hydrogen storage was further developed and it will be a long-term supplier to GKN Hydrogen. In Additive, the expansion of polymers into the Michigan site was initiated, as a way of increasing the presence in the Midwest and, in particular, to serve the global automotive manufacturers.

Outlook

Expectations are that supply chain shortages, particularly relating to the availability of semiconductors, will ease during the year, supporting another year of growth in 2022 for GKN Powder Metallurgy. The business is being proactive in its elimination of the impact of inflationary pressures, which it expects to be able to fully offset and ensuring minimal disruption from the recent unrest in Ukraine. The recently completed reorganisation and refocus on core products, along with

[7] Before capital expenditure and restructuring costs

the conclusion of further ongoing activities, positions GKN Powder Metallurgy well to continue the margin expansion towards reaching its 14% operating margin target as full run rate benefits flow through and we move towards realising value for shareholders.

OTHER INDUSTRIAL DIVISION

Having sold Brush and Nortek Control during the year, the Other Industrial division now consists of Ergotron and the newly formed GKN Hydrogen business.

ERGOTRON

Ergotron is a leading designer, manufacturer and distributor of ergonomic products for use in a variety of working, learning and healthcare environments. Based in Minneapolis, U.S., Ergotron comprises three business segments: Healthcare, Workspace, and Custom and is respected for high quality, professional-grade products that last.

Revenue growth of 15% over 2020 was driven by continued global growth in Healthcare of 18% and a 42% growth in Workspace driven by employees embracing a more hybrid work environment even as they return to the office.

Despite a challenging year due to global supply chain issues and inflationary pressures, the business successfully offset these through price increases to maintain strong profitability. The strong revenue growth and margin management was reflected in the 19% increase in operating profit for the year.

Outlook

Ergotron expects further profitable growth in 2022 led by continued growth in its Healthcare segment due to market expansion and the focus on new global geographic territories. Additionally, Ergotron is well positioned to capture growth in the Workspace segment due to the expansion of the hybrid work environment.

HYDROGEN

GKN Hydrogen

GKN Hydrogen offers a state-of-the-art metal hydride storage solution that was initially developed under the umbrella of the GKN Powder Metallurgy business. It harnessed the business' unique and industry leading knowledge of powder technology to create the most reliable and secure hydrogen storage solution currently available today. The robust system stores hydrogen compactly and safely in proprietary metal hydrides and it can be used in a wide range of industrial and commercial applications.

Having produced and tested pilot systems during 2021, the business has been separated into a standalone business within the Melrose Group in order to maximise the growth opportunity. GKN Hydrogen will now move into the commercialisation phase with increased focus in 2022 and beyond.

Simon Peckham
Chief Executive
3 March 2022

FINANCE DIRECTOR'S REVIEW

During the year the Group successfully disposed of the Nortek Air Management division and the Brush and Nortek Control businesses from within the Other Industrial division. Together, these businesses contributed c.20% of adjusted revenue in the previous year and are shown as discontinued operations throughout these Consolidated Financial Statements.

The results of the continuing businesses in the Group show substantial improvement this year over last year, as the benefits of restructuring actions are increasingly coming through.

MELROSE GROUP RESULTS – CONTINUING OPERATIONS

Statutory results:

The statutory IFRS results are shown on the face of the Income Statement and show revenue of £6,883 million (2020: £7,132 million), an operating loss of £451 million (2020: £487 million) and a loss before tax of £618 million (2020: £679 million). The diluted earnings per share ("EPS"), calculated using the weighted average number of shares in issue during the year of 4,695 million (2020: 4,858 million), were a loss of 9.6 pence (2020: loss of 11.7 pence).

Adjusted results:

The adjusted results are also shown on the face of the Income Statement. They are adjusted to include the Group's share of revenue and operating profit from certain investments in which the Group does not hold full control, equity accounted investments ("EAIs"), and to exclude certain items which are significant in size or volatility or by nature are non-trading or non-recurring, or are items released to the Income Statement that were previously a fair value item booked on an acquisition. It is the Group's accounting policy to exclude these items from the adjusted results, which are used as an Alternative Performance Measure ("APM") as described by the European Securities and Markets Authority ("ESMA"). APMs used by the Group are defined in the glossary to the Consolidated Financial Statements.

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

The adjusted results for the year ended 31 December 2021 show revenue of £7,496 million (2020: £7,723 million), an operating profit of £375 million (2020: £141 million) and a profit before tax of £252 million (2020: loss of £41 million). Adjusted diluted EPS, calculated using the weighted average number of shares in issue in the year of 4,695 million (2020: 4,858 million), were 4.1 pence (2020: a loss of 0.6 pence).

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

RECONCILIATION OF STATUTORY RESULTS TO ADJUSTED RESULTS

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

Continuing operations:	2021 £m	2020 £m
Statutory revenue	**6,883**	**7,132**
Adjusting item:		
Revenue from equity accounted investments (“EAIs”)	613	591
Adjusted revenue	**7,496**	**7,723**

Adjusting item:

Adjusted revenue includes revenue from EAIs, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems Co Limited (“SDS”), within the Automotive segment. During the year ended 31 December 2021, EAIs in the Group generated £613 million of revenue (2020: £591 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:	2021 £m	2020 £m
Statutory operating loss	**(451)**	**(487)**
Adjusting items:		
Amortisation of intangible assets acquired in business combinations	452	472
Restructuring costs	269	221
Currency movements in derivatives and movements in associated financial assets and liabilities	114	(182)
Net release of fair value items	(49)	(115)
Other	40	48
Write down of assets	-	184
Adjustments to statutory operating loss	**826**	**628**
Adjusted operating profit	**375**	**141**

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

The amortisation charge on intangible assets acquired in business combinations of £452 million (2020: £472 million), which is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.

Costs associated with restructuring projects in the year totalling £269 million (2020: £221 million), including a write down of assets in affected sites of £112 million (2020: £20 million). These are shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2021 these included:

- A charge of £92 million (2020: £110 million) within the Aerospace division, primarily relating to the commencement of significant multi-year restructuring projects, necessary for the business to achieve its full potential target operating margins. These included the initial stages of European footprint consolidations in both the Civil and Engines businesses, which commenced in the first half of the year, and significant restructuring programmes in North America, across all three Aerospace sub-segments, which commenced in the second half.

- A charge of £147 million (2020: £60 million) within the Automotive division, primarily relating to two significant footprint consolidation actions in Europe, which significantly progressed during the year, along with costs incurred on multiple worldwide restructuring projects as the business accelerates its efforts to position its cost base during 2022 at a level that will allow the business to achieve target operating margins when supply constraints ease.

- A charge of £18 million (2020: £48 million) within the Powder Metallurgy division, relating to multiple restructuring projects underway that will set the business' cost base during 2022 at a level such that target operating margins can be achieved when supply constraints ease.

- A net charge of £12 million (2020: £3 million) within the Other Industrial and Corporate divisions which includes the non-cash accounting loss resulting from actions taken in the year to secure and buy-out pensioner members from the GKN UK 2016 Pension Plan with Aviva or Rothesay, as described in the pensions and post-employment obligations section of this review.

Where hedge accounting is not applied, movements in the fair value of derivative financial instruments (primarily forward foreign currency exchange contracts), along with foreign exchange movements on the associated financial assets and liabilities, entered into within the businesses to mitigate the potential volatility of future cash flows on long-term foreign currency customer and supplier contracts. This totalled a charge of £114 million (2020: credit of £182 million) in the year and is shown as an adjusting item because of its volatility and size.

The net release of fair value items in the year of £49 million (2020: £115 million) where items have been resolved for more favourable amounts than first anticipated. During the year this included a net release of £22 million in respect of loss-making contract provisions held within the GKN businesses, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period. The net release of fair value items is shown as an adjusting item, avoiding positively distorting adjusted results.

Other adjusting items of £40 million (2020: £48 million), which included items consistent with prior years, the largest of which is an adjustment of £28 million (2020: £30 million) to gross up the post-tax profits of EAIs to be consistent with the adjusted operating profits of subsidiaries within the Group.

In the prior year, a write down of assets of £184 million, which was recognised as a result of the impact of COVID-19, of which £133 million was within the Aerospace division. This was shown as an adjusting item because of the unprecedented nature of the COVID-19 pandemic, along with its non-trading nature and size.

STATUTORY AND ADJUSTED RESULTS BY REPORTING SEGMENT

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

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Statutory revenue	**2,538**	**3,164**	**948**	**233**	**6,883**
Reconciling item:					
Revenue from EAIs	5	581	27	-	613
Adjusted revenue	**2,543**	**3,745**	**975**	**233**	**7,496**

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

	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Corporate £m	Total £m
Statutory operating (loss)/profit	**(196)**	**(131)**	**40**	**35**	**(199)**	**(451)**
Reconciling item:						
Adjusting items	308	303	51	16	148	826
Adjusted operating profit/(loss)	**112**	**172**	**91**	**51**	**(51)**	**375**

The performances of each of the reporting segments are discussed in the Chief Executive's Review. The adjusted operating loss in the corporate cost centre of £51 million (2020: £46 million) included £34 million (2020: £34 million) of operating costs and £17 million (2020: £12 million) of costs relating to divisional cash-based long-term incentive plans.

FINANCE COSTS AND INCOME – CONTINUING OPERATIONS

Total net finance costs shown in the statutory IFRS results in the year ended 31 December 2021 were £167 million (2020: £192 million), of which £125 million (2020: £182 million) are shown within the adjusted results and £42 million (2020: £10 million) treated as adjusting items.

Adjusted results:

Net interest on external bank loans, bonds, overdrafts and cash balances was £91 million (2020: £133 million). The Group uses interest rate swaps to fix the majority of the interest rate exposure on its drawn debt. More detail on these swaps is given in the finance cost risk management section of this review.

Net finance costs in adjusted results also included: a £10 million (2020: £12 million) amortisation charge relating to the arrangement costs of raising the Group's current bank facility; an interest charge on net pension liabilities of £8 million (2020: £19 million); a charge on lease liabilities of £14 million (2020: £16 million); and a charge for the unwind of discounting on long-term provisions of £2 million (2020: £2 million).

Adjusting items:

Adjusting items, within finance costs and income, include: a charge of £45 million (2020: £nil), relating to the early settlement of certain interest rate swap instruments that were no longer needed following the disposals of the Nortek Air Management and Brush businesses; and a credit of £3 million (2020: charge of £2 million) relating to the fair value changes on cross-currency swaps. Both are shown as adjusting items because of their volatility and non-trading nature.

In the prior year, adjusting items within finance costs and income included a charge of £8 million relating to costs incurred renegotiating the Group's financial covenants with its banking facility syndicate in response to the impact of COVID-19.

In addition, a credit of £2 million (2020: £nil), not included in the statutory net finance costs, is included in adjusted results, relating to the gross up of post-tax profits of EAIs to be consistent with the finance costs and income of other subsidiaries within the Group. This results in net adjusted finance costs for the year of £123 million (2020: £182 million).

DISCONTINUED OPERATIONS

Discontinued operations include: Nortek Air Management sold to Madison Industries LLC on 22 June 2021 for gross proceeds of £2.6 billion; the Brush business disposed on 18 June 2021 for cash consideration of £0.1 billion; and Nortek Control on 4 October 2021 for £0.2 billion.

The net proceeds associated with the disposal of Nortek Air Management and Nortek Control, plus more than £800 million of cash generated by the Nortek businesses since acquisition and the retention of the Ergotron business in the Group, means the Group is well placed to achieve the target of doubling shareholders' investment on the Nortek acquisition.

The disposal of Brush, the final business to be sold from the FKI acquisition in 2008, concluded another highly successful investment for Melrose shareholders, providing a 2.6x return on Shareholders' initial equity, equivalent to an IRR of 29%.

Discontinued businesses contributed £884 million to revenue and achieved statutory operating profit of £5 million for the period of the year under ownership (2020: revenue of £1,782 million and statutory operating profit of £149 million), before contributing a net £1.3 billion profit on disposal in the year.

RETURN OF CAPITAL AND NUMBER OF SHARES IN ISSUE

In line with the Group's strategy, following the disposal of Nortek Air Management and Brush, a return of £729 million in cash to Shareholders, equivalent to 15 pence per Existing Ordinary Share, was made on 31 August 2021 via a redeemable share scheme alongside a 9 for 10 share consolidation. This reduced the number of ordinary shares in issue by 10%, from 4,858 million to 4,372 million.

The weighted average number of shares used for earnings per share in calculations in 2021 is 4,695 million.

TAX – CONTINUING OPERATIONS

The statutory results show a tax credit of £172 million (2020: credit of £114 million) which arises on a statutory loss before tax on continuing operations of £618 million (2020: loss of £679 million), a statutory tax rate of 28% (2020: 17%).

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

The statutory tax rate is higher than the adjusted tax rate because the statutory tax credit includes exceptional tax credits of £108 million (2020: £nil) relating to the recognition of Dutch losses that will give future tax savings as a result of a change in law, partially offset by exceptional tax charges of £70 million (2020: £nil) in respect of the extraction of the US Powder Metallurgy companies from the Automotive tax group.

The Group has £792 million (31 December 2020: £810 million) of deferred tax assets on tax losses, retirement benefit obligations and other timing differences. These are offset by deferred tax liabilities on intangible assets of £993 million (31 December 2020: £1,161 million) and £163 million (31 December 2020: £201 million) of other deferred tax liabilities. Most of the tax losses and other deferred tax assets will generate future cash tax savings, whereas the deferred tax liabilities on intangible assets are not expected to give rise to cash tax payments.

Net cash tax paid in the year ended 31 December 2021 was £65 million (2020: £14 million), 26% of adjusted profit before tax.

CASH GENERATION AND MANAGEMENT

Robust cash management initiatives continue to be run by all businesses in the Group and resulted in a free cash inflow in the year of £125 million (2020: £456 million) of which £53 million (2020: £252 million) was in discontinued operations, with each of the continuing businesses more than self-funding all costs, including substantial restructuring spend. Adjusted free cash flow, shown before restructuring cash spend, was £323 million (2020: £628 million).

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

Continuing operations (unless stated otherwise)	**2021 £m**	**2020 £m**
Adjusted operating profit	375	141
Adjusted operating profit from EAIs	(66)	(62)
Depreciation and amortisation	425	442
Lease obligation payments	(54)	(63)
Positive non-cash impact from loss-making contracts	(48)	(58)
Working capital movements	62	371
Adjusted operating cash flow (pre-capex)	**694**	**771**
Net capital expenditure	(225)	(265)
Net interest and net tax paid	(205)	(171)
Defined benefit pension contributions – ongoing	(54)	(107)
Restructuring	(193)	(161)
Dividend income from equity accounted investments	52	54
Net other	3	83
Cash flows from operations discontinued in the year, after all costs[1]	53	252
Free cash flow	**125**	**456**

[1] includes £5 million (2020: £11 million) of restructuring spend

Adjusted free cash flow	**323**	**628**

Net working capital in the continuing businesses was reduced by £62 million in the year (2020: £371 million), despite Group revenue growing by 2% in the year, at constant currency. Working capital as a percentage of sales, within the remaining GKN businesses, has reduced from 5% at the GKN acquisition date to 3% at 31 December 2021, illustrating the strong cash generation achieved during Melrose ownership.

Net capital expenditure in the year was £225 million (2020: £265 million), representing 0.6x (2020: 0.7x) depreciation of owned assets.

Net interest paid in the year was £140 million (2020: £157 million), net tax payments were £65 million (2020: £14 million) and ongoing contributions to defined benefit pension schemes were £54 million (2020: £107 million). These included £30 million (2020: £60 million) paid into the GKN UK pension plans, reduced because the funding commitment made by the Group, when GKN was acquired in 2018, has been delivered ahead of schedule. The GKN UK pension schemes are now in surplus helped by £1 in every £3 of free cash flow since acquisition being paid into the Group's pension schemes.

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

	2021 £m	2020 £m
At 1 January	**(2,847)**	**(3,283)**
Non-trading items and discontinued operations:		
Net cash flow from acquisition and disposal related activities	2,536	(11)
Dividends paid to Melrose shareholders	(69)	-
Return of Capital	(729)	-
Foreign exchange and other non-cash movements[1]	34	(9)
Cash flow from non-trading items and discontinued operations	**1,772**	**(20)**
[1] the prior period includes £7 million of cash outflows from operations discontinued last year		
Free cash flow	125	456
At 31 December at closing exchange rates	**(950)**	**(2,847)**
At 31 December at 12 month average exchange rates	**(947)**	**(2,953)**

Group net debt at 31 December 2021, translated at closing exchange rates (being US $1.35 and €1.19), was £950 million (31 December 2020: £2,847 million, translated at closing exchange rates at 31 December 2020).

The significant reduction in net debt during the year consisted of a free cash inflow of £125 million and substantial inflows primarily relating to the disposals of Nortek Air Management, Nortek Control and Brush, together totalling £2,536 million. In addition, payments to shareholders included dividends of £69 million and a Return of Capital of £729 million (discussed earlier in this review). There was a £34 million reduction to net debt in respect of foreign exchange and other non-cash movements.

The net debt at the acquisition of GKN, of £3.4 billion, has been fully repaid within four years, save cash returned to shareholders over the period as dividends or capital returns.

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 £947 million (31 December 2020: £2,953 million, translated at twelve month average exchange rates for 2020).

The Group net debt leverage on this basis at 31 December 2021 was 1.3x EBITDA (31 December 2020: 4.1x EBITDA), transforming the Balance Sheet from last year's leverage, to be more conservative.

ASSETS AND LIABILITIES

The summarised Melrose Group assets and liabilities are shown below:

	2021 £m	2020 £m
Goodwill and intangible assets acquired with business combinations	7,043	8,790
Tangible fixed assets, computer software and development costs	2,875	3,541
Equity accounted investments	429	430
Net working capital	159	346
Net retirement benefit obligations	(461)	(838)
Provisions	(701)	(1,021)
Deferred tax and current tax	(495)	(717)
Lease obligations	(376)	(555)
Net other	17	(19)
Total	**8,490**	**9,957**

These assets and liabilities are funded by:

	2021 £m	2020 £m
Net debt	(950)	(2,847)
Equity	(7,540)	(7,110)
Total	**(8,490)**	**(9,957)**

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

GOODWILL, INTANGIBLE ASSETS AND IMPAIRMENT REVIEW

The total value of goodwill as at 31 December 2021 was £2,850 million (31 December 2020: £3,640 million) and intangible assets acquired with business combinations was £4,193 million (31 December 2020: £5,150 million). These items are split by reporting segment as follows:

31 December 2021	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial £m	Total £m
Goodwill	933	1,001	507	409	2,850
Intangible assets acquired with business combinations	2,542	979	559	113	4,193
Total goodwill and acquired intangible assets	**3,475**	**1,980**	**1,066**	**522**	**7,043**

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

Under IAS 36, the value in use basis for calculating the recoverable amount prohibits the inclusion of future uncommitted restructuring plans, 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 certain businesses within the Group, the fair value less costs to sell basis gives the higher valuation at this point in time for the GKN group of cash generating units, and therefore in accordance with IAS 36, has been used in assessing the recoverable amount for these businesses.

The Board is comfortable that no impairment is required in respect of the valuation of goodwill and intangible assets in its businesses as at 31 December 2021.

PROVISIONS

Total provisions at 31 December 2021 were £701 million (31 December 2020: £1,021 million), which included: £222 million for warranty (31 December 2020: £330 million); £167 million for loss-making contracts (31 December 2020: £241 million); £135 million for environmental and litigation issues (31 December 2020: £191 million); £81 million for restructuring (31 December 2020: £147 million); and other provisions of £96 million (31 December 2020: £112 million).

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

	Total £m
At 1 January 2021	**1,021**
Spend against provisions	(278)
Net charge to adjusted operating profit	72
Net charge shown as adjusting items	96
Release of loss-making contract provision to adjusting items	(22)
Utilisation of loss-making contract provision	(48)
Disposals	(118)
Other (including foreign exchange)	(22)
At 31 December 2021	**701**

Spend against provisions in the year, of £278 million, included £167 million of cash spent on restructuring activities.

The net charge to adjusted operating profit in the year of £72 million is primarily in respect of ongoing warranty and workers' compensation charges which are closely matched by similar cash payments in the year.

The net charge shown as adjusting items in the Income Statement of £96 million primarily includes costs associated with restructuring actions of £124 million, discussed within the adjusting items section of this review, net of a release, mainly relating to fair value items settled for an amount more favourable than first anticipated.

The utilisation of the loss-making contract provision was £48 million in the year (31 December 2020: £59 million). Furthermore, £22 million, approximately 13%, of the remaining loss-making contract provision was released as an adjusting item in the year, either because contracts have been favourably resolved following positive negotiations with customers or because operational efficiencies have been demonstrated for a sustained period of time. At 31 December 2021 the loss-making contract provision was £167 million, approximately 70% lower than when GKN was acquired in 2018.

Movement in provisions in the year also included foreign exchange movements of £21 million and the unwind of discounting on certain provisions of £1 million. These are shown in the Other category in the table above.

PENSIONS AND POST-EMPLOYMENT OBLIGATIONS

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

The values of the Group plans were updated at 31 December 2021 by independent actuaries to reflect the latest key assumptions and are summarised as follows:

	Assets £m	Liabilities £m	Accounting surplus/deficit £m
GKN UK Group pension schemes (Numbers 1 - 4)	2,754	(2,575)	**179**
Other Group pension schemes	256	(896)	**(640)**
Total Group pension schemes	3,010	(3,471)	**(461)**

The most significant pension plans remaining in the Group are the GKN UK Group Pension Schemes (Numbers 1 - 4), two of which are allocated to the Aerospace division and two to the Automotive division. At 31 December 2021 in total these four pension plans had aggregate gross assets of £2,754 million (31 December 2020: £2,556 million), gross liabilities of £2,575 million (31 December 2020: £2,755 million) and a net surplus of £179 million (31 December 2020: net deficit of £199 million), split 60% of the surplus held within Aerospace and 40% within Automotive. These GKN schemes are closed to new members and to the accrual of future benefits for current members.

The largest deficits within the other pension schemes in the Group relate to German GKN pension plans which provide benefits dependent on final salary and service, and which are generally unfunded and closed to new members. At 31 December 2021 these plans had a net deficit of £530 million (31 December 2020: £559 million).

During the year, £53 million of net surplus on pension schemes were transferred with businesses on disposal. In addition, a successful buy-out of pensioner liabilities of the GKN UK 2016 Pension Plan was performed, resulting in c.8,000 pensioners benefits being secured with Aviva or Rothesay. Prior to the completion of the buy-out process, the remaining 2,659 deferred members, along with the resulting net surplus of £43 million, of the GKN UK 2016 Pension Plan were transferred to a ring-fenced section of the GKN Group Pension Scheme Number 2.

The Group’s funding commitment of the GKN UK Group Pension Schemes, made when GKN was acquired in 2018, has been delivered ahead of schedule following an agreed contribution of £34 million after the disposal of Nortek Air Management. The ongoing contributions to these defined benefit pension schemes have now halved to £30 million per annum, with no further requirement to contribute amounts following disposals of businesses.

In total, ongoing contributions to the Group defined benefit pension plans and post-employment medical plans in the year ended 31 December 2021 were £54 million and are expected to be at a similar level in 2022.

A summary of the assumptions used are shown in the Financial Statements. It is noted that a 0.1 percentage point decrease in the discount rate would increase the retirement benefit accounting liabilities of the Group, on an IAS 19 basis, by £61 million, or 2%, and a 0.1 percentage point increase to inflation would increase the liabilities by £41 million, or 1%. Furthermore, an increase by one year in the expected life of a 65 year old member would increase the pension liabilities on these plans by £175 million, or 5%.

FINANCIAL RISK MANAGEMENT

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

These are discussed in turn below.

Liquidity risk management

The Group’s net debt position at 31 December 2021 was £950 million (31 December 2020: £2,847 million).

In December 2021, the Group extended the maturity date of both its term loan and revolving credit facility to 30 June 2024. Subsequent to this extension, in December 2021 the term loan was partly prepaid by £70 million and US$172 million. Consequently, the Group's committed bank funding includes a multi-currency denominated term loan of £30 million (31 December 2020: £100 million) and US$788 million (31 December 2020: US$960 million) and a multi-currency denominated revolving credit facility of £1.1 billion, US$2.0 billion and €0.5 billion. Loans drawn under this facility are guaranteed by Melrose Industries PLC and certain of its subsidiaries, but there is no security over any of the Group's assets in respect of this facility.

At 31 December 2021, the term loan was fully drawn and there were no amounts drawn on the multi-currency revolving credit facility. Applying the exchange rates at 31 December 2021, the headroom equated to £3.0 billion. There are also a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Group.

In addition to the headroom on the multi-currency committed revolving credit facility, cash, deposits and marketable securities, net of overdrafts, in the Group amounted to £468 million at 31 December 2021 (31 December 2020: £160 million).

The Group also holds capital market borrowings as at 31 December 2021 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 tested half-yearly in June and December.

The net debt to adjusted EBITDA covenant test level is set at 4.25x at 31 December 2021; 4.0x at 30 June 2022; 3.75x at 31 December 2022; and 3.5x at 30 June 2023 and onwards. At 31 December 2021 the Group net debt leverage was 1.3x, affording comfortable headroom.

The interest cover test is set at 3.0x at 31 December 2021; 3.25x at 30 June 2022; and 4.0x from 31 December 2022 onwards. At 31 December 2021 the Group interest cover was 5.9x, again showing comfortable headroom compared to the covenant test.

A limited number of Group trade receivables are subject to non-recourse factoring and customer supply chain finance arrangements. As at 31 December 2021, these amounted to £310 million (31 December 2020: £314 million) and as a result there was a net cash reduction in the year of £4 million (2020: benefit of £60 million).

In addition, some suppliers have access to utilise the Group's supplier finance programmes, which are provided by a number of the Group's banks. As at 31 December 2021 there were drawings on these facilities of £102 million (31 December 2020: £62 million). There is no cost to the Group for providing these programmes as the cost is borne by the suppliers. These programmes allow suppliers to choose whether they want to accelerate the payment of their invoices by the financing banks, at a low interest cost, based on the credit rating of the Group as determined by the financing banks. If the Group exited these arrangements or the banks ceased to fund the programmes there could be a potential impact of approximately £60 million (31 December 2020: approximately £30 million) on the Group's cash flows. The risk of this happening is considered low as the Group has extended the number of banks that provide this type of financing to ensure there is not a significant exposure to any one bank.

Finance cost risk management

The policy of the Board is to fix approximately 70% of the interest rate exposure of the Group. Following the disposals of Nortek Air Management, Nortek Control and Brush, the Group's net debt reduced significantly and, to maintain the policy of fixing approximately 70% of the Group's interest rate exposure, several of the interest rate swaps were cancelled at a cash cost of £47 million.

The bank margin on the bank facility depends on the Group leverage, which reduced following the disposals completed in the year. Following the extension of the bank facility in December 2021, the bank margins were as follows:

	31 Dec 2021		31 Dec 2020	
Facility:	Margin	Range	Margin	Range
Term Loan	0.75%	0.75% - 2.0%	2.0%	0.75% - 2.0%
Revolving Credit Facility	0.75%	0.75% - 2.0%	2.25%	0.95% - 2.25%

The Group holds cross-currency interest rate swaps associated with the 2022 fixed rate capital market borrowings, described earlier in this review. In addition, US$ bank debt of US$170 million is swapped into €150 million and is used to reduce the cost of the Group's borrowings. The Group also holds interest rate swap instruments to fix the cost of LIBOR on borrowings under the bank facility. The Income Statement cost on the 2022 cross-currency and interest rate swaps are as follows:

Interest rate swaps associated with:	31 Dec 2021	Maturity
2022 fixed rate capital market borrowings	3.4%	September 2022
Fixing LIBOR on the Group bank facility (excluding margin)	2.2%	January 2023

At 31 December 2021, the fair value liability of all cross-currency swaps held by the Group was £69 million (31 December 2020: £89 million).

The Group's combined Income Statement cost of debt for the next 12 months including the prior year comparative is shown below:

	31 Dec 2021	31 Dec 2020
Excluding amortisation of bank arrangement fees	3.4%	3.9%
Including amortisation of bank arrangement fees	4.1%	4.2%

Exchange rate risk management

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

The most common exchange rate risk is the transaction risk the Group takes when it invoices a customer or purchases from suppliers in a different currency to the underlying functional currency of the relevant business. The Group's policy is to review transactional foreign exchange exposures, and place necessary hedging contracts, quarterly on a rolling basis. To the extent the cash flows associated with a transactional foreign exchange risk are committed, the Group will hedge 100% at the time the cash flow becomes committed. For forecast and variable cash flows, the Group hedges a proportion of the expected cash flows, with the percentage being hedged lowering as the time horizon lengthens. The average time horizons for GKN Aerospace, GKN Automotive and GKN Powder Metallurgy reflect the longer-term nature of the contracts within these divisions. Typically, in total the Group hedges around 90% of foreign exchange exposures expected over the next twelve months and approximately 60% to 80% of exposures expected between 12 and 24 months. This policy does not eliminate the cash risk but does bring some certainty to it.

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

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

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

US Dollar	**Average rate**	**Closing rate**
2021	1.38	1.35
2020	1.28	1.37
Euro		
2021	1.16	1.19
2020	1.13	1.12

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

£m	**USD**	**EUR**	**CNY**	**Other**
Increase in adjusted operating profit	23	4	8	11
% impact on adjusted operating profit	6%	1%	2%	3%

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

A 10 percent strengthening in either the US Dollar or Euro would have the following impact on debt as at 31 December 2021:

	USD	**EUR**
Increase in debt - £ million	74	37
Increase in debt	5%	3%

Contract and warranty risk management

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

Commodity cost risk management

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

GOING CONCERN

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

The Group has modelled a reasonably possible downside scenario against future cash forecasts. The Group's Balance Sheet is transformed compared to the same time last year, and for any reasonably possible downside scenario, the Group has sufficient headroom to avoid breaching any financial covenant and would not require any additional sources of financing throughout the forecast period.

The macroeconomic environment remains uncertain and volatile. The impacts of the pandemic, political conflict and unrest on trading conditions and supply chain constraints could be more prolonged or severe than the Directors have considered in this reasonably possible scenario. It is recognised that the very recent events in Ukraine are still unfolding and any wider impacts are difficult to fully assess at this early time.

The Group's current committed bank facility headroom, its access to liquidity, and the sensible levels of bank covenants in place with 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 Financial Statements.

Geoffrey Martin
Group Finance Director
3 March 2022

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.

Consolidated Income Statement

Continuing operations	Notes	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Revenue	3	**6,883**	7,132
Cost of sales		**(5,872)**	(6,330)
Gross profit		**1,011**	802
Share of results of equity accounted investments	9	**38**	32
Net operating expenses		**(1,500)**	(1,321)
Operating loss	3, 4	**(451)**	(487)
Finance costs		**(169)**	(195)
Finance income		**2**	3
Loss before tax		**(618)**	(679)
Tax	5	**172**	114
Loss after tax for the year from continuing operations		**(446)**	(565)
Discontinued operations			
Profit for the year from discontinued operations	8	**1,283**	32
Profit/(loss) after tax for the year		**837**	(533)
Attributable to:			
Owners of the parent		**833**	(536)
Non-controlling interests		**4**	3
		837	(533)
Earnings per share			
Continuing operations			
– Basic	7	**(9.6)p**	(11.7)p
– Diluted	7	**(9.6)p**	(11.7)p
Continuing and discontinued operations			
– Basic	7	**17.7p**	(11.0)p
– Diluted	7	**17.7p**	(11.0)p

Adjusted[2] results from continuing operations

Adjusted revenue	3	**7,496**	7,723
Adjusted operating profit	3, 4	**375**	141
Adjusted profit/(loss) before tax	4	**252**	(41)
Adjusted profit/(loss) after tax	4	**197**	(27)
Adjusted basic earnings per share	7	**4.1p**	(0.6)p
Adjusted diluted earnings per share	7	**4.1p**	(0.6)p

(1) Results for the year ended 31 December 2020 have been restated for discontinued operations (note 1).
(2) Defined in note 2.

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Profit/(loss) after tax for the year		**837**	(533)
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement gain on retirement benefit obligations		**297**	244
Fair value gain/(loss) on investments in equity instruments		**43**	(16)
Income tax charge relating to items that will not be reclassified	5	**(71)**	(42)
		269	186
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**(101)**	(42)
Share of other comprehensive income from equity accounted investments		**13**	16
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	8	**113**	–
Derivative gains/(losses) on hedge relationships		**54**	(99)
Transfer to Income Statement on hedge relationships		**46**	8
Income tax (charge)/credit relating to items that may be reclassified	5	**(19)**	9
		106	(108)
Other comprehensive income for the year		**375**	78
Total comprehensive income/(expense) for the year		**1,212**	(455)
Attributable to:			
Owners of the parent		**1,208**	(458)
Non-controlling interests		**4**	3
		1,212	(455)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Operating activities			
Net cash from operating activities from continuing operations	12	**263**	476
Net cash from operating activities from discontinued operations	12	**–**	288
Net cash from operating activities		**263**	764
Investing activities			
Disposal of businesses, net of cash disposed	8	**2,703**	10
Purchase of property, plant and equipment		**(220)**	(253)
Proceeds from disposal of property, plant and equipment		**13**	25
Purchase of computer software and capitalised development costs		**(18)**	(37)
Dividends received from equity accounted investments		**52**	54
Purchase of investments		**(10)**	(2)
Acquisition of subsidiaries, net of cash acquired		**–**	(19)
Interest received		**2**	3
Net cash from/(used in) investing activities from continuing operations		**2,522**	(219)
Net cash used in investing activities from discontinued operations	12	**(11)**	(29)
Net cash from/(used in) investing activities		**2,511**	(248)
Financing activities			
Repayment of borrowings	12	**(1,555)**	(598)
Costs of raising debt finance		**(4)**	(1)
Repayment of principal under lease obligations		**(54)**	(63)
Settlement of interest rate swaps		**(47)**	–
Return of capital	6	**(729)**	–
Return of capital costs		**(1)**	–
Dividends paid to owners of the parent	6	**(69)**	–
Net cash used in financing activities from continuing operations		**(2,459)**	(662)
Net cash used in financing activities from discontinued operations	12	**(7)**	(14)
Net cash used in financing activities		**(2,466)**	(676)
Net increase/(decrease) in cash and cash equivalents, net of bank overdrafts		**308**	(160)
Cash and cash equivalents, net of bank overdrafts at the beginning of the year	12	**160**	317
Effect of foreign exchange rate changes	12	–	3
Cash and cash equivalents, net of bank overdrafts at the end of the year	12	**468**	160

(1) Results for the year ended 31 December 2020 have been restated for discontinued operations (note 1).

As at 31 December 2021, the Group had net debt of £950 million (31 December 2020: £2,847 million). A definition and reconciliation of the movement in net debt is shown in note 12.

Consolidated Balance Sheet

	Notes	**31 December 2021 £m**	31 December 2020 £m
Non-current assets			
Goodwill and other intangible assets		**7,390**	9,198
Property, plant and equipment		**2,528**	3,133
Investments		**87**	34
Interests in equity accounted investments		**429**	430
Deferred tax assets		**250**	180
Derivative financial assets		**47**	101
Other receivables		**707**	439
		11,438	13,515
Current assets			
Inventories		**893**	1,126
Trade and other receivables		**1,184**	1,658
Derivative financial assets		**23**	47
Current tax assets		**11**	23
Cash and cash equivalents		**473**	311
		2,584	3,165
Total assets	3	**14,022**	16,680
Current liabilities			
Trade and other payables		**2,051**	2,456
Interest-bearing loans and borrowings		**462**	165
Lease obligations		**57**	81
Derivative financial liabilities		**119**	58
Current tax liabilities		**142**	188
Provisions	10	**293**	415
		3,124	3,363
Net current liabilities		**(540)**	(198)
Non-current liabilities			
Other payables		**390**	421
Interest-bearing loans and borrowings		**903**	2,926
Lease obligations		**319**	474
Derivative financial liabilities		**79**	210
Deferred tax liabilities		**614**	732
Retirement benefit obligations	11	**645**	838
Provisions	10	**408**	606
		3,358	6,207
Total liabilities	3	**6,482**	9,570
Net assets		**7,540**	7,110
Equity			
Issued share capital		**333**	333
Share premium account		**3,271**	8,138
Merger reserve		**109**	109
Capital redemption reserve		**729**	–
Other reserves		**(2,330)**	(2,330)
Translation and hedging reserve		**76**	(30)
Retained earnings		**5,319**	861
Equity attributable to owners of the parent		**7,507**	7,081
Non-controlling interests		**33**	29
Total equity		**7,540**	7,110

The Financial Statements were approved and authorised for issue by the Board of Directors on 3 March 2022 and were signed on its behalf by:

Geoffrey Martin
Group Finance Director

3 March 2022

Simon Peckham
Chief Executive

3 March 2022

Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Translation and hedging reserve £m	Retained earnings £m	**Equity attributable to owners of the parent £m**	Non-controlling interests £m	**Total equity £m**
At 1 January 2020	333	8,138	109	–	(2,330)	78	1,197	**7,525**	26	**7,551**
(Loss)/profit for the year	–	–	–	–	–	–	(536)	**(536)**	3	**(533)**
Other comprehensive (expense)/income	–	–	–	–	–	(108)	186	**78**	–	**78**
Total comprehensive (expense)/income	–	–	–	–	–	(108)	(350)	**(458)**	3	**(455)**
Equity-settled share-based payments	–	–	–	–	–	–	14	**14**	–	**14**
At 31 December 2020	333	8,138	109	–	(2,330)	(30)	861	**7,081**	29	**7,110**
Profit for the year	–	–	–	–	–	–	833	**833**	4	**837**
Other comprehensive income	–	–	–	–	–	106	269	**375**	–	**375**
Total comprehensive income	–	–	–	–	–	106	1,102	**1,208**	4	**1,212**
Capital reduction	–	(4,138)	–	–	–	–	4,138	**–**	–	**–**
Return of capital	–	(729)	–	729	–	–	(729)	**(729)**	–	**(729)**
Dividends paid	–	–	–	–	–	–	(69)	**(69)**	–	**(69)**
Equity-settled share-based payments	–	–	–	–	–	–	16	**16**	–	**16**
At 31 December 2021	**333**	**3,271**	**109**	**729**	**(2,330)**	**76**	**5,319**	**7,507**	**33**	**7,540**

Details of the Group's capital reduction and return of capital are set out in note 1.

Notes to the Financial Statements

1. Corporate information

The financial information included within this Preliminary Announcement does not constitute the Company's statutory Financial Statements for the years ended 31 December 2021 or 31 December 2020 within the meaning of s435 of the Companies Act 2006, but is derived from those Financial Statements. Statutory Financial Statements for the year ended 31 December 2020 have been delivered to the Registrar of Companies and those for the year ended 31 December 2021 will be delivered to the Registrar of Companies during April 2022. The auditor has reported on those Financial Statements; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. While the financial information included in this Preliminary Announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRSs") adopted pursuant to IFRSs as issued by the IASB, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full Financial Statements that comply with IFRSs during April 2022.

Corporate structure

During the year, the Group completed the disposal of the Nortek Air Management segment and the Brush and Nortek Control businesses, previously included in the Other Industrial segment. The results of Nortek Air Management, Brush and Nortek Control have been classified within discontinued operations for both years presented; with the Income Statement, the Statement of Cash Flows and their associated notes being restated accordingly. At 30 June 2021, the Nortek Control business met the criteria within IFRS 5: Non-current Assets Held for Sale and Discontinued Operations to be classified as an asset held for sale. In addition, discontinued operations for 2020 include the results of the Wheels and Structures business, which was disposed in November 2020. Furthermore, the Aerospace, Automotive and Powder Metallurgy businesses disposed of certain non-core entities, which have not been treated as discontinued operations. Further detail is shown in note 8.

In line with the Group's strategy, following the disposals of Nortek Air Management and Brush, a return of capital of £729 million, equivalent to 15 pence per existing ordinary share, was approved by shareholders on 9 July 2021. On 10 August 2021, a court approved a capital reduction of the Company's share premium account by £4,138 million, taking the Company's share premium account from £8,138 million to £4,000 million. Subsequently, the return of capital was paid in cash to shareholders on 14 September 2021, via a redeemable preference share scheme alongside a 9 for 10 share consolidation which reduced the number of ordinary shares by 10%, from 4,858 million to 4,372 million.

Going concern

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

The Group's liquidity and funding arrangements are described in the Finance Director's Review. There is significant liquidity headroom of £3 billion at 31 December 2021 and sufficient headroom throughout the going concern forecast period. Forecast covenant compliance is considered further below.

Covenants

The Group's banking facility was extended in the year, from its original maturity in January 2023 to June 2024. The facility has two financial covenants being a net debt to adjusted EBITDA covenant and an interest cover covenant, both of which are tested half yearly in June and December.

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

	31 December 2021	30 June 2022	31 December 2022
Net debt to adjusted EBITDA	**4.25x**	4.0x	3.75x
Interest cover	**3.0x**	3.25x	4.0x

Testing

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

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

The reasonably possible sensitised case models more conservative sales assumptions for 2022 and the first half of 2023. Given that there is liquidity headroom of £3 billion and the Group's leverage was 1.3x, comfortably below the covenant test at 31 December 2021, no further sensitivity detail is provided.

Under the reasonably possible sensitised case, even with significant reductions, no covenant is breached at any of the forecast testing dates being 30 June 2022 and 31 December 2022, with the testing at 30 June 2023 also favourable, and the Group will not require any additional sources of finance, even following repayment of the £450 million bond in September 2022.

2. Alternative Performance Measures

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Segment information

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

Following the disposal of the Nortek Air Management segment during the year its results are classified within discontinued operations and the comparative results for 2020 have been restated accordingly. In addition, the results of the Brush and Nortek Control businesses, which were disposed of in the year, have also been classified as discontinued operations. The Brush and Nortek Control businesses were previously included within the Other Industrial segment and the comparative results for 2020 have been restated accordingly.

The operating segments are as follows:

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

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

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

Other Industrial – comprises the Group's Ergotron and Hydrogen Technology businesses. The Hydrogen Technology business was launched in the year.

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 year ended 31 December 2021.

a) Segment revenues

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

Year ended 31 December 2021 **Continuing operations**	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial[1] £m	Total £m
Adjusted revenue	**2,543**	**3,745**	**975**	**233**	**7,496**
Equity accounted investments	(5)	(581)	(27)	–	(613)
Revenue	**2,538**	**3,164**	**948**	**233**	**6,883**
Timing of revenue recognition					
At a point in time	1,601	3,164	948	233	5,946
Over time	937	–	–	–	937
Revenue	**2,538**	**3,164**	**948**	**233**	**6,883**

Year ended 31 December 2020 – restated[2] Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial[1] £m	Total £m
Adjusted revenue	**2,804**	**3,797**	**905**	**217**	**7,723**
Equity accounted investments	(6)	(566)	(19)	–	(591)
Revenue	**2,798**	**3,231**	**886**	**217**	**7,132**
Timing of revenue recognition					
At a point in time	1,704	3,231	886	217	6,038
Over time	1,094	–	–	–	1,094
Revenue	**2,798**	**3,231**	**886**	**217**	**7,132**

(1) Includes revenue in respect of Ergotron of £233 million (2020: £217 million).
(2) Restated for discontinued operations (note 1).

b) Segment operating profit

Year ended 31 December 2021 **Continuing operations**	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial[1] £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	**112**	**172**	**91**	**51**	**(51)**	**375**
Items not included in adjusted operating profit[3]:						
Amortisation of intangible assets acquired in business combinations	(245)	(142)	(49)	(16)	–	(452)
Restructuring costs	(92)	(147)	(18)	–	(12)	(269)
Movement in derivatives and associated financial assets and liabilities	4	(1)	(3)	–	(114)	(114)
Equity accounted investments adjustments	–	(28)	–	–	–	(28)
Melrose equity-settled compensation scheme charges	–	–	–	–	(19)	(19)
Net release and changes in discount rates of fair value items	23	14	11	–	1	49
Acquisition and disposal related gains and losses	2	1	8	–	(4)	7
Operating (loss)/profit	**(196)**	**(131)**	**40**	**35**	**(199)**	**(451)**
Finance costs						(169)
Finance income						2
Loss before tax						**(618)**
Tax						172
Loss for the year from continuing operations						**(446)**

Year ended 31 December 2020 – restated[4] Continuing operations	Aerospace £m	Automotive £m	Powder Metallurgy £m	Other Industrial[1] £m	Corporate[2] £m	Total £m
Adjusted operating profit/(loss)	**14**	**82**	**39**	**52**	**(46)**	**141**
Items not included in adjusted operating profit[3]:						
Amortisation of intangible assets acquired in business combinations	(256)	(147)	(52)	(17)	–	(472)
Restructuring costs	(110)	(60)	(48)	(1)	(2)	(221)
Impairment of assets	(133)	(21)	(30)	–	–	(184)
Equity accounted investments adjustments	–	(30)	–	–	–	(30)
Melrose equity-settled compensation scheme charges	–	–	–	–	(11)	(11)
Acquisition and disposal related gains and losses	–	–	–	–	(5)	(5)
Impact of GMP equalisation on UK pension schemes	(1)	(1)	–	–	–	(2)
Movement in derivatives and associated financial assets and liabilities	(9)	(2)	–	–	193	182
Net release and changes in discount rates of fair value items	85	(4)	34	–	–	115
Operating (loss)/profit	**(410)**	**(183)**	**(57)**	**34**	**129**	**(487)**
Finance costs						(195)
Finance income						3
Loss before tax						**(679)**
Tax						114
Loss for the year from continuing operations						**(565)**

(1) Includes adjusted operating profit in respect of Ergotron of £58 million (2020: £52 million).
(2) Corporate adjusted operating loss of £51 million (2020: £46 million), includes £17 million (2020: £12 million) of costs in respect of divisional management long-term incentive plans.
(3) Further details on adjusting items are discussed in note 4.
(4) Restated for discontinued operations (note 1).

c) Segment total assets and liabilities

	Total assets		Total liabilities	
	31 December 2021 £m	Restated[1] 31 December 2020 £m	**31 December 2021 £m**	Restated[1] 31 December 2020 £m
Aerospace	**6,267**	6,614	**2,231**	2,691
Automotive	**4,608**	5,172	**2,042**	2,407
Powder Metallurgy	**1,669**	1,816	**405**	476
Other Industrial[2]	**631**	604	**86**	76
Corporate	**847**	513	**1,718**	3,281
Continuing operations	**14,022**	14,719	**6,482**	8,931
Discontinued operations	**–**	1,961	**–**	639
Total	**14,022**	16,680	**6,482**	9,570

(1) Restated for discontinued operations (note 1).
(2) Includes total assets of £617 million (31 December 2020: £604 million) and total liabilities of £86 million (31 December 2020: £76 million) in respect of Ergotron.

d) Segment capital expenditure and depreciation

	Capital expenditure[1]		Depreciation of owned assets[1]		Depreciation of leased assets	
	Year ended 31 December 2021 £m	Restated[2] Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Restated[2] Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Restated[2] Year ended 31 December 2020 £m
Aerospace	**66**	98	**122**	121	**24**	28
Automotive	**113**	130	**198**	199	**15**	18
Powder Metallurgy	**40**	33	**51**	61	**9**	9
Other Industrial[3]	**3**	2	**3**	3	**1**	1
Corporate	**–**	–	**1**	1	**1**	1
Continuing operations	**222**	263	**375**	385	**50**	57
Discontinued operations	**12**	27	**17**	33	**7**	17
Total	**234**	290	**392**	418	**57**	74

(1) Including computer software and development costs. Capital expenditure excludes lease additions.
(2) Restated for discontinued operations (note 1).
(3) Capital expenditure includes £2 million (2020: £2 million) in respect of Ergotron. Depreciation of owned and leased assets in both years relates to Ergotron.

e) Geographical information

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

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

	Revenue(1) from external customers		Segment assets	
	Year ended 31 December 2021 £m	Restated(2) Year ended 31 December 2020 £m	**31 December 2021 £m**	Restated(2) 31 December 2020 £m
UK	**580**	571	**1,977**	2,132
Rest of Europe	**1,857**	1,892	**4,375**	4,820
North America	**3,437**	3,642	**2,937**	3,137
Other	**1,009**	1,027	**1,145**	1,216
Continuing operations	**6,883**	7,132	**10,434**	11,305
Discontinued operations	**884**	1,782	**–**	1,490
Total	**7,767**	8,914	**10,434**	12,795

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

4. Reconciliation of adjusted profit measures

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

a) Operating profit

Continuing operations	Notes	**Year ended 31 December 2021 £m**	Restated(1) Year ended 31 December 2020 £m
Operating loss		**(451)**	(487)
Amortisation of intangible assets acquired in business combinations	a	**452**	472
Restructuring costs	b	**269**	221
Movement in derivatives and associated financial assets and liabilities	c	**114**	(182)
Equity accounted investments adjustments	d	**28**	30
Melrose equity-settled compensation scheme charges	e	**19**	11
Net release and changes in discount rates of fair value items	f	**(49)**	(115)
Acquisition and disposal related gains and losses	g	**(7)**	5
Impairment of assets	h	**–**	184
Impact of GMP equalisation on UK pension schemes	i	**–**	2
Total adjustments to operating loss		**826**	628
Adjusted operating profit		**375**	141

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

a. The amortisation charge on intangible assets acquired in business combinations of £452 million (2020: £472 million) is excluded from adjusted results due to its non-trading nature and to enable comparison with companies that grow organically. However, where intangible assets are trading in nature, such as computer software and development costs, the amortisation is not excluded from adjusted results.

b. Restructuring and other associated costs in the year totalled £269 million (2020: £221 million), including a write down of assets in affected sites of £112 million (2020: £20 million). These are shown as adjusting items due to their size and non-trading nature and during the year ended 31 December 2021 these included:

- A charge of £92 million (2020: £110 million) within the Aerospace division primarily relating to the commencement of significant multi-year restructuring projects, necessary for the business to achieve its full potential target operating margins. These included the initial stages of European footprint consolidations in both the Civil and Engines businesses, which commenced in the first half of the year, and significant restructuring programmes in North America, across all three Aerospace sub-segments, which commenced in the second half of the year.

- A charge of £147 million (2020: £60 million) within the Automotive division, primarily relating to two significant footprint consolidation actions in Europe, which significantly progressed during the year, along with costs incurred on multiple worldwide restructuring projects as the business accelerates its efforts to position its cost base during 2022 at a level that will allow the business to achieve target operating margins when supply constraints ease.

- A charge of £18 million (2020: £48 million) within the Powder Metallurgy division relating to multiple restructuring projects underway that will set the business' cost base during 2022 at a level such that target operating margins can be achieved when supply constraints ease.

- A net charge of £12 million (2020: £3 million) within the Other Industrial and Corporate divisions which includes a non-cash accounting loss resulting from actions taken in the year to secure and buy-out pensioner members from the GKN UK 2016 Pension Plan.

c. 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, including foreign exchange movements on the associated financial assets and liabilities are shown as an adjusting item because of its volatility and size. This totalled a charge of £114 million (2020: a credit of £182 million) in the year.

d. The Group has a number of equity accounted investments ("EAIs") in which it does not hold full control, the largest of which is a 50% interest in Shanghai GKN HUAYU Driveline Systems Co Limited ("SDS"), within the Automotive business. The EAIs generated £613 million (2020: £591 million) of revenue in the year, which is not included in the statutory results but is shown within adjusted revenue so as not to distort the operating margins reported in the businesses when the adjusted operating profit earned from these EAIs is included.

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

e. The charge for the Melrose equity-settled Employee Share Scheme, including its associated employer's tax charge, of £19 million (2020: £11 million) is excluded from adjusted results due to its size and volatility. The shares that would be issued, based on the Scheme's current value at the end of the reporting period, are included in the calculation of the adjusted diluted earnings per share, which the Board considers to be a key measure of performance.

f. The net release of fair value items in the year of £49 million (2020: £115 million) where items have been resolved for more favourable amounts than first anticipated are shown as an adjusting item, avoiding positively distorting adjusted operating profit. During the year this included a net release of £22 million in respect of loss-making contract provisions, held within the GKN businesses, where either contractual terms have been renegotiated with the relevant customer or operational efficiencies have been identified and demonstrated for a sustained period.

g. An acquisition and disposal related net credit of £7 million (2020: charge of £5 million) arose in the year. These items are excluded from adjusted results due to their non-trading nature.

h. The write down of assets in 2020 of £184 million, mostly recognised in the second quarter of the year as a result of the impact of COVID-19, included £133 million within the Aerospace division. The write down of these assets was shown as an adjusting item due to the unprecedented nature of the COVID-19 pandemic, its non-trading nature and size.

i. During 2020, the Company incurred a further charge of £2 million in respect of gender equalisation of guaranteed minimum pensions for occupational pension schemes in the UK. For consistency with the accounting treatment in 2018 and because of its non-trading nature the charge was excluded from adjusted results.

b) Profit before tax

Continuing operations	Notes	**Year ended 31 December 2021 £m**	Restated[1] Year ended 31 December 2020 £m
Loss before tax		**(618)**	(679)
Adjustments to operating loss as above		**826**	628
Settlement of interest rate swaps	j	**45**	–
Equity accounted investments – interest	k	**2**	–
Fair value changes on cross-currency swaps	l	**(3)**	2
Bank facility negotiation fees	m	**–**	8
Total adjustments to loss before tax		**870**	638
Adjusted profit/(loss) before tax		**252**	(41)

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

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

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

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

m. Following the impact of COVID-19 in 2020, the Group paid fees in negotiating waivers and amendments to its bank facility covenants for the remaining period of the facilities. These fees were immediately written off and are shown as an adjusting item because of their non-trading nature.

c) Profit after tax

Continuing operations	Notes	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Loss after tax		**(446)**	(565)
Adjustments to loss before tax as above		**870**	638
Tax effect of adjustments to loss before tax	5	**(180)**	(99)
Tax effect of significant legislative changes	5	**(70)**	–
Tax effect of significant restructuring	5	**32**	7
Equity accounted investments – tax	k	**(9)**	(8)
Total adjustments to loss after tax		**643**	538
Adjusted profit/(loss) after tax		**197**	(27)

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

5. Tax

Continuing operations	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Analysis of tax credit in the year:		
Current tax		
Current year tax charge	**63**	56
Adjustments in respect of prior years	**(1)**	(13)
Total current tax charge	**62**	43
Deferred tax		
Origination and reversal of temporary differences	**(127)**	(248)
Adjustments in respect of prior years	**(4)**	(9)
Tax on the change in value of derivative financial instruments	**(27)**	41
Adjustments to deferred tax attributable to changes in tax rates	**(5)**	(6)
Non-recognition of deferred tax	**4**	65
Recognition of previously unrecognised deferred tax assets	**(75)**	–
Total deferred tax credit	**(234)**	(157)
Tax credit on continuing operations	**(172)**	(114)
Tax charge on discontinued operations	**53**	104
Total tax credit for the year	**(119)**	(10)

Analysis of tax credit on continuing operations in the year:	**£m**	£m
Tax charge/(credit) in respect of adjusted profit before tax	**55**	(14)
Tax credit recognised as an adjusting item	**(227)**	(100)
Tax credit on continuing operations	**(172)**	(114)

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

The tax charge of £55 million (2020: credit of £14 million) arising on adjusted profit before tax of £252 million (2020: loss of £41 million), results in an effective tax rate of 21.8% (2020: 34.1%).

The £227 million (2020: £100 million) tax credit recognised as an adjusting item includes £180 million (2020: £99 million) in respect of tax credits on adjustments to loss before tax of £870 million (2020: £638 million), £9 million (2020: £8 million) in respect of the tax on equity accounted investments, a charge of £32 million (2020: £7 million) in respect of internal Group restructuring and a £70 million credit (2020: £nil) in respect of additional deferred tax asset recognition, primarily as a result of legislative changes in The Netherlands, and rate changes in both The Netherlands and the UK.

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

	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
(Loss)/profit before tax:		
Continuing operations	**(618)**	(679)
Discontinued operations (note 8)	**3**	144
	(615)	(535)
Tax credit on loss before tax at the weighted average rate of 23.0% (2020: 27.0%)	**(141)**	(144)
Tax effect of:		
Disallowable expenses and other permanent differences within adjusted profit	**(2)**	–
Disallowable items included within adjusting items	**31**	3
Temporary differences not recognised in deferred tax	**4**	65
Recognition of previously unrecognised deferred tax assets	**(75)**	–
Tax credits, withholding taxes and other rate differences	**11**	6
Adjustments in respect of prior years	**(5)**	(12)
Tax charge classified within adjusting items	**63**	78
Effect of changes in tax rates	**(5)**	(6)
Total tax credit for the year	**(119)**	(10)

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

The reconciliation has been performed at a blended Group tax rate of 23.0% (2020: 27.0%) which represents the weighted average of the tax rates applying to profits and losses in the jurisdictions in which those results arose in the year.

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Deferred tax on retirement benefit obligations	**71**	42
Deferred tax on hedge relationship gains and losses	**19**	(9)
Total charge for the year	**90**	33

6. Dividends

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

Proposed final dividend for the year ended 31 December 2021 of 1.00p per share totalling £44 million. The final dividend of 1.00p per share was proposed by the Board on 3 March 2022 and in accordance with IAS 10: Events after the reporting period, has not been included as a liability in the Consolidated Financial Statements.

A return of capital of 15 pence per ordinary share, totalling £729 million was paid in September 2021 (note 1).

7. Earnings per share

Earnings attributable to owners of the parent	Year ended 31 December 2021 £m	Restated[(1)] Year ended 31 December 2020 £m
Earnings for basis of earnings per share	**833**	(536)
Less: profit for the year from discontinued operations (note 8)	**(1,283)**	(32)
Earnings for basis of earnings per share from continuing operations	**(450)**	(568)

	Year ended 31 December 2021 Number	Year ended 31 December 2020 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share (million)	**4,695**	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)	**4,695**	4,858

Earnings per share	Year ended 31 December 2021 pence	Restated[(1)] Year ended 31 December 2020 pence
Basic earnings per share		
From continuing and discontinued operations	**17.7**	(11.0)
From continuing operations	**(9.6)**	(11.7)
From discontinued operations	**27.3**	0.7
Diluted earnings per share		
From continuing and discontinued operations	**17.7**	(11.0)
From continuing operations	**(9.6)**	(11.7)
From discontinued operations	**27.3**	0.7

Adjusted earnings from continued operations	Year ended 31 December 2021 £m	Restated[(1)] Year ended 31 December 2020 £m
Adjusted earnings for the basis of adjusted earnings per share[(2)]	**193**	(30)

Adjusted earnings per share from continuing operations

	Year ended 31 December 2021 pence	Restated[(1)] Year ended 31 December 2020 pence
Adjusted basic earnings per share	**4.1**	(0.6)
Adjusted diluted earnings per share	**4.1**	(0.6)

(1) Restated for discontinued operations (note 1).
(2) Adjusted earnings for the year ended 31 December 2021 comprises adjusted profit after tax of £197 million (2020: loss of £27 million) (note 4), net of an allocation to non-controlling interest of £4 million (2020: £3 million).

8. Discontinued operations

On 18 June 2021, the Group completed the sale of the Brush business, previously included in the Other Industrial division, for net cash consideration of £127 million. The costs charged to the Income Statement associated with the disposal were £2 million. The profit on disposal was £24 million after the recycling of cumulative translation gains of £22 million.

On 22 June 2021, the Group announced the completion of the sale of the Nortek Air Management business for net cash consideration of £2,470 million. The costs charged to the Income Statement associated with the disposal were £41 million. The profit on disposal was £1,347 million after the recycling of cumulative translation losses of £110 million.

At 30 June 2021, the Nortek Control business met the criteria within IFRS 5: Non-current Assets Held for Sale and Discontinued Operations to be classified as an asset held for sale. On 4 October 2021, the Group completed the sale of the Nortek Control business for net cash consideration of £212 million. The costs charged to the Income Statement associated with the disposal were £1 million. The loss on disposal was £38 million after the recycling of cumulative translation losses of £26 million.

During the year, the Aerospace, Automotive and Powder Metallurgy businesses disposed of certain non-core entities. Cumulative disposal proceeds from these activities amounted to £3 million and a profit on disposal was £2 million after the recycling of cumulative translation gains of £1 million, and disposal costs of £5 million.

The results of Nortek Air Management, Brush and Nortek Control have been classified within discontinued operations for both years presented. In addition, discontinued operations for 2020 include the results of the Wheels and Structures business which was disposed in November 2020.

Financial performance of discontinued operations:

	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Revenue	**884**	1,782
Operating costs[2]	**(879)**	(1,633)
Operating profit	**5**	149
Finance costs	**(2)**	(5)
Profit before tax	**3**	144
Tax	**(53)**	(104)
(Loss)/profit after tax	**(50)**	40
Gain/(loss) on disposal of net assets of discontinued operations, net of recycled cumulative translation differences	**1,333**	(8)
Profit for the year from discontinued operations	**1,283**	32

(1) Restated for discontinued operations (note 1).
(2) Operating costs in the year ended 31 December 2021 included an £85 million charge on remeasurement to fair values less costs of disposal relating to the Nortek Control business on reclassification to assets held for sale.

Classes of assets and liabilities held for sale and disposed of during the year were as follows:

	Held for sale			
	Reclassified	Remeasured	Held for sale	Businesses disposed
	£m	£m	£m	£m
Goodwill and other intangible assets	267	(85)	182	901
Property, plant and equipment	18	–	18	254
Retirement benefit surplus	–	–	–	53
Inventories	46	–	46	233
Trade and other receivables	36	–	36	248
Cash and cash equivalents	–	–	–	53
Total assets	367	(85)	282	1,742
Trade and other payables	(35)	–	(35)	(333)
Lease obligations	(13)	–	(13)	(138)
Provisions	(6)	–	(6)	(112)
Current and deferred tax	(18)	–	(18)	(67)
Total liabilities	(72)	–	(72)	(650)
Net assets	**295**	**(85)**	**210**	**1,092**
Movement in the value of net assets classified as held for sale in the period prior to disposal			13	
Net assets held for sale disposed			223	223
Total net assets disposed				**1,315**
Cash consideration, net of costs[1]				2,763
Cumulative translation difference recycled on disposals				(113)
Profit on disposal of businesses				**1,335**
Profit on disposal of businesses classified as discontinued operations				1,333
Profit on disposal of businesses classified within continuing operations				2
				1,335
Net cash inflow arising on disposal:				
Consideration received in cash and cash equivalents, net of costs[1]				2,763
Less: cash and cash equivalents disposed[2]				(60)
				2,703

(1) Cash consideration of £2,812 million net of £49 million of disposal costs.
(2) Includes £7 million related to Nortek Control.

9. Equity accounted investments

Group share of results from continuing operations	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Revenue	**613**	591
Operating costs	**(547)**	(529)
Adjusted operating profit	**66**	62
Adjusting items	**(21)**	(22)
Net finance income	**2**	–
Profit before tax	**47**	40
Tax	**(9)**	(8)
Share of results of equity accounted investments	**38**	32

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 2021	241	43	191	330	147	69	1,021
Utilised	(48)	(1)	(34)	(73)	(167)	(3)	(326)
Charge to operating profit(1)	6	–	50	69	138	21	284
Release to operating profit(2)	(22)	(7)	(38)	(56)	(14)	(1)	(138)
Disposal of businesses(3)	(4)	(6)	(30)	(35)	(18)	(19)	(112)
Transfer to held for sale(4)	–	–	(2)	(4)	–	–	(6)
Unwind of discount(5)	(1)	–	–	–	–	–	(1)
Exchange adjustments	(5)	–	(2)	(9)	(5)	–	(21)
31 December 2021	**167**	**29**	**135**	**222**	**81**	**67**	**701**
Current	43	5	70	100	72	3	293
Non-current	124	24	65	122	9	64	408
	167	**29**	**135**	**222**	**81**	**67**	**701**

(1) Includes £142 million of adjusting items and £142 million recognised in adjusted operating profit.
(2) Includes £68 million of adjusting items and £70 million recognised in adjusted operating profit.
(3) Disposal of businesses in 2021 relates to the sales of Nortek Air Management, Brush and certain other non-core entities (note 1).
(4) Transfer to held for sale in 2021 relates to the Nortek Control business, which was subsequently disposed of during the second half of 2021 (note 1).
(5) Includes £2 million within finance costs relating to the time value of money and a £3 million credit relating to changes in discount rates on loss-making contract provisions recognised as fair value items on the acquisition of GKN, which has been included as an adjusting item within operating profit (note 4).

Loss-making contracts

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

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

Utilisation during the year of £48 million (2020: £59 million) has benefited adjusted operating profit with £23 million recognised in Aerospace, £21 million recognised in Automotive, £4 million recognised in Powder Metallurgy and £nil recognised in Other Industrial. In addition, £22 million has been released on a net basis and is shown as an adjusting item, as described in note 4, as part of the release of fair value items split; £4 million in Aerospace, £8 million in Automotive and £10 million in Powder Metallurgy.

Property related costs

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

Environmental and litigation

Environmental and litigation provisions relate to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and estimated future costs and settlements in relation to legal claims and associated insurance obligations. Liabilities for environmental costs are recognised when environmental assessments are probable and the associated costs can be reasonably estimated.

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

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

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

Restructuring
Restructuring provisions relate to committed costs in respect of restructuring programmes, as described in note 4, usually resulting in cash spend within one year. A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by either starting to implement the plan or by announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are necessarily entailed by the restructuring programmes.

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

Where appropriate, provisions have been discounted using discount rates between 0% and 11% (31 December 2020: 0% and 7%) depending on the territory in which the provision resides and the length of its expected utilisation.

11. Retirement benefit obligations

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

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

The Group contributed £128 million (2020: £111 million) to defined benefit pension plans and post-employment plans in the year ended 31 December 2021; comprising £54 million of ongoing payments to Group pension plans, £34 million paid to the GKN UK Group Pension Schemes following the disposal of Nortek Air Management, to satisfy the funding commitment made on the acquisition of GKN, £39 million paid to pension schemes disposed with Nortek Air Management and Brush and £1 million relating to discontinued operations. The Group expects to contribute £56 million in 2022.

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

	Rate of increase of pensions in payment % per annum	Discount rate %	Price inflation (RPI/CPI) %
31 December 2021			
GKN Group Pension Schemes (Numbers 1 – 4)	**2.7**	**2.0**	**3.2/2.7**
GKN US plans	**n/a**	**2.7**	**n/a**
GKN Europe plans	**2.1**	**1.1**	**2.1/2.1**
31 December 2020			
GKN Group Pension Schemes (Numbers 1 – 4)	2.4	1.4	2.7/2.2
GKN UK 2016 Pension Plan	1.9	1.4	2.7/2.2
GKN US plans	n/a	2.4	n/a
GKN Europe plans	1.4	0.6	1.4/1.4
Brush UK Pension Plan	3.1	1.4	2.7/2.2

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

	31 December 2021 £m	31 December 2020 £m
Present value of funded defined benefit obligations	**(2,848)**	(3,930)
Fair value of plan assets	**3,010**	3,775
Funded status	**162**	(155)
Present value of unfunded defined benefit obligations	**(623)**	(683)
Net liabilities	**(461)**	(838)
Analysed as:		
Retirement benefit surplus (non-current other receivables)(1)	**184**	–
Retirement benefit obligations (non-current liabilities)	**(645)**	(838)
Net liabilities	**(461)**	(838)

(1) Includes a surplus relating to the GKN Group Pension Plans Numbers 1-4 of £179 million (31 December 2020: deficit of £199 million) and the Japan Employee plan of £5 million (31 December 2020: £nil).

The net retirement benefit obligation in continuing businesses is attributable to Aerospace: asset of £67 million (31 December 2020: liability of £171 million), Automotive: liability of £484 million (31 December 2020: £693 million), Powder Metallurgy: liability of £37 million (31 December 2020: £47 million), Other Industrial: £nil (31 December 2020: £nil) and Corporate: liability of £7 million (31 December 2020: asset of £64 million). The net retirement benefit obligation in respect of discontinued businesses was an asset of £9 million at 31 December 2020.

The plan assets and liabilities at 31 December 2021 were as follows:

	UK Plans(1) £m	US Plans £m	European Plans £m	Other Plans £m	**Total £m**
Plan assets	2,754	203	23	30	**3,010**
Plan liabilities	(2,582)	(289)	(566)	(34)	**(3,471)**
Net assets/(liabilities)	172	(86)	(543)	(4)	**(461)**

(1) Includes a liability in respect of the GKN post-employment medical plans of £7 million and a surplus in respect of the GKN Pension Scheme Numbers 1 – 4 of £179 million.

12. Cash flow statement

	Notes	**Year ended 31 December 2021 £m**	Restated(1) Year ended 31 December 2020 £m
Reconciliation of operating loss to net cash from operating activities generated by continuing operations			
Operating loss		**(451)**	(487)
Adjusting items	4	**826**	628
Adjusted operating profit	4	**375**	141
Adjustments for:			
Depreciation of property, plant and equipment		**374**	391
Amortisation of computer software and development costs		**51**	51
Share of adjusted operating profit of equity accounted investments	9	**(66)**	(62)
Restructuring costs paid and movements in provisions		**(233)**	(135)
Defined benefit pension contributions paid(2)		**(88)**	(107)
Change in inventories		**(31)**	173
Change in receivables		**79**	269
Change in payables		**14**	(71)
Tax paid		**(65)**	(14)
Interest paid on loans and borrowings		**(128)**	(144)
Interest paid on lease obligations		**(14)**	(16)
Acquisition and disposal costs		**(5)**	–
Net cash from operating activities		**263**	476

(1) Restated for discontinued operations (note 1).
(2) Comprises £54 million (2020: £107 million) of ongoing contributions to Group pension plans and £34 million paid to the GKN UK Pension Schemes following the disposal of Nortek Air Management, satisfying the funding commitment made on the acquisition of GKN.

Reconciliation of cash and cash equivalents, net of bank overdrafts	**31 December 2021 £m**	31 December 2020 £m
Cash and cash equivalents per Balance Sheet	**473**	311
Bank overdrafts included within current interest-bearing loans and borrowings	**(5)**	(151)
Cash and cash equivalents, net of bank overdrafts per Statement of Cash Flows	**468**	160

Cash flow information relating to discontinued operations is as follows:

Cash flow from discontinued operations	**Year ended 31 December 2021 £m**	Restated(1) Year ended 31 December 2020 £m
Net cash from discontinued operations	**84**	284
Defined benefit pension contributions paid	**(40)**	(4)
Interest paid on lease obligations	**(2)**	(5)
Tax (paid)/received	**(42)**	13
Net cash from operating activities from discontinued operations(2)	**–**	288
Purchase of property, plant and equipment	**(12)**	(24)
Proceeds from disposal of property, plant and equipment	**2**	–
Purchase of computer software and capitalised development costs	**(1)**	(5)
Net cash used in investing activities from discontinued operations	**(11)**	(29)
Repayment of principal under lease obligations	**(7)**	(14)
Net cash used in financing activities from discontinued operations	**(7)**	(14)

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

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

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of interest-bearing loans and borrowings (current and non-current) and cash and cash equivalents. A reconciliation from the most directly comparable IFRS measure to net debt, used as a basis for banking covenant calculations, is given below:

	31 December 2021 £m	31 December 2020 £m
Interest-bearing loans and borrowings – due within one year	**(462)**	(165)
Interest-bearing loans and borrowings – due after one year	**(903)**	(2,926)
External debt	**(1,365)**	(3,091)
Less:		
Cash and cash equivalents	**473**	311
	(892)	(2,780)
Adjustments:		
Impact of cross-currency swaps	**(69)**	(89)
Non-cash acquisition fair value adjustments	**11**	22
Net debt	**(950)**	(2,847)

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

	At 31 December 2020 £m	Cash flow £m	Acquisitions and disposals £m	Other non-cash movements £m	Effect of foreign exchange £m	**At 31 December 2021 £m**
External debt (excluding bank overdrafts)	(2,940)	1,562	–	5	13	**(1,360)**
Cross-currency swaps	(89)	(7)	–	–	27	**(69)**
Non-cash acquisition fair value adjustments	22	–	–	(11)	–	**11**
	(3,007)	1,555	–	(6)	40	**(1,418)**
Cash and cash equivalents, net of bank overdrafts	160	(2,380)	2,688	–	–	**468**
Net debt	(2,847)	(825)	2,688	(6)	40	**(950)**

Glossary

Alternative Performance Measures ("APMs")

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

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

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

Income Statement Measures

APM
Adjusted revenue

Closest equivalent statutory measure
Revenue

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

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

Adjusted revenue	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Revenue	**6,883**	7,132
Share of revenue of equity accounted investments (note 3)	**613**	591
Adjusted revenue	**7,496**	7,723

APM
Adjusting items

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Adjusting items (note 4)

Definition and purpose
Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance.

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

This provides a meaningful comparison of how the business is managed and measured on a day-to-day basis and provides consistency and comparability between reporting periods.

APM
Adjusted operating profit

Closest equivalent statutory measure
Operating loss[2]

Reconciling items to statutory measure
Adjusting items (note 4)

Definition and purpose
The Group uses adjusted profit measures to provide a useful and more comparable measure of the ongoing performance of the Group. Adjusted measures are reconciled to statutory measures by removing adjusting items, the nature of which are disclosed above and further detailed in note 4.

Adjusted operating profit	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Operating loss	**(451)**	(487)
Adjusting items to operating loss (note 4)	**826**	628
Adjusted operating profit	**375**	141

APM
Adjusted operating margin

Closest equivalent statutory measure
Operating margin[3]

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

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

APM
Adjusted profit before tax

Closest equivalent statutory measure
Loss before tax

Reconciling items to statutory measure
Adjusting items (note 4)

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

Adjusted profit/(loss) before tax	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Loss before tax	**(618)**	(679)
Adjusting items to loss before tax (note 4)	**870**	638
Adjusted profit/(loss) before tax	**252**	(41)

APM
Adjusted profit after tax

Closest equivalent statutory measure
Loss after tax

Reconciling items to statutory measure
Adjusting items (note 4)

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

Adjusted profit/(loss) after tax	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Loss after tax	**(446)**	(565)
Adjusting items to loss after tax (note 4)	**643**	538
Adjusted profit/(loss) after tax	**197**	(27)

APM
Constant currency

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

Reconciling items to statutory measure
Constant currency foreign exchange rates

Definition and purpose
The Group uses GBP based constant currency models to measure performance. These are calculated by applying 2021 average exchange rates to local currency reported results for the current and prior year. This gives a GBP denominated Income Statement which excludes any variances attributable to foreign exchange rate movements.

APM
Adjusted EBITDA for leverage covenant purposes

Closest equivalent statutory measure
Operating loss[2]

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

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

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

Adjusted EBITDA for leverage covenant purposes	Year ended 31 December 2021 £m	Year ended[5] 31 December 2020 £m
Adjusted operating profit	**375**	340
Depreciation of property, plant and equipment and amortisation of computer software and development costs	**425**	492
Imputed lease charge	**(68)**	(97)
Non-controlling interests	**(4)**	(3)
Other adjustments required for covenant purposes[4]	**(14)**	(8)
Adjusted EBITDA for leverage covenant purposes	**714**	724

APM
Adjusted tax rate

Closest equivalent statutory measure
Effective tax rate

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

Definition and purpose
The income tax charge for the Group excluding adjusting tax items, and the tax impact of adjusting items, divided by adjusted profit before tax.

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

Adjusted tax rate	**Year ended 31 December 2021 £m**	Restated[1] Year ended 31 December 2020 £m
Tax credit per Income Statement	**172**	114
Adjusted for:		
Tax impact of adjusting items	**(180)**	(99)
Tax impact of significant legislative changes	**(70)**	–
Tax impact of significant restructuring	**32**	7
Tax impact of EAIs	**(9)**	(8)
Adjusted tax (charge)/credit	**(55)**	14
Adjusted profit/(loss) before tax	**252**	(41)
Adjusted tax rate	**21.8%**	34.1%

APM
Adjusted basic earnings per share

Closest equivalent statutory measure
Basic earnings per share

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

Definition and purpose
Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year.

APM
Adjusted diluted earnings per share

Closest equivalent statutory measure
Diluted earnings per share

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

Definition and purpose
Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.

The Board considers this to be a key measure of performance when all businesses are held for the complete reporting period.

APM
Interest cover

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

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

This measure is used for bank covenant testing.

Interest cover	**Year ended 31 December 2021 £m**	Year ended[5] 31 December 2020 £m
Adjusted EBITDA for leverage covenant purposes	**714**	724
Adjusted EBITDA from businesses disposed in the year	**127**	2
Adjusted EBITDA for interest cover	**841**	726
Interest on bank loans and overdrafts	**(138)**	(136)
Finance income	**2**	3
Other interest for covenant purposes[6]	**(6)**	(9)
Net finance charges for covenant purposes	**(142)**	(142)
Interest cover	**5.9x**	5.1x

Balance Sheet Measures

APM
Working capital

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

Reconciling items to statutory measure
Not applicable

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

APM
Net debt

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

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

Definition and purpose
Net debt comprises cash and cash equivalents, interest-bearing loans and borrowings and cross-currency swaps but excludes non-cash acquisition fair value adjustments.

Net debt is one measure that could be used to indicate the strength of the Group's Balance Sheet position and is a useful measure of the indebtedness of the Group.

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

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

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

Definition and purpose
Net debt (as above) is presented in the Balance Sheet translated at year end exchange rates.

For bank covenant testing purposes net debt is converted using average exchange rates for the previous 12 months.

Leverage is calculated as the bank covenant definition of net debt divided by adjusted EBITDA for leverage covenant purposes. This measure is used for bank covenant testing.

Net debt	31 December 2021 £m	31 December[5] 2020 £m
Net debt at closing rates (note 12)	**950**	2,847
Impact of foreign exchange	**(3)**	106
Bank covenant definition of net debt at average rates	**947**	2,953
Leverage	**1.3x**	4.1x

Cash Flow Measures

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

Closest equivalent statutory measure
Net cash from operating activities

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

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

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

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

Adjusted operating cash flow (pre-capex)	Year ended 31 December 2021 £m	Restated[1] Year ended 31 December 2020 £m
Adjusted operating profit	**375**	141
Share of adjusted operating profit of equity accounted investments	**(66)**	(62)
Depreciation of owned property, plant and equipment and amortisation of computer software and development costs	**375**	385
Depreciation of leased property, plant and equipment and amortisation of leased computer software and development costs	**50**	57
Repayment of principal under lease obligations	**(54)**	(63)
Positive non-cash utilisation from loss-making contracts	**(48)**	(58)
	632	400
Change in inventories	**(31)**	173
Change in receivables	**79**	269
Change in payables	**14**	(71)
Adjusted operating cash flow (pre-capex)	**694**	771
Adjusted operating cash flow (pre-capex) conversion	**110%**	193%

APM
Free cash flow

Closest equivalent statutory measure
Net increase/decrease in cash and cash equivalents

Reconciling items to statutory measure
Acquisition related cash flows, dividends paid to owners of the parent, foreign exchange and other non-cash movements

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

Free cash flow	**Year ended 31 December 2021 £m**	Restated[1] Year ended 31 December 2020 £m
Adjusted operating cash flow (pre-capex)	**694**	771
Net capital expenditure	**(225)**	(265)
Net interest and tax paid	**(205)**	(171)
Defined benefit pension contributions paid - ongoing	**(54)**	(107)
Restructuring costs paid	**(193)**	(161)
Dividends received from EAIs	**52**	54
Trading net other cash flows[7]	**3**	83
Operations discontinued in the year	**53**	252
Free cash flow	**125**	456

APM
Adjusted free cash flow

Closest equivalent statutory measure
Net increase/decrease in cash and cash equivalents

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

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

Adjusted free cash flow	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Free cash flow	**125**	456
Restructuring costs paid[8]	**198**	172
Adjusted free cash flow	**323**	628

APM
Capital expenditure (capex)

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

Definition and purpose
Calculated as the purchase of owned property, plant and equipment and computer software and expenditure on capitalised development costs during the year, excluding any assets acquired as part of a business combination.

Net capital expenditure is capital expenditure net of proceeds from disposal of property, plant and equipment.

APM
Capital expenditure to depreciation ratio

Closest equivalent statutory measure
None

Reconciling items to statutory measure
Not applicable

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

APM
Dividend per share

Closest equivalent statutory measure
Dividend per share

Reconciling items to statutory measure
Not applicable

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

(1) Restated for discontinued operations (note 1).
(2) Operating loss is not defined within IFRS but is a widely accepted profit measure being loss before finance costs, finance income and tax.
(3) Operating margin is not defined within IFRS but is a widely accepted profit measure being derived from operating loss[(2)] divided by revenue.
(4) Included within other adjustments required for covenant purposes are dividends received from equity accounted investments and the removal of adjusted operating profit of equity accounted investments.
(5) Year ended 31 December 2020 remains aligned to the original calculations supporting the Group's bank debt compliance certificate and have not been restated for discontinued operations.
(6) Other interest for covenant purposes includes bank facility renegotiation fees and debt issue costs paid during the year and cash paid to settle interest rate swaps not included in finance costs.
(7) Trading net other cash flows include non-cash movements included in adjusted operating profit, cash paid against provisions, costs relating to a return of capital and dividends paid to non-controlling interests.
(8) Includes restructuring costs of £5 million (2020: £11 million) relating to operations discontinued in the year.