Annual Report and Accounts 2016

GKN PLC

Engineering that moves the world

Delivering on expectations

- **Another year of growth delivering earnings momentum.**
- **Strong performance from Fokker Technologies ('Fokker') in first full year of ownership.**
- **Sharpening the focus through the disposal of Stromag and a Group-wide fixed cost reduction programme.**
- **Continued investment in technology primarily focused on electrified drivetrains and additive manufacturing.**

STATUTORY BASIS

Sales

£8,822m 2015: £7,231m

Earnings per share

14.1p 2015: 11.8p

Profit before tax

£292m 2015: £245m

MANAGEMENT BASIS[1]

Sales

£9,414m 2015: £7,689m

Earnings per share

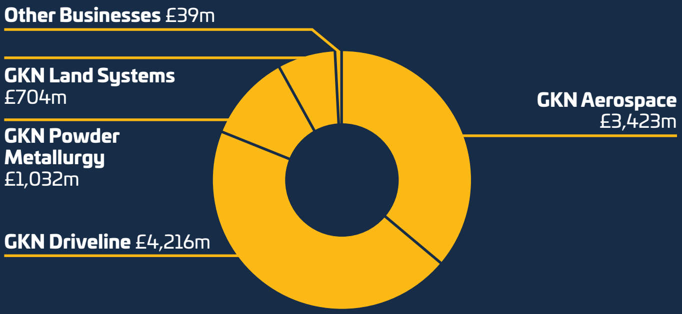
31.0p 2015: 27.8p

Profit before tax

£678m 2015: £603m

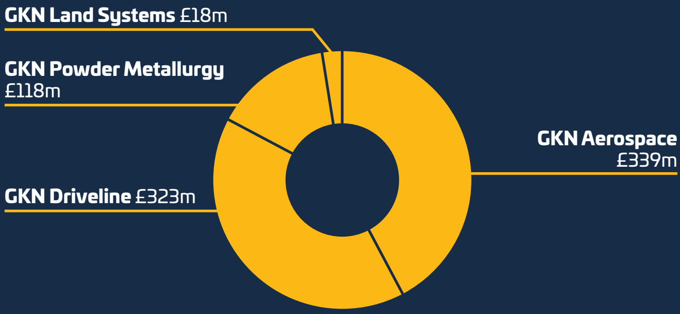
Management sales

£9,414m



Management trading profit

£773m[2]



1 See page 39 for details on measurement and reporting of performance on a management basis.
2 Including corporate costs and Other Businesses.

Contents

Pages 60 to 110 comprise the Directors' report.

Population growth, urbanisation and increased affluence are driving change. Aircraft passenger numbers are increasing, and car sales are rising while consumer preferences for vehicles evolve. Across both markets there is a drive to improve fuel efficiency and increase electrification. All these create significant growth opportunities for GKN.

GKN is a global engineering business. Every time you travel by road or air it is likely that GKN is helping you on your way.

GKN AEROSPACE

A leading tier one supplier of aircraft and engine structures and electrical interconnection systems to the global aerospace industry.

Read more about GKN Aerospace on pages 24 to 26.

GKN DRIVELINE

The leading tier one supplier of automotive driveline systems and solutions to the world's leading vehicle manufacturers.

Read more about GKN Driveline on pages 27 to 29.

GKN POWDER METALLURGY

The world's largest manufacturer of sintered components and a leading producer of metal powder.

Read more about GKN Powder Metallurgy on pages 30 to 32.

During 2016, the Group had four divisions. As of 1 January 2017, GKN Land Systems is no longer a separate division as referenced on pages 33 to 35.

Top ten global customers*

Airbus
Boeing
Fiat Chrysler
Ford
General Electric
GM Group
Renault Nissan
Toyota Group
United Technologies
VW Group

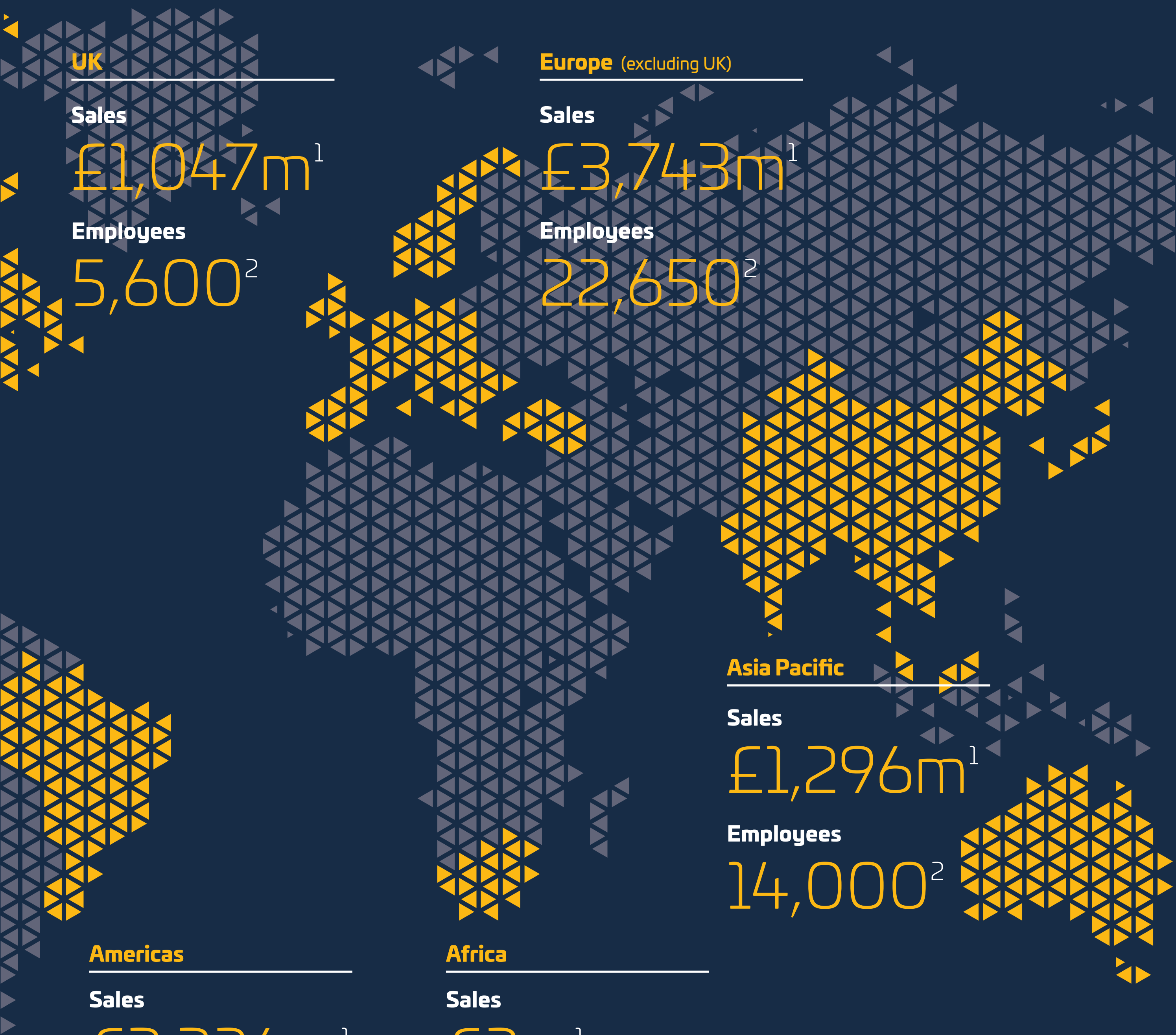
(*shown in alphabetical order)

We design, manufacture and service systems and components for original equipment manufacturers (OEMs) around the world.

Our customers include the world's largest aircraft and car manufacturers. We operate in close proximity to our customers to ensure we are well placed to participate in their supply chains.

World-leading technology is at the heart of our business; working closely with our customers, we develop technologies that will drive our future growth.

We serve our international customers from manufacturing facilities, service centres and offices in more than 30 countries across the world. This global footprint also gives us good access to growth markets.



UK

Sales
£1,047m[1]

Employees
5,600[2]

Europe (excluding UK)

Sales
£3,743m[1]

Employees
22,650[2]

Asia Pacific

Sales
£1,296m[1]

Employees
14,000[2]

Americas

Sales
£3,326m[1]

Employees
15,900[2]

Africa

Sales
£2m[1]

Employees
50[2]

1 Sales presented on a management basis.
2 Including subsidiaries and joint ventures.

AEROSPACE

As demand for global air travel continues to rise, aircraft manufacturers compete to introduce lighter, quieter and greener technologies.

2016 market trends

- **Continued strong growth of 6.3% in passenger air travel.**
- **Freight air transport returned to growth in 2016 (2.6%).**
- **A record number of commercial aircraft were delivered with Asia Pacific the leading region.**
- **Commercial aircraft market remained strong:**
  - **Single aisle orders remained high, with delivery rates continuing to increase.**
  - **Lower order intake for wide body aircraft.**
  - **Overall backlog of eight years at current production rates.**
- **Military aircraft market was down 2% in 2016 but production rates began to recover in the second half driven by F-35.**

1,436

Commercial aircraft delivered in 2016

Source: Teal.

Commercial aircraft deliveries by region (2016)

Asia Pacific	**44%**
Europe	**24%**
North America	**15%**
Africa/Middle East	**11%**
South America	**6%**

Source: Airbus and Boeing deliveries 2016.

12,589

Airbus and Boeing commercial backlog

Source: Teal.

GKN's technology, growing global footprint and strong customer relationships are helping shape the aircraft of the future.

We work with our global customers on the next generation of aircraft…

TECHNOLOGY PARTNERSHIP DRIVES AIRCRAFT ELECTRIFICATION

GKN Aerospace is partnering with industry leaders to explore the future of electrification in aviation. The partnership will initially focus on the More Electric Aircraft (MEA) concept, where aircraft systems increasingly use electrical power sources. The trend is driven by the need to optimise aircraft performance, reduce emissions, and by the increased passenger demand for energy and connectivity in-flight.

See more at www.gkn.com

… our expertise in advanced technologies provides opportunities in growing markets…

CONTRACT WINS DRIVE ASIA GROWTH

GKN Aerospace secured milestone contracts in Asia during 2016, as we continued to expand into the region's fast-growing aerospace market. Significant engine systems contracts have been secured in China, South Korea and Japan, enhancing our market penetration and key customer relationships across Asia. The Asia Pacific region is growing rapidly and is predicted to account for around 40% of the world's total aircraft market over the next two decades.

See more at www.gkn.com

… our technology is helping the global aerospace industry meet environmental challenges…

LIGHTWEIGHT TECHNOLOGY ENABLES GREENER AIRCRAFT

GKN Aerospace manufactures the complete Gulfstream G650 empennage with a thermoplastic rudder and elevator, reducing the weight of the components by 25% compared to traditional materials. The use of thermoplastic composites in primary structures of the aircraft is a trend that unlocks significant improvements in terms of aircraft weight, fuel consumption, total life-cycle costs, maintainability and recyclability.

See more at www.gkn.com

… and we are well positioned to succeed in the future.

OUTLOOK

- Commercial aircraft production is expected to grow on average by 2.5% until 2020, driven by the current record order backlogs held by OEMs.[1]
- Airbus and Boeing forecast a global demand of between 37,710 and 39,620 large commercial aircraft over the next 20 years.
- The Asian commercial fleet is expected to triple in size by 2035.[1]
- The military market is expected to return to growth in 2017 driven by demand from the US and Asia.[1]

1 Teal.

AUTOMOTIVE

Advanced electric and hybrid vehicles continue to create additional opportunities for GKN Driveline and GKN Powder Metallurgy.

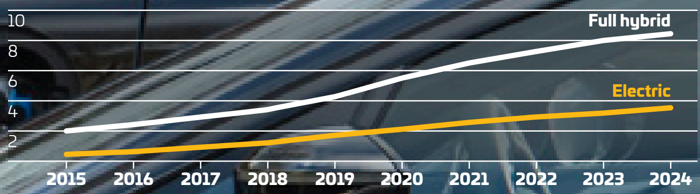
Light vehicle production by region (2016)

China	27.1m
Europe	21.5m
North America	17.8m
Japan	8.7m
India	4.2m
Brazil	2.1m
Others	11.6m
Total	**93.0m**

93.0m

Light vehicle production in 2016

Predicted growth in production volume of electric vehicles (m)



2016 market trends

- **Global light vehicle production increased 5% in 2016 to 93.0 million vehicles.**
- **Electric and full hybrid vehicle production grew by 33% in 2016 and now accounts for 3% of global vehicle production.**
- **In India, production rose 10% due to higher consumer confidence.**
- **A cut in sales tax on small vehicles together with a surge in demand for SUVs drove production in China up 14%, but there was a decline in Japan as a result of a slow economy and ongoing effects of tax changes.**
- **Overall, the European market grew by 3%, with Eastern Europe showing signs of recovery in the last quarter of the year.**
- **In North America, SUVs and light trucks continued to gain market share from passenger cars despite the market slowing.**
- **Economic and political problems resulted in another year of falling demand and production in Brazil.**

11.0%

Expected growth in global vehicle production 2016-2021

Source: IHS Automotive

We operate close to and in partnership with our customers to deliver innovative products that help them stay ahead in changing markets.

Our global approach creates a platform from which we can serve growing markets...

ALL-WHEEL DRIVE GROWTH CREATES EXPANSION FOR GKN IN CHINA

GKN Driveline has expanded production capacity in China to cater for the strong growth in all-wheel drive vehicles from consumers in Asia. Through its joint venture, Shanghai GKN HUAYA Driveline Systems Co Ltd (SDS), GKN has more than doubled its all-wheel drive production capacity in Shanghai to manufacture high quality driveline units for a combination of Chinese domestic and international car manufacturers. GKN has also invested in recruiting world-class engineering talent for its new engineering centre in China to ensure that programmes are executed to the highest standard at a local level.

See more at www.gkn.com

... we invest in technologies to ensure we remain a leader in our markets...

AT THE FOREFRONT OF ADDITIVE MANUFACTURING

GKN Powder Metallurgy is exploiting both sides of additive manufacturing (AM), the technology set to revolutionise the manufacturing industry. A joint venture agreement with TLS Technik will manufacture titanium powders for AM applications in North America. At the same time, GKN is using its capabilities in metal AM and powder-to-part manufacture to develop eDrive technology, and has already created helical gear prototypes for a new eDrive transmission concept for a major German OEM. The ability to rapidly manufacture prototypes alongside accelerated development cycles and increased freedom of design presents numerous opportunities for this new technology.

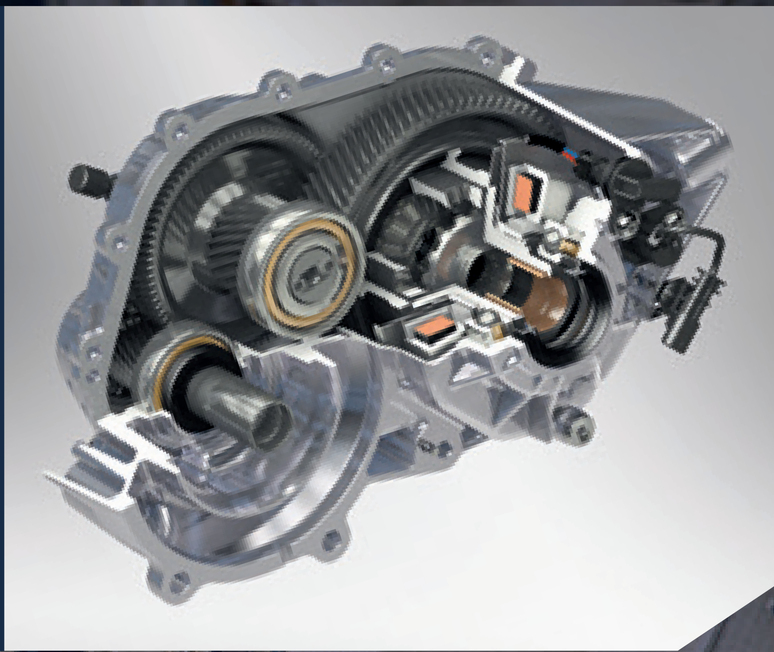
See more at www.gkn.com

… our innovative technologies help maintain our competitive edge…

EDRIVE TECHNOLOGY STRENGTHENS CUSTOMER RELATIONSHIP

GKN has deepened its strong relationship with the BMW Group with the development of a new eAxle system that features on a range of BMW vehicles. The single-speed eAxle, optimised for packaging, power, weight and efficiency, launched on the BMW 2 Series Active Tourer, followed by the long-wheelbase BMW X1 for the Chinese market. A further launch will occur in 2017 for this technology, which ensures power from the electric motor is delivered to the road in the most effective and efficient way possible.

See more at www.gkn.com



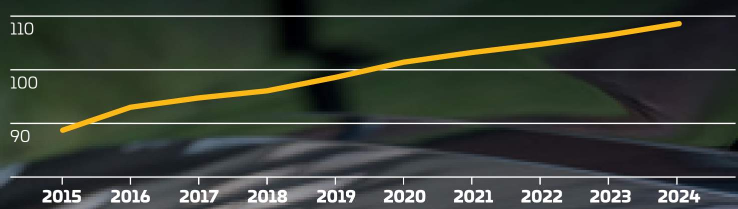
… and we are well placed to support the global automotive industry in the years to come.

OUTLOOK

- External forecasts indicate that global vehicle production in 2017 will increase 1.9% to 94.8 million vehicles.
- The largest volume growth is expected in China, increasing by 0.7 million vehicles (2.5%) on 2016, while India will grow at 5.6%.
- Europe is forecast to increase 1.7%, but North America will contract 1.5% due to slowing demand.
- Brazil is forecast to grow fastest at 13% due to recovery from a weak 2016.
- It is forecast that electric and full hybrid vehicles will reach 10% of total production by 2023, growing at a compound annual rate of 21%.

Source: IHS Automotive.

Expected growth in global light vehicle production (m)



CHAIRMAN'S STATEMENT

Continuing to perform

Mike Turner CBE
Chairman

2016 proved to be an interesting year. Against a backdrop of heightened political and economic uncertainty, the Group once again proved its resilience with a good set of results. As a global manufacturer working for some of the most technically demanding customers, we continued to deliver for our stakeholders.

Our strategy

We have a clear strategy with an overarching objective to maintain above market growth.

GKN Aerospace's focus moved from the acquisition of Fokker, completed in October 2015, to its integration. The integration has progressed well and Fokker has performed more strongly than anticipated. It has also brought some excellent people who will make a very positive contribution to GKN Aerospace in the future.

GKN Driveline has made good strategic progress in the past year making advances in its eDrive and hybrid electric technology. With the electric vehicle market growing faster than envisaged, this is an important step for the division and the Group.

GKN Powder Metallurgy continues to push ahead with its additive manufacturing technology and its digital approach to manufacturing. Best practice will be spread across GKN to take advantage of these advances.

The sale of the Stromag business and the subsequent restructuring of the Group into three divisions was an important step in sharpening GKN's focus. I would like to thank the GKN Land Systems' team for its commitment and diligence throughout the process.

In order to remain competitive, we need to ensure that the Group runs as efficiently and productively as possible. To this end, we announced in July 2016 that we were taking action to reduce fixed costs across the Group and this was achieved in the second half of the year.

Dividend

Earnings per share on a management basis increased to 31.0 pence in 2016 with a first full year contribution from Fokker.

In light of our performance during the year, we have again increased our dividend and are recommending a final dividend of 5.9 pence per share, making a total of 8.85 pence per share for the year, an increase of approximately 2% over the prior year.

Board changes

Succession planning is a key Board responsibility and a strong talent pipeline is crucial to the Group's success. As reported last year, Kevin Cummings and Phil Swash were appointed to the Board in January 2016, having been members of the Executive Committee since October 2014. Subsequently, in order to rebalance the composition of the Board and bring a fresh perspective to Board discussions, Anne Stevens was appointed as an independent non-executive Director in July 2016. Anne's knowledge of the automotive and aerospace markets is a great asset to the Board.

"In 2016, GKN Aerospace was named one of the top 100 apprenticeship employers and our Filton site won an award for its apprentice programme."

8.85p

Total dividend per share (2015: 8.7p)

31.0p

Earnings per share on a management basis (2015: 27.8p)

People

Our people have worked hard to deliver these results and I would like to thank them for their hard work and commitment.

Our employees are critical to the successful execution of our strategy. Every year, GKN delivers billions of products to its customers around the world and our employees ensure they are delivered with the right specification to the right place at the right time.

During the year, we conducted a global employee engagement survey to identify areas in which we could improve the experience of working at GKN. Action plans have been developed at site level following the survey responses and their success will be measured in the coming year.

Culture

During the year, we undertook an external Board evaluation and I was pleased that the culture of our Board was highlighted as a particular strength. I believe this extends to the Group overall; there is an ingrained culture of doing the right thing at all levels. The cornerstones of GKN's culture and the behaviours expected of its leaders are encapsulated in the GKN DNA; more information can be found on page 20.

We continue to focus on diversity and engagement as our key initiatives in 2017.

Apprentices

The availability of quality apprenticeships that develop valuable vocational skills is important not only to young people who are looking for development opportunities but also to the future of UK industry. GKN has a good record in providing such apprenticeships; in 2016, GKN Aerospace was named one of the top 100 apprenticeship employers and our Filton site won an award for its apprentice programme. In April 2017, a new apprenticeship levy will come into force for UK companies which recognises the importance of this vital form of technical training.

Summary

Overall, 2016 was a good year. Fokker is integrating well into GKN Aerospace and performed more strongly than expected. Sales in GKN Driveline once again grew above its end markets and GKN Powder Metallurgy continued to deliver good returns. Most importantly, we continued to position the Group for the future including by taking action to reduce fixed costs across the Group and selling our Stromag business in order to focus our investment on core operations.

Looking ahead

The changes in the political landscape in 2016 have brought uncertainty regarding new trade arrangements and policies. However, with a clear strategy and a sharpened focus, I am confident that GKN will continue to succeed.

Mike Turner CBE
Chairman

OUR STRATEGIC FRAMEWORK

We aim to create long-term, sustainable shareholder value through the delivery of strong financial returns.

Our five strategic objectives

Leading in our chosen markets

We aim to succeed in the long term by being selective and the best at what we do. Within our chosen markets we focus our activities and work in partnership with our customers to deliver the most innovative and high quality products and systems.

Leveraging a strong global presence

As an international business, we serve our customers through a global footprint of manufacturing sites. By further developing our geographic spread, we will continue to expand into growing markets and build long-lasting and mutually beneficial customer relationships that increase our market share.

Differentiating ourselves through technology

We deliver innovative technologies that help our customers stay ahead in their markets and enable us to maintain our competitive edge, ensuring we remain leaders in higher-value markets. We work with our customers to develop new technologies, driven by global trends such as fuel efficiency, the low-carbon agenda, electrification, urbanisation and population growth.

Driving operational excellence

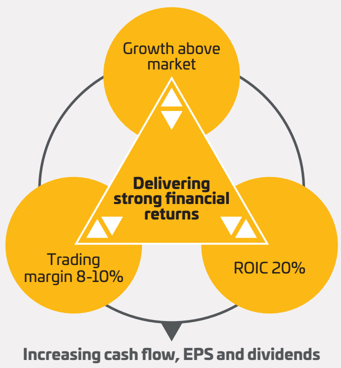
We have a strong culture of safety and operational excellence and, through continuous improvement processes, we focus on delivering exceptional quality and customer service. At the same time, we aim to be an employer of choice with a high performance culture, motivated people and outstanding leaders.

Sustaining above market growth

We believe that growth, at a manageable rate, is essential to the creation of shareholder value. Market leadership, global presence, innovative technology and operational excellence combine to help deliver growth above our markets.

Delivering strong financial returns

To deliver sustainable shareholder value through increasing earnings and dividends, our financial goals are based on a balanced approach between sales growth, margin and return on invested capital (ROIC).



OUR BUSINESS MODEL

Our key resources and advanced engineering value chain enable us to deliver returns for all our stakeholders.

Key resources

Industry know-how

The ability to identify future technology requirements and deliver market-leading solutions.

Engineering capability

Investing in technology and developing and maintaining engineering talent.

Supply chain

A flexible and well-developed global supply chain.

Global footprint

Manufacturing operations in more than 30 countries keeping us close to our international customers and giving us flexibility to respond quickly to their needs.

Customer relationships

Our largest customers are key aerospace and automotive OEMs. We partner with them on major programmes to deliver key components and this gives us valuable insight into market and consumer trends.

A skilled and committed workforce

58,200 employees around the world.

Culture

A unique culture that helps us succeed. A strong ethos of safety first and doing the right thing.

How we add value

Designing innovative products

Our investment in technology, combined with an understanding of market trends and customers' needs, enables us to maintain competitive advantage through market-leading innovative products.

Winning new business

Product differentiation and strong customer relationships are key to our success. Our focus on the voice of the customer and measuring our performance helps to maintain these relationships.

Applying Lean manufacturing

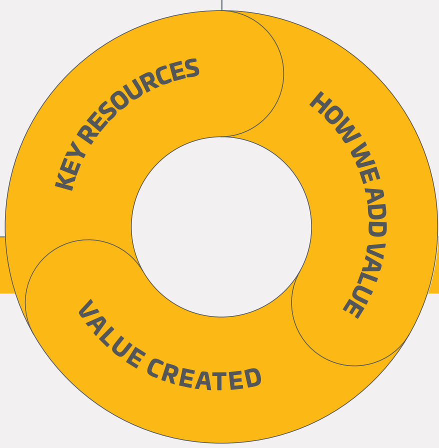
We employ efficient, cost effective processes to add value and reduce waste in our manufacturing chain.

Delivering quality products

Our global footprint helps deliver safe, high quality products, assured through robust quality management systems and our people, to the right place at the right time.

Sourcing materials and components

We leverage our buying power and geographic footprint to maintain a reliable and cost effective supply chain.



Value created

For our shareholders

We aim to create long-term shareholder value through growing profits and dividends.
See page 16

For our customers

We deliver leading-edge technology that helps our customers stay ahead in their markets.
See pages 6 and 7 and 10 and 11

For our employees

We are committed to helping all our employees reach their potential, thereby maintaining a skilled and engaged global workforce.
See pages 52 to 55

For our suppliers

We support our global supply chain through growing our business opportunities.
See page 57

In our communities

Around the world, our sites and employees support their communities through fundraising, volunteering and working with young people to inspire the next generation of engineers.
See page 59

For our environment

Our products are designed to be lighter and more efficient, helping our customers reduce the impact of their end products on the environment. We continuously improve our manufacturing processes to reduce our environmental impact.
See page 58

KEY PERFORMANCE INDICATORS

Monitoring progress

KPI	Our targets	Commentary	2016 performance
Sales growth	To achieve long-term growth rates at both Group and divisional level (in absolute terms and on an underlying basis) in excess of the growth in our major markets.	Group management sales increased by 22% on an absolute basis and grew by 2% on an organic basis.[1]	£9,414m **2016 £9,414m** 2015 £7,689m 2014 £7,456m 2013 £7,594m 2012 £6,904m
Trading margin	To achieve an overall Group trading margin of between 8% and 10%.	The Group trading margin of 8.2% remains within the target range and, excluding the impact of the Group's restructuring programme, was broadly in line with last year.[1]	8.2% **2016 8.2%** 2015 8.8% 2014 9.2% 2013 8.7% 2012 8.0%
Earnings per share (EPS)	To achieve absolute growth in EPS each year and in the longer term, and recognising the nature and cyclicality of our major markets to achieve above market growth relative to our end markets.	Management EPS increased by 12% to 31.0 pence, with a first full year contribution from Fokker.	31.0p **2016 31.0p** 2015 27.8p 2014 29.0p 2013 28.7p 2012 26.3p
Return on average invested capital (ROIC)	To achieve ROIC at both Group and divisional levels which exceeds the weighted average cost of capital of the Group (12% as a pre-tax threshold and between 9% and 10% on a post-tax basis). The Group target is to achieve ROIC of around 20% (pre-tax).	Group ROIC of 16.0% reflects improved Group trading profit which was offset by the first time inclusion of Fokker and the impact of the Group's restructuring programme.[1]	16.0% **2016 16.0%** 2015 17.8% 2014 17.7% 2013 17.3% 2012 18.0%
Free cash flow	To generate positive free cash flow sufficient to cover dividend payments, provide funding resources to support organic and acquisitive earnings growth, and reduce indebtedness.	Free cash flow amounted to £201 million, down from the prior year due to the benefit from customer advances in 2015.	£201m **2016 £201m** 2015 £370m 2014 £234m 2013 £346m 2012 £225m

1 For divisional contributions to each of these KPIs, see financial results tables on pages 25, 28, 31 and 34.

Strategic objectives

- Leading in our chosen markets
- Leveraging a strong global presence
- Differentiating ourselves through technology
- Driving operational excellence
- Sustaining above market growth

Delivering strong financial returns

Doing the right thing

Definitions that apply to the calculation of key performance indicators are set out on page 39.

KPI	Our targets	Commentary	2016 performance
R&D as a percentage of sales	Sustainable investment in research and development to support future growth.	R&D expenditure amounted to 3.6% of Group sales.	3.6% **2016** **3.6%** 2015 4.4% 2014 4.3%
New business wins	Selective new business wins targeted in our chosen markets to help achieve our strategic objectives and financial goals.	We continued to win new business aligned to our strategic goals during 2016. Key examples are discussed in the divisional business reviews on pages 24 to 35. 3 Estimated total contract value. 4 Estimated annualised contract value.	**GKN Aerospace[3]** $7.1bn **2016** **$7.1bn** 2015 $3.5bn 2014 $3.7bn **GKN Automotive[4]** £1,186m **2016** **£1,186m** 2015 £1,067m 2014 £1,039m
Accident frequency rate (AFR)[2]/ accident severity rate (ASR)[2]	Continued long-term reduction towards zero accidents.	Regrettably there were two fatal accidents in 2016 (see page 52 for details). Our underlying AFR and ASR both continued to decrease during the year, reflecting our continued commitment to safety and related improvement activities. More detail is given on pages 52 and 53.	**AFR** 20% improvement **2016** 0.96 2015 1.20 2014 1.38 **ASR** 49% improvement **2016** **20** 2015 39 2014 46
Energy efficiency	3% year-on-year improvement.	Our energy efficiency improved by 4%[5] in 2016, helped by the full year impact of Fokker. More detail is given on page 58. 5 Calculation uses constant currency.	4% improvement[5] **2016** **449 kWh** 2015 470 kWh 2014 484 kWh

2 Excluding Fokker.

KPI	Our targets	Commentary	2016 performance
Apprentices[2]	Year-on-year increase in the number of apprentices across the Group.	We continued to expand our recruitment of apprentices with 892 across the Group.	+17 apprentices **2016** **892** 2015 875 2014 857
Management turnover[2]	Voluntary turnover of management employees of less than 5%.	Voluntary turnover increased to 6.0% in 2016, falling outside our target range due, in part, to disruption around our restructuring activities.	6.0% **2016** **6.0%** 2015 4.1% 2014 4.5%
Employee disclosure	Year-on-year increase in the number of calls to the employee disclosure hotline, providing an early indicator of potential issues.	The number of hotline calls increased by 18%, reflecting continued promotion and a growing workforce.	+29 calls **2016** **187** 2015 158 2014 133
Diversity[2]	To achieve a five-year goal of 20% of leadership to be women by 2020 and, in time, 20% from under-represented groups.	We have continued to make progress towards our diversity goals, which are discussed further on page 53.	13.8% women in management **2016** **13.8%** 2015 12.6% 2014 10.7% 12.0% leaders from under-represented groups **2016** **12.0%** 2015 9.9% 2014 8.7%
Compliance training[2]	100% of employees within the target audience to complete training.	94% of the target audience have to date completed our online compliance training.	94% **2016** **94%** 2015 97% 2014 90%

2 Excluding Fokker.

Management basis results

In order to achieve consistency and comparability of underlying results between reporting periods, certain items are presented separately from management basis results which are used in many of the Group's KPIs. In addition, management basis results aggregate the sales and trading profit of subsidiaries with the Group's share of the sales and trading profits of equity accounted investments.

The items excluded from management basis results are detailed in the 'presentation of the income statement' section of note 1 to the consolidated financial statements and are excluded because of their size or nature. The Group considers the following matters when assessing the nature of items to be excluded; whether the charge or income is significantly impacted by fair value movements outside management control, it is non-cash or it doesn't relate to trading performance but rather acquisition or divestment activity.

A full reconciliation of statutory to management basis numbers is provided in note 3 to the consolidated financial statements on page 133, and further information on the items excluded from management trading profit is provided in the 'Other financial information' section of the financial review on page 36.

CHIEF EXECUTIVE'S REVIEW

Sharpening our focus

Nigel Stein
Chief Executive

2016 was another year of encouraging progress for GKN. Management profit before tax grew 12%, helped by favourable currency effects and the first full year contribution from Fokker. We also made good progress in executing our strategy, sharpening our focus and building momentum as we enter 2017.

We continued to invest in technology, reinforcing our market leading positions in automotive and aerospace. This included developing our expertise in eDrive and additive manufacturing (AM), also known as 3D printing, both of which we see as offering excellent opportunities for GKN's future success.

Financially the year could have been even better, but for the impact of operational issues in our Newton, North Carolina, plant which incurred significant cost over-runs on new product launches. GKN puts great emphasis on operational excellence and we have strengthened our processes in programme management to ensure all our locations consistently achieve the demanding standards required.

Sharpening our focus

In July, we announced a sharpening of our focus and we enter 2017 with a streamlined structure of three divisions, with GKN Land Systems' industrial business Stromag now sold (see page 35) and the rest of the division moved to other parts of the Group. The GKN Land Systems' team has worked hard over the last few years, improving their operations around the world. But their markets have been tough, shrinking their sales and the size of the potential opportunity. While in time the markets will recover, we have more immediate investment opportunities in other divisions offering stronger, faster growth.

An additional part of sharpening our focus was an initiative to reduce fixed costs across the Group, largely though a reduction of 650 staff positions. This entailed a charge of £39 million (included within management results in the second half of 2016) and will benefit 2017 and future years by £30 million a year in fixed cost savings. While difficult to do, with these reductions and the synergy cost savings achieved in Fokker behind us we can now focus on maximising operating performance in 2017.

Sector performance

GKN's two main markets, aerospace and automotive, performed broadly in line with the expectations we set out last year.

The overall aerospace market was slightly down in 2016, but GKN Aerospace's content on newer commercial programmes helped increase 2016 organic sales slightly above last year's level, offsetting a 2% decline in our sales to military programmes. The results also benefited from the excellent first full year contribution from Fokker.

Profits across the remainder of GKN Aerospace were down on 2015's reported figure, reflecting investment in two new engine programmes and slower sales of engines for the Boeing 747. Slower ramp-ups on some customer programmes also held back performance.

Looking ahead, rising demand from our military programmes combined with our position on growing commercial programmes

£9,414m

Management sales (2015: £7,689m)

is expected to sustain growth in 2017 and beyond.

Global automotive light vehicle production in 2016 increased by around 5%. GKN Driveline sales grew organically by 6%, reflecting its excellent position as market leader in driveshafts, all-wheel drive and eDrive components and systems. Profits moved slightly ahead, being held back by the launch costs referred to earlier, which impacted profits by some £25 million.

GKN Powder Metallurgy saw flat sales, partly due to the effect of declining steel surcharges and partly due to weaker output at its largest North American customer. Its results also included the start-up costs of a new powder plant in China operated in conjunction with a local partner. The business continues to run well and their very strong order intake of more than £200 million in the year bodes well for the future.

Strategic progress

In GKN Aerospace, the integration of Fokker has progressed very well. Our expectations as to the quality of this business and its people have been more than met and the Fokker team has moved rapidly to become a key part of the wider GKN business. Looking ahead, we continue to see good opportunities to utilise its technology to help meet the lightweight and electrification needs of our customers.

GKN Driveline continues to push forward with its technology for an increasingly electrified automotive market. Its current success is primarily in the hybrid electric vehicle market, although we believe our leading technology will in time also have success in the battery electric vehicle market. There are more than 300,000 hybrid vehicles already on the road using GKN eDrive technology. This includes systems for the BMW 2 Series Active Tourer and the Volvo XC90.

CVJ sideshafts and all-wheel drive continue to account for the vast majority of GKN Driveline's sales. I am pleased we had further recognition of our leading technology from the Automotive News PACE awards for our VL3 sideshaft, while also picking up an innovation partnership award for our work on the Ford Focus RS.

GKN Powder Metallurgy continues its geographic expansion, taking a majority stake in a powder manufacturing facility located in Bazhou City, China, in partnership with a highly capable local partner. While initially loss making in 2016, it will provide good growth in that important market, adding to our two very successful existing components plants in China.

Looking forward, we are increasingly seeking to exploit GKN Powder Metallurgy's positions in both powder and parts to create a strong offering in the AM market. Over the course of 2016, we instigated a new service in

LIVING THE GKN DNA

For a business to meet its strategy and deliver results it has to have the right culture. This year's International Leadership Conference in March discussed GKN's DNA and Leadership Behaviours – the things that make us tick and bring success. This is a way of describing the strong culture that exists across the GKN Group and summarising it with a simple set of principles. GKN's DNA runs through everything we do, every day, around the world. It has helped us to stand out and succeed for more than 250 years, and is something we are very proud of. These principles are supported by the GKN Leadership Behaviours which make clear what is expected of us all – to ensure we live the GKN DNA every day. Following the conference, during 2016 we communicated the GKN DNA throughout the organisation to every plant and office to help drive a consistent culture and ensure we do business the right way.

See more at www.gkn.com

"We are a highly ambitious company with a strong determination to succeed."

Germany, using AM to enable prototyping of automotive parts for our customers. On the powder side, a new joint venture with TLS Technik means that GKN is now offering aerospace grade titanium powder.

A key part of our strategy is to outgrow our markets in the medium term. In 2016, sales growth in GKN Driveline and GKN Aerospace met that objective; GKN Powder Metallurgy, on this occasion, fell slightly short. However, all three GKN divisions reported good order intake, giving us confidence in future above market growth.

Brexit

As a UK-listed company, we are often asked about the impact on GKN of the UK's decision to leave the European Union. 11% of GKN's global sales on a management basis are made in the UK with the majority of these being denominated in US dollars or Euros. Of our businesses, the UK automotive business faces the greatest risk should the exit arrangements not take into consideration the needs of its integrated European supply chain. Whatever future trading arrangements are agreed, we are not anticipating any impact to be significant from an overall GKN Group perspective, although the weakness of sterling against most other major currencies since the result has both added to our reported profits and to our debt linked to overseas currencies.

Progress towards strategic objectives

Strategic objective	Progress	
Leading in our chosen markets	◆ GKN Driveline and GKN Aerospace grew sales above their markets while GKN Powder Metallurgy's sales were slightly below. ◆ All three divisions reported good order intake, winning both new and replacement business.	**Sustaining above market growth**
Leveraging a strong global presence	◆ Contract wins for GKN Aerospace in the growing Asian commercial aerospace market. ◆ GKN Driveline expanded facilities in Turkey, China and the US, and opened new facilities in Poland and Mexico. ◆ New joint venture established in China to produce metal powder.	
Differentiating ourselves through technology	◆ Integration of Fokker bringing advancements in thermoplastics and aircraft electrification. ◆ GKN Driveline continues to push forward with eDrive technology. ◆ A new venture with TLS Technik means that GKN is now a key player in aerospace grade titanium powder for additive manufacturing.	
Driving operational excellence	◆ Strengthened our processes in programme management and supply chain management. ◆ Continued focus on 'Voice of the customer' programme to improve quality. ◆ Progress in digital manufacturing across the Group in line with Industry 4.0.	

Focus for 2017

Not everything went to plan in the year. Very sadly an employee and a contractor both lost their lives in separate work-related incidents on GKN sites. We aim to outperform our industries on safety and it continues to be the number one priority across all operations. There is still more work to be done and we will maintain our focus on safety in 2017.

Although most GKN plants raised their output and productivity, 2016 also saw some operational difficulties which led to excess costs and disappointed customers. In 2017, operational excellence – a key component of our successful strategy – will continue to be an area of focus. We know from experience that this capability can help differentiate GKN from its competitors.

We will continue to sharpen our focus, directing capital expenditure towards the most promising areas of future growth, at the same time looking to favour increased productivity over additional capacity. Automation, through robots that can work unguarded alongside people (cobots) and 'non-touch' automated inspection, are now much cheaper and easier to implement. They also offer more rapid paybacks. We have a number of projects running in our plants and this will be an area of focus in 2017.

Industry 4.0 and related technologies offer advantages to all manufacturing industries. Parts of GKN are already deploying aspects of digital manufacturing, with some 1,500 machines connected to our internal network, allowing greater operating efficiency. We are pushing hard to extend this to all sites and all significant pieces of plant to ensure we can optimise capacity.

GKN is a great business, with excellent market positions. We are a highly ambitious company with a strong determination to succeed. We are sharpening our focus while investing in technology to retain and enhance market leadership. Prospects for growth are exciting.

We enter 2017 with good forward momentum and view the future with confidence.

NM Stein

Nigel Stein
Chief Executive

FINANCIAL REVIEW

Earnings momentum

Adam Walker
Group Finance Director

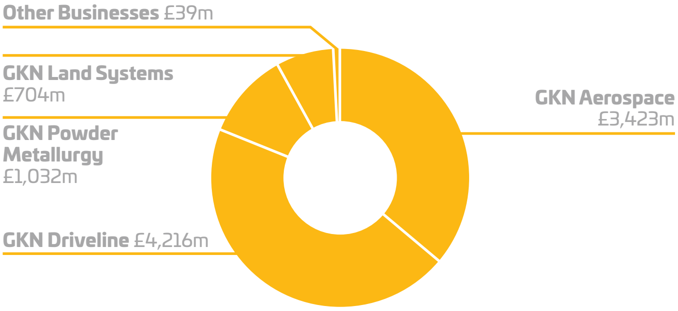
The Group made good progress in 2016 with organic sales growth above the market, increased profits, albeit at a lower margin, and a boost to earnings per share – supporting an increase of 2% in the total dividend.

Sales

Management sales increased £1,725 million (22%) to £9,414 million (2015: £7,689 million). The beneficial impact of currency translation on sales was £862 million, including a £461 million increase due to movements in the US dollar and a £222 million increase due to the Euro. Acquisitions caused a £654 million increase in sales, mainly driven by the acquisition of GKN Aerospace Fokker, which performed very well.

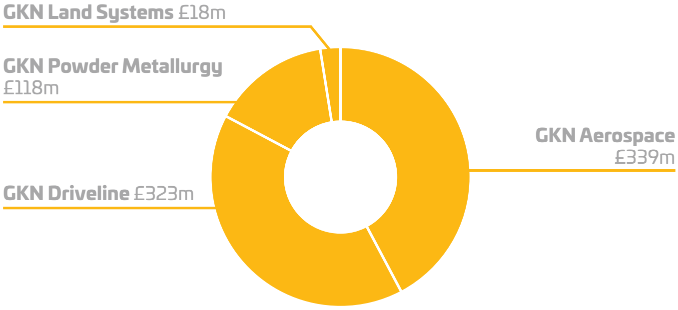
Organic sales growth of £209 million (2%) was achieved with a notably strong performance from GKN Driveline (6% increase) which continued to outgrow global light vehicle production. GKN Powder Metallurgy's organic sales were flat overall, with good growth in Europe and Asia offset by slower sales in North America and the negative impact from the pass through of lower raw material surcharges to customers. GKN Aerospace grew 1% organically, with commercial sales up 3% and military sales decreasing 2%. GKN Land Systems sales reduced 8% organically due to tough agricultural and construction equipment markets. Overall, we achieved our strategic goal of growing organically above the market.

Management sales



£9,414m

Management trading profit



£773m[1]

1 Including corporate costs and Other Businesses.

Group performance

	Management basis			Statutory basis		
	2016	2015	Change (%)	**2016**	2015	Change (%)
Sales (£m)	**9,414**	7,689	22	**8,822**	7,231	22
Trading profit (£m)	**773**	679	14	**335**	323	4
Trading margin (%)	**8.2**	8.8	(60)bps	**–**	–	–
Profit before tax (£m)	**678**	603	12	**292**	245	19
Earnings per share (pence)	**31.0**	27.8	12	**14.1**	11.8	19
Return on average invested capital (%)	**16.0**	17.8	–	**–**	–	–

31.0p

Earnings per share on a management basis (2015: 27.8p)

£315m

Operating cash flow (2015: £483m)

£704m

Net debt (2015: £769m)

Trading profit

Management trading profit increased £94 million to £773 million (2015: £679 million) due to movements in foreign exchange rates that caused an £89 million increase and the impact of the GKN Aerospace Fokker acquisition. There was a £57 million reduction in organic trading profit, mostly as a result of the £39 million Group-wide restructuring charge which has resulted in the Group focusing on three divisions and GKN Driveline realigning its operations from being run on a geographic to a product basis. As well as providing more focus to the Group, it has facilitated quicker decision making and more agility in an increasingly uncertain world.

Margin

Trading profit margin of 8.2% (2015: 8.8%) was lower principally due to the inclusion of GKN Aerospace Fokker and the £39 million Group-wide restructuring. As one of our key financial metrics, it was disappointing that all three divisions went backwards excluding the restructuring charge. This reflects, in part, greater investment in engineering particularly around electrification (GKN Driveline) and additive manufacturing (GKN Aerospace and GKN Powder Metallurgy) but also the impact of transitioning from older more profitable programmes (GKN Aerospace) and some new programme launch costs (GKN Driveline), which have now largely been addressed.

Starting this year, we are looking to standardise more areas of the back office, share best practice across divisions, drive procurement savings using the Group's purchasing power and upgrade some of our systems. This will improve our efficiency further, and with the benefits of the 2016 restructuring programme, provide a boost to our trading margin.

Return on invested capital

Group ROIC reduced to 16.0% (2015: 17.8%), due to the inclusion of Fokker for the first time and lower profitability, but still well ahead of the Group's weighted average pre-tax cost of capital of c12%. The Group target remains 20%, which GKN Powder Metallurgy is above and GKN Driveline is very close to achieving.

Taxation

The book tax rate was stable at 24% (2015: 24%).

Interest

Net interest payable for the year was £79 million (2015: £65 million) due to the acquisition of GKN Aerospace Fokker and the impact of foreign exchange rate movements as the Group's debt is mostly in US dollars and Euros.

Earnings per share

Management profit before tax increased £75 million to £678 million (2015: £603 million), which translated into a 12% increase in management earnings per share to 31.0 pence (2015: 27.8 pence).

Dividend per share

Dividend per share was up 0.15 pence to 8.85 pence (2015: 8.70 pence), a 2% increase.

Pension deficit

The pension deficit for the Group increased to £2,033 million (2015: £1,558 million) principally following changes in the discount rates used. The Group's UK schemes are currently undergoing triennial funding valuations which are likely to conclude that some additional cash funding will be required from 2017. We are focused on reducing the volatility in our pension schemes and minimising any increase in future cash funding requirements.

Cash flow

We did not make as much progress as we would have liked on cash flow generation in 2016 partly due to an improved new business win rate which created a requirement for more capital expenditure, a build-up of inventory on some key engine programmes and certain customers lengthening their payment terms. In 2015, we also benefited from a substantial customer advance on which we paid VAT in 2016. As a result, operating cash flow reduced to £315 million (2015: £483 million) and free cash flow was £201 million (2015: £370 million).

Nevertheless, cash generation and capital allocation remain a core focus for the Group. Future capital expenditure will be weighted more towards productivity, we are working to minimise long-term cash payments into the pension scheme, and prospective tax reform in the US may have a beneficial impact too. Cash conversion of 70% remains our Group target.

Movement in net debt

Overall net debt decreased to £704 million (2015: £769 million) reflecting both the proceeds from the Stromag disposal in December 2016 and a translational increase due to weakening sterling, as the Group's debt is mostly in US dollars and Euros.

GKN AEROSPACE

Delivering on expectations

Kevin Cummings
Chief Executive, GKN Aerospace

GKN Aerospace is a leading global tier one supplier of airframe and engine structures, landing gear, electrical interconnection systems, transparencies, and aftermarket services. Its technology influences the performance and efficiency of the world's leading commercial and military aircraft.

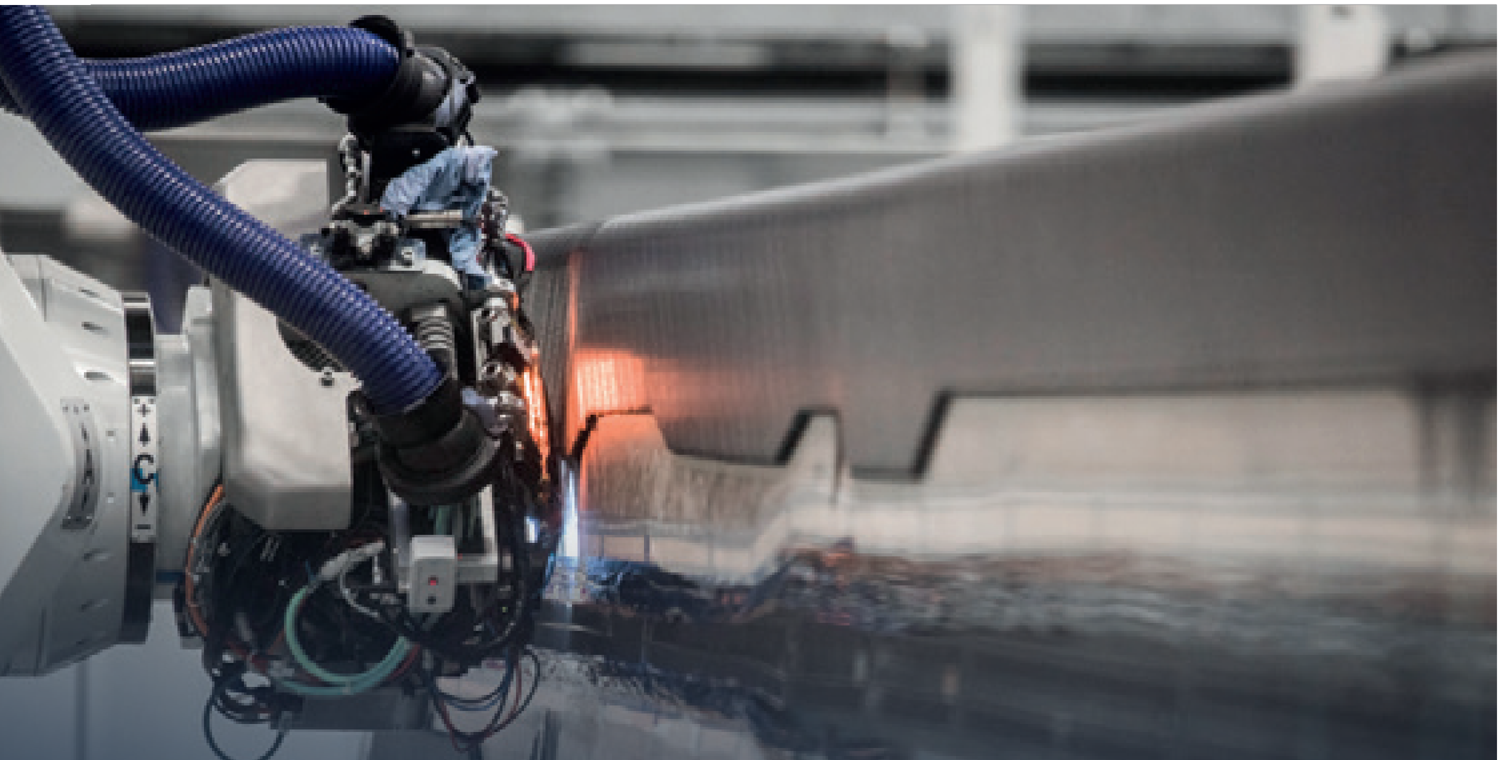
What we do

Products

- Airframe structures, including wing/empennage and flight control surface assemblies, fuselage structures and landing gear.
- Engine structures, including fixed and rotating propulsion products, fan cases, exhaust systems, nacelles and other components.
- Electrical wiring interconnection systems for aerostructures and engine products.
- Niche products such as ice protection, fuel systems, transparencies including specially coated cockpit and cabin windows, and flotation devices.

Divisional performance against Group strategy

Strategic objective	Progress	
Leading in our chosen markets	◆ Global number two in aerostructures and in the independent aero engine structures market, and number three in electrical wiring systems. ◆ $7.1 billion new work packages won in 2016.	**Sustaining above market growth**
Leveraging a strong global presence	◆ New engine systems contracts with customers in China, Japan and South Korea. ◆ Growth of our Fokker Elmo SASMOS electrical interconnection systems joint venture in India.	
Differentiating ourselves through technology	◆ Research and development agreement in the US to advance additive manufacturing (AM). ◆ New fabrication, welding and AM technologies introduced on the intermediate compressor case (ICC) for the new Trent XWB-84 engine. ◆ GKN's new state-of-the-art manufacturing centre for Boeing 737 MAX and 777X lipskins delivered the world's largest laminar flow lipskin to Boeing.	
Driving operational excellence	◆ Opened a Leadership Training Centre in the Netherlands to reinforce operational excellence. ◆ GOLD manufacturing standards established globally. Standards set for safety, quality, delivery and financial performance.	



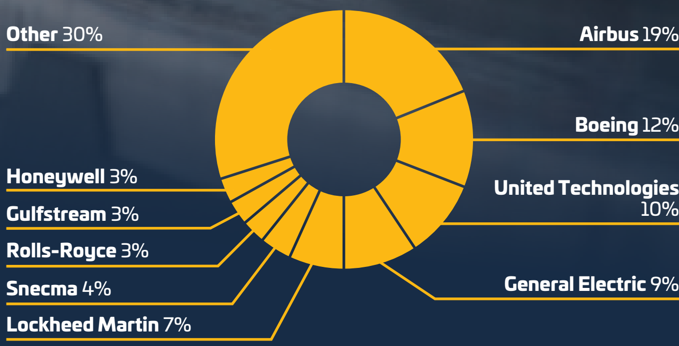
GKN Aerospace

17,950 people

55 manufacturing locations

14 countries

Sales by customer



Highlights of the year

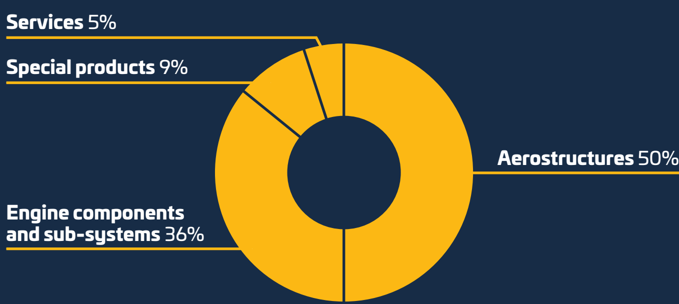
- **Organic sales growth above the market in commercial aerospace (3%) more than offsetting decline in military (-2%).**
- **Fokker sales and margin ahead of expectations.**
- **New and replacement work packages won exceed $7 billion.**

Sales by market

Divisional performance

			Change (%)	
	2016	2015	Headline	Organic
Sales (£m)	**3,423**	2,500	37	1
Trading profit (£m)	**339**	273	24	(10)
Trading margin (%)	**9.9**	10.9		
Return on average invested capital (%)	**14.6**	18.1		

Sales by product type



Financial information on this page is presented on a management basis.

Key strategic activities

To support the achievement of the Group's five strategic objectives, GKN Aerospace is focusing on the following areas:

- Supporting our customers by delivering on our strong positions on existing programmes.
- Successfully introducing and ramping up of new technologies on key new aircraft platforms in support of our customers.
- Developing state-of-the-art and next-generation technologies that will provide differentiation for our customers on future aircraft.
- Expanding our global footprint and investing in new state-of-the-art facilities to serve more customers around the world.

Performance

Overall, GKN Aerospace's organic sales were £38 million higher (1%). There was a £243 million benefit from currency translation and non-organic sales from acquisitions amounted to £642 million.

The division's sales were weighted commercial 74%, military 26%. Organic commercial aerospace sales growth was 3%, benefiting principally from stronger production of the A350 and A320, partly offset by a reduction in A380 and A330. Military sales were organically 2% lower, primarily due to the decline of mature programmes, mainly the F/A-18 Super Hornet and UH-60 Black Hawk helicopters, partly offset by increased F-35 sales.

Trading profit was £339 million (2015: £273 million), benefiting from a full year contribution from Fokker and a favourable currency translation impact of £31 million. The organic reduction in trading profit is principally a result of ramp-up costs on the PW1100 Geared Turbofan and Trent XWB engines (deployed on the A320neo and A350 aircraft, respectively), lower production of the A380 and Boeing 747-8 large aircraft (including engines) and a £10 million restructuring charge (as part of the Group-wide programme). The reduction was partially offset by increased engine spares sales and the ramp-up of A350 and A320.

Trading margin was 9.9%, or 10.2% excluding the restructuring charge (2015: 10.9%). Return on average invested capital, was 14.6% (2015: 18.1%, excluding GKN Aerospace Fokker which had not been owned for a full 12 month period).

GKN Aerospace Fokker, acquired on 28 October 2015, performed strongly. In 2016, it generated sales of £769 million, profit of £66 million and a trading margin of 8.6%. Fokker restructuring, which is excluded from management profits, was completed for £31 million, lower than the €50 million (£39 million) originally expected. During the year, the outstanding pre-acquisition fine that was agreed with the Department of Justice was settled.

During the year, new and replacement work packages exceeding $7 billion over their contract lives were won and a number of important milestones were achieved, including:

- an agreement to extend the risk and revenue sharing partnership (RRSP) with Rolls-Royce on the Trent XWB engine. The agreement covers the design and supply of a lower weight, higher performance intermediate compressor case for the enhanced performance Trent XWB-84 engine;
- being named among the next-generation B-21 bomber contractors;
- signing a four-year contract extension with FMV (Swedish Defence Material Administration) to provide comprehensive support for the GKN Aerospace RM12 engine, which powers the JAS 39 Gripen C/D fighter;
- entry into production of the Boeing 737 MAX engine inlet lipskins that enables laminar flow properties in a new state-of-the-art facility in Orangeburg, South Carolina, USA;
- being chosen to maintain and service the landing gear for the F-35 fleet outside the USA; and
- signing a memorandum of agreement with UTC Aerospace Systems to develop electrical integrated systems for the More Electric Aircraft initiative.

GKN Aerospace has agreed an extension to its risk and revenue sharing partnership (RRSP) with Rolls-Royce on the Trent XWB-84 engine. The agreement extends the design and supply of a lower weight, higher performance intermediate compressor case (ICC) for the world's most efficient large aero engine. This engine will power the A350-900 family, entering into service in early 2020.

GKN DRIVELINE

Moving forward

Phil Swash
Chief Executive, GKN Driveline

As a global business serving the world's leading vehicle manufacturers, GKN Driveline develops, manufactures and supplies an extensive range of automotive driveline products and systems, for use in everything from the smallest ultra-low-cost cars to the most sophisticated premium vehicles that demand complex driving dynamics.

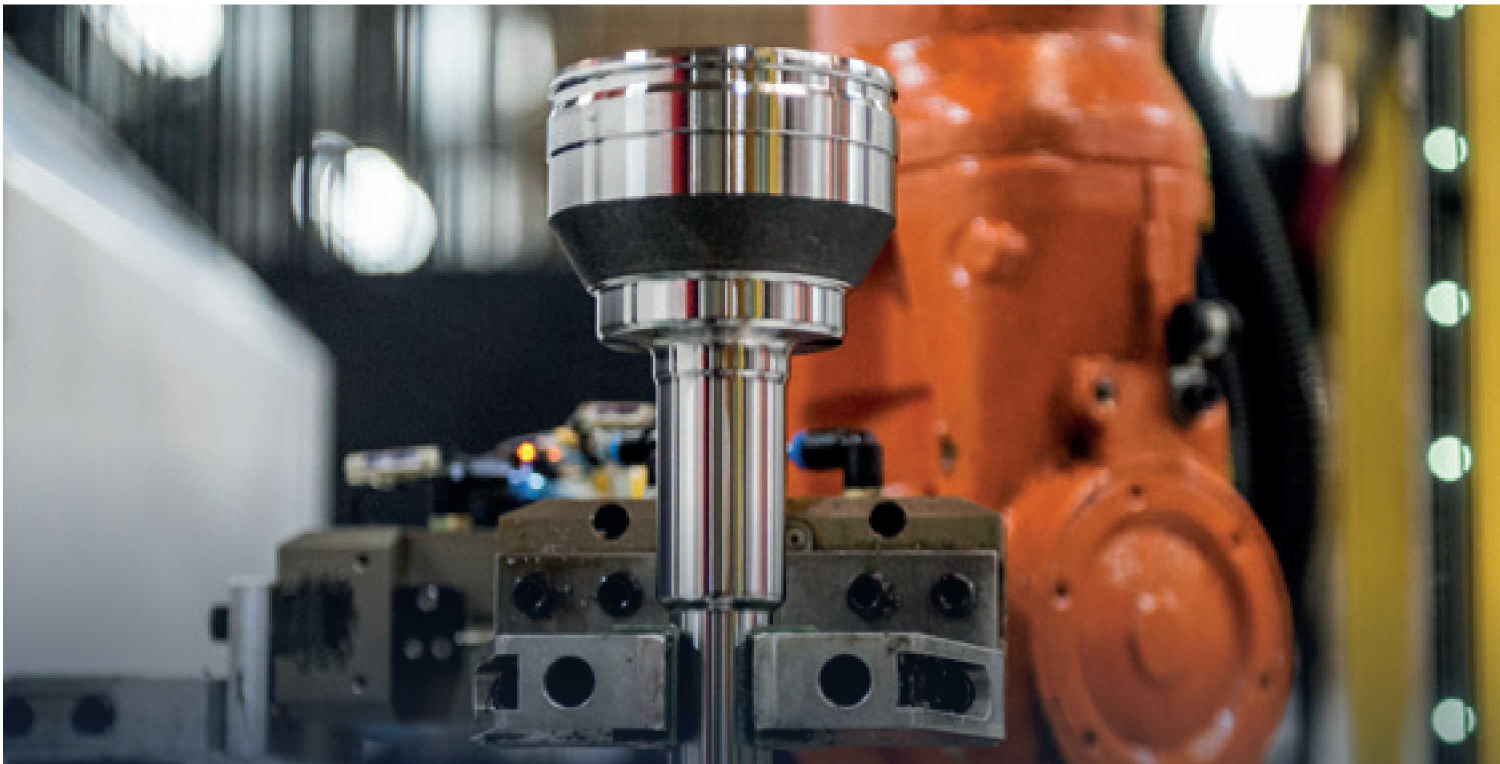
What we do

Products

- Constant velocity jointed systems including CV joints and sideshafts.
- All-wheel drive (AWD) systems including propshafts, couplings, power transfer units, rear drive modules and a range of differentials and torque management technologies.
- eDrive systems including electric axles and transmissions.

Divisional performance against Group strategy

Strategic objective	Progress	
Leading in our chosen markets	◆ Number one in driveline and AWD markets. ◆ Around £1 billion new and replacement business won in sideshafts and all-wheel drive products in 2016.	**Sustaining above market growth**
Leveraging a strong global presence	◆ Completion of a state-of-the-art research and development facility in Shanghai, plus localisation of key AWD programmes in China. ◆ Ramping up of our new AWD plant in Thailand and expanded facilities in Turkey, China and the US, plus development of new facilities in Poland and Mexico.	
Differentiating ourselves through technology	◆ AWD platform partner with Volvo on the all-new XC90, including both the conventional and plug-in hybrid variants. ◆ Unveiled new eTwinster, which brings true torque vectoring capabilities to electric and hybrid vehicles for the first time. ◆ Developed the new benchmark in constant velocity joint technology, the VL3, which debuted on the BMW 7 Series.	
Driving operational excellence	◆ Driveline Excellence System provides a foundation of standard work adopted across the business to ensure consistency and clarity. ◆ Industry 4.0 pilots and projects to identify and realise potential benefits.	



GKN Driveline

28,100 **people**

49 **manufacturing locations**

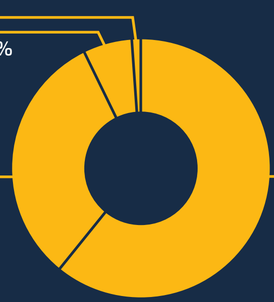
23 **countries**

Sales by customer

Highlights of the year

- **Organic sales growth of 6%, ahead of global auto production, helped by our broad geographic footprint and increased content per vehicle.**
- **Trading margin lower due to restructuring charge and excess launch costs.**
- **Around £1 billion of annualised new and replacement business won.**

Sales by product group type



Divisional performance

			Change (%)	
	2016	2015	Headline	Organic
Sales (£m)	**4,216**	3,548	19	6
Trading profit (£m)	**323**	290	11	(2)
Trading margin (%)	**7.7**	8.2		
Return on average invested capital (%)	**19.2**	19.5		

Sales by region of origin

Financial information on this page is presented on a management basis.

Key strategic activities

To support the achievement of the Group's five strategic objectives, GKN Driveline is focusing on the following areas:

- Providing innovative driveline technologies across all-wheel drive, eDrive and constant velocity joints to support the global trend for more fuel-efficient vehicles.
- Increasing business in high growth regions.
- Serving the needs of strategic customers through a market-leading global footprint.

Performance

Organic sales increased by £242 million (6%) compared with global light vehicle production which was up 5%. The beneficial effect from currency translation was £426 million. Constant Velocity Jointed (CVJ) Systems accounted for 61% of sales and non-CVJ sales were 39%.

GKN Driveline's market outperformance was mainly in Europe (reflecting recent market share gains and strong sales to Fiat Chrysler, Volvo and Daimler) and in North America (reflecting strong recent AWD programme gains slightly offset by lower light truck platform exposure). GKN Driveline performed slightly below the market in China (due to its lower exposure to domestic producers and smaller vehicles, and negative pricing) although new launches for AWD vehicles were positive and should enhance performance in 2017.

The organic reduction in trading profit was £5 million (after incurring £10 million of restructuring charges) and the positive impact of currency translation on trading profit was £38 million. GKN Driveline's trading margin was 7.7%, or 7.9% excluding the restructuring charge (2015: 8.2%). Return on average invested capital was 19.2% (2015: 19.5%).

In terms of profitability, European plants were running at very high capacity utilisation with a strong conversion on the additional sales. In China, margin reduced slightly, with the benefits from increased production being offset by continued investment in the new technology centre and engineering, particularly to support AWD growth. The Americas operations were impacted by lower demand in Brazil and around £25 million of additional launch costs on a new global AWD programme. These launch problems have now largely been addressed with production reaching target levels. The technology developed provides an excellent platform for continued success in AWD and investment has continued in eDrive, with new contracts won. The results also included some benefit from claims against a number of suppliers for anti-competitive behaviour. It is anticipated that further income may be recognised in 2017 as other cases are settled.

To provide better strategic and customer alignment, GKN Driveline reorganised from three regions into two global product lines (CVJ and AWD/eDrive) which also provides a more efficient, leaner organisation.

During the year, around £1 billion of annualised sales in new and replacement business was secured and a number of important milestones achieved, including:

- the selection by BMW to supply its eAxle on the BMW 2 Series Active Tourer 225xe and the plug-in hybrid version of the BMW X1 for the Chinese market;
- being named as an Automotive News 2017 PACE Award finalist for its innovative electric driveline technology. PACE judges have selected the co-axial electric axle (eAxle) system that debuted on the acclaimed Volvo XC90 T8 Twin Engine plug-in hybrid as one of the finalists in 2017. The technology also launched on the Volvo S90 and will feature on other manufacturer's vehicles; and
- adding five new AWD production lines across two facilities in Shanghai to support growing levels of business.

Employees at GKN Driveline in Koping, Sweden, making a final visual inspection of a power transfer unit for the Fiat 500X.

GKN POWDER METALLURGY

A solid year

Peter Oberparleiter
Chief Executive, GKN Powder Metallurgy

GKN Powder Metallurgy comprises two operations. GKN Sinter Metals is the world's leading manufacturer of precision automotive components as well as components for industrial and consumer applications. Hoeganaes is one of the world's largest manufacturers of metal powder, the essential raw material for powder metallurgy.

What we do

Products

- Sintered components for automotive engines and transmissions, as well as pumps, bodies, chassis and compressors.
- Sintered bearings and filters.
- Metal injection moulded components.
- Metal powders.
- Soft magnetic components for use in electric motors.
- Sintered components for numerous industrial applications.

Divisional performance against Group strategy

Strategic objective	Progress	
Leading in our chosen markets	◆ Global leader in sintered components. ◆ World's number two manufacturer of metal powder. ◆ £200m of new business won in 2016.	**Sustaining above market growth**
Leveraging a strong global presence	◆ New joint venture to produce automotive grade metal powder in China. ◆ New joint venture with TLS Technik to manufacture titanium powder for AM applications in North America.	
Differentiating ourselves through technology	◆ Increased success for 'Design for Powder Metallurgy' through a unique combination of materials and process. ◆ Continued to develop technically enhanced powders. ◆ Ramping up production of differential gears. ◆ Launch of aluminium lightweight planetary carrier for American OEM.	
Driving operational excellence	◆ Global compaction press standard rolled out and implemented. ◆ 'My Quality' programme implemented globally. ◆ Industry 4.0 basics implemented.	

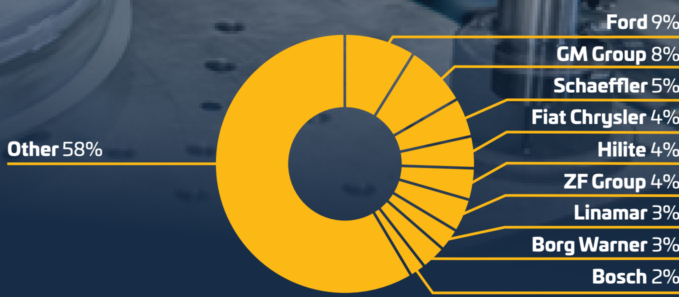
GKN Powder Metallurgy

6,900 people

33 manufacturing locations

9 countries

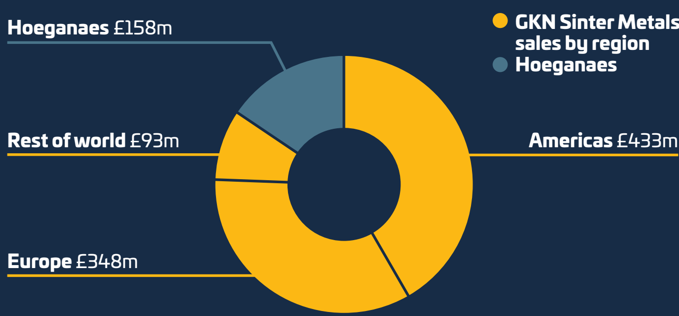
Sales by customer



Highlights of the year

- **Organic sales growth of 1%, before the pass-through of lower raw material surcharges.**
- **Trading margin of 11.7% (2015: 12.0%), excluding the £3 million restructuring charge, reflecting a powder investment in China and a weaker North America.**
- **Strong focus on technology and £200 million annualised new and replacement business won.**

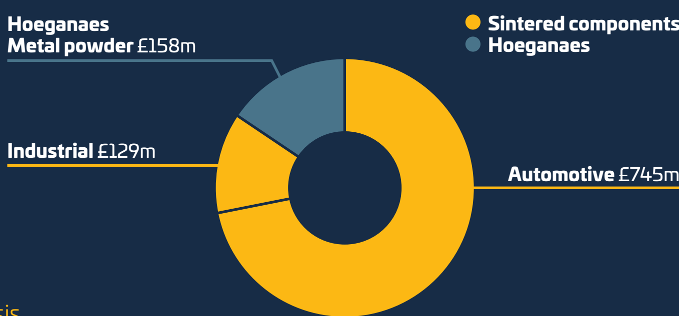
Sales by GKN Sinter Metals and Hoeganaes



Divisional performance

			Change (%)	
	2016	2015	Headline	Organic
Sales (£m)	**1,032**	906	14	–
Trading profit (£m)	**118**	109	8	(3)
Trading margin (%)	**11.4**	12.0		
Return on average invested capital (%)	**21.0**	22.3		

Sales by product type



Financial information on this page is presented on a management basis.

Key strategic activities

To support the achievement of the Group's five strategic objectives, GKN Powder Metallurgy is focusing on the following areas:

- Developing 'Design for Powder Metallurgy' applications to meet the rapidly developing requirements for high-efficiency engines, advanced transmission applications, weight reduction and evolving emissions standards.
- Expanding the business in high-growth markets, supporting customers globally.
- Enhancing performance of metal powders.
- Developing the complete value chain for Metal Additive Manufacturing.

Performance

Organic sales were flat, after the £11 million pass-through to customers of lower steel prices and other surcharges. There was a £114 million (13%) benefit from currency translation and a £12 million increase due to the acquisition of a majority share of a powder manufacturer in China.

Underlying growth (before raw material pass-through) was 1%, lower than global light vehicle production which was up 5%, due to under-representation in the strong China market. Underlying sales growth above the market was achieved in China, Europe and Brazil but sales in North America fell slightly due to weaker demand from the division's largest automotive customer.

The organic reduction in trading profit was £4 million, including a £3 million restructuring charge as part of the Group-wide programme. There was a £2 million reduction from start-up losses as a result of the investment being made in the new powder business acquired in China and the gain from currency translation was £15 million.

The divisional trading margin was 11.4%, or 11.7% excluding the restructuring charge (2015: 12.0%), reflecting the investment in China and tougher market conditions in the US. Return on average invested capital was 21.0% (2015: 22.3%).

During the year, GKN Powder Metallurgy achieved a number of important milestones, which included:

- winning around £200 million of annualised sales in new and replacement business;
- the commencement of production of high quality automotive grade powders in China for the Asian market;
- forming a new joint venture business to manufacture titanium powders in North America for additive manufacturing (AM) applications; and
- installation in Radevormwald, Germany of the first multi powder bed AM machine in the automotive industry to enable series production of designed for AM precision parts for engines and transmissions and supporting the trend towards lightweight products.

In 2016, GKN Sinter Metals commenced production at its new Danyang plant and Hoeganaes began production of high-quality automotive grade powders in China for the Asian market.

GKN LAND SYSTEMS

A year of change

Adam Walker
Chief Executive, GKN Land Systems

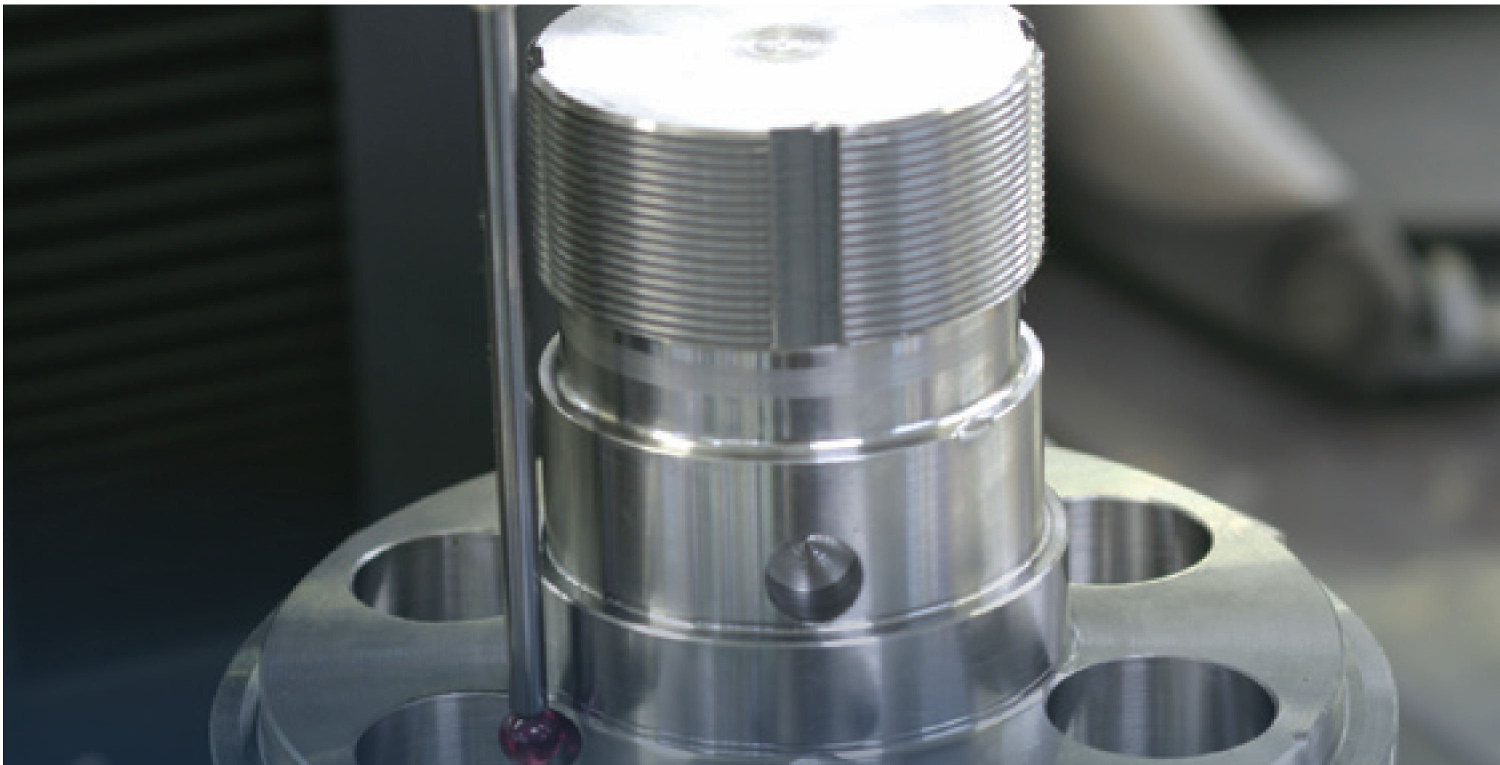
The GKN Land Systems division combined businesses that supply power management products and services, designing and manufacturing products and services for the agricultural, construction and utility vehicle markets, and key industrial segments, offering integrated powertrain solutions and complete in-service support.

2016 was an extremely busy year at GKN Land Systems. Our principal end markets, agriculture, construction and mining, remained in decline particularly in North America. This resulted in organic sales decline in 2016 of 8%. Nevertheless, because we took action in 2015 and remained close to our cost base throughout the year we increased our underlying profits and improved our trading profit margin (before restructuring costs) to 4.5%.

In the first half of the year, a full strategic review of the division was conducted including competitor analysis, technical capability, end market positioning and geographic coverage.

Divisional performance against Group strategy

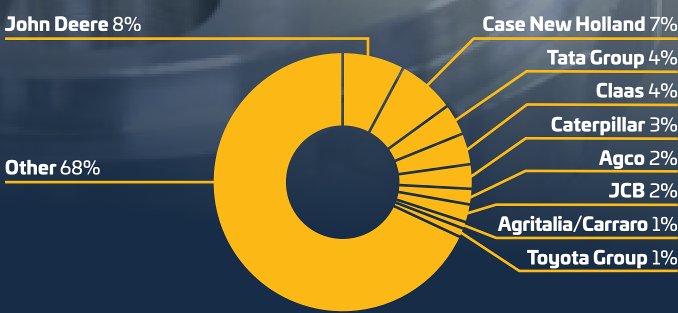
Strategic objective	Progress	
Leading in our chosen markets	◆ Maintained strong market positions in wheels and shafts. ◆ Secured numerous customer awards, including platinum status with Caterpillar in North America.	**Sustaining above market growth**
Leveraging a strong global presence	◆ Divested industrial portfolio and reorganised business to be focused on wheels and shafts customers. ◆ Strengthened footprint in China – acquired 100% of Huading wheels joint venture, creating Lianyungang, and invested to improve capability in shafts in Taicang.	
Differentiating ourselves through technology	◆ Launched complete series of inverted slip driveshafts. ◆ Launched Agmaster range of shafts with Chinese manufacturing capacity. ◆ Profi-Grip developed to increase wheel rim stiffnesses, reducing wheel slippage. ◆ Heat Impact Forming (HIF) production launched at Nagbol, Denmark.	
Driving operational excellence	◆ Improved all key metrics on quality, delivery and responsiveness over 2015 levels. ◆ Delivered productivity savings in tough market environment.	



Highlights of the year

- **Organic sales down 8% due to challenging agricultural and construction equipment markets and the ending of two chassis contracts.**
- **Trading margin of 4.5% (2015: 3.5%), excluding the £14 million restructuring charge.**
- **Stromag sale completed on 30 December 2016.**

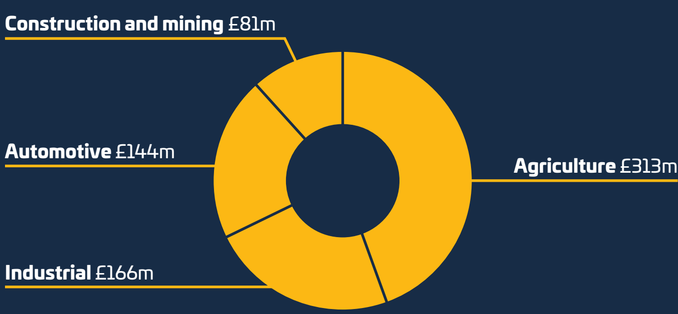
Sales by customer



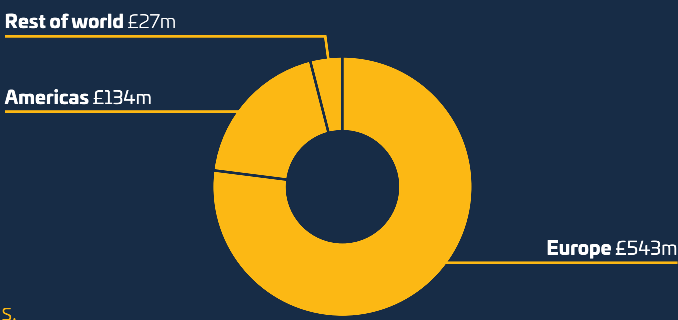
Divisional performance

	2016	2015	Change (%) Headline	Change (%) Organic
Sales (£m)	**704**	693	2	(8)
Trading profit (£m)	**18**	24	(25)	(38)
Trading margin (%)	**2.6**	3.5		
Return on average invested capital (%)	**7.0**	7.1		

Sales by market



Sales by region of origin



Financial information on this page is presented on a management basis.

This concluded that to be more effective in these challenging markets we needed to be closer to our end customers and to focus our engineering capability around our core products. As a result, we eliminated the divisional structure and focused our operations around our three principal product areas – Wheels & Structures, Shafts & Services and industrial products – which removed a significant layer of management. The cost of the restructuring was £14 million. This resulted in a lot of change and disruption for the executive team and in some cases senior people with a long service history at GKN leaving the Group.

As announced on 21 October 2016, our industrial products business was sold to Altra Motion Industrial. The disposal completed on 30 December 2016.

I would like to thank everyone, not least those who transferred to Altra, for the professionalism shown during the final few months of the year and for the hard work and dedication shown during their time at GKN Land Systems.

Our remaining operations – Wheels & Structures and Shafts & Services – will continue to operate under new management teams in 2017 with an increased focus on their end markets, customers and engineering, and product management initiatives. The results of Wheels & Structures will be reported within our Other Businesses segment and Shafts & Services within GKN Driveline.

2016 performance

The organic decrease in sales was £65 million (8%) and the beneficial impact from currency translation was £76 million. Of the organic reduction, £17 million relates to two chassis contracts which ended during the first and third quarters of 2016 respectively. These contracts will have a further year-on-year negative impact of £24 million in 2017.

Management trading profit was £18 million after including a £14 million restructuring charge and a £5 million benefit from currency translation. Trading margin was 2.6% (2015: 3.5%) or 4.5% excluding the restructuring charge. Return on average invested capital was 7.0% (2015: 7.1%).

GKN WHEELS & STRUCTURES

GKN Wheels & Structures is the world's leading manufacturer of off-highway wheels for the global mining, construction, industrial and agricultural industries and a specialist in the design, manufacture, supply and test of advanced structures and chassis systems for automotive and off-highway.

GKN Wheels & Structures

1,500 employees
7 manufacturing locations
5 countries

GKN SHAFTS & SERVICES

GKN Shafts & Services is a global supplier of power management products and services.

GKN Shafts & Services

2,350 employees
9 manufacturing locations
28 service sites
16 countries

OTHER FINANCIAL INFORMATION

Other Businesses and corporate costs

In 2016, GKN's Other Businesses comprised Cylinder Liners (which is a 59% owned venture mainly in China, manufacturing engine liners for the truck market in the US, Europe and China), EVO eDrive Systems (a developer of axial flux motors) and GKN Hybrid Power (a flywheel energy storage and hybrid system manufacturer).

GKN's Other Businesses reported combined sales of £39 million on a management basis (2015: £42 million). The change reflects a £6 million organic decrease in sales and £3 million benefit from currency translation. A trading loss of £4 million was reported in the year (2015: £1 million profit) reflecting a reorganisation charge at GKN Hybrid Power.

Corporate costs, which comprise the costs of stewardship of the Group and operating charges and credits associated with the Group's legacy businesses, were £21 million (2015: £18 million), including a pension gain of £5 million following a pensioner buy-out in December 2016 and a £2 million restructuring charge as part of the Group-wide programme. The increase in the UK defined benefit scheme deficit is expected to result in an additional charge of £12 million in 2017.

Items excluded from management trading profit

In order to achieve consistency and comparability of underlying results between reporting periods, the following items are presented separately from management basis results.

Change in value of derivative and other financial instruments

The change in value of derivative and other financial instruments during the year resulted in a charge of £154 million (2015: £122 million charge). When the business wins long-term customer contracts that are in a foreign currency, the Group seeks to mitigate the potential volatility of the future cash flows by hedging through forward foreign currency exchange contracts. At each period end, the Group is required to mark to market these contracts even though it has no intention of closing them out in advance of their maturity dates. At 31 December 2016, the net fair value of such instruments was a liability of £482 million (2015: £351 million liability) and the change in fair value during the year was a £135 million charge (2015: £103 million charge). There was also a £4 million credit arising from the change in fair value of embedded derivatives in the year (2015: £1 million credit) and a net loss of £23 million attributable to the currency impact on Group funding balances (2015: £20 million net loss).

Amortisation of non-operating intangible assets arising on business combinations

The charge for amortisation of non-operating intangible assets arising on business combinations (for example, customer contracts, order backlog, technology and intellectual property rights) was £103 million (2015: £80 million). The increase was primarily a result of the acquisition of GKN Aerospace Fokker.

Gains and losses on changes in Group structure

The net loss on changes in Group structure was £9 million (2015: £1 million loss). On 30 December 2016, the Group sold its Stromag business (part of the GKN Land Systems division) for a cash consideration of £159 million, excluding an overdraft disposed of £7 million and before professional and completion fees. A profit on sale of £9 million was realised. On 17 November 2016, the Group confirmed the closure of its GKN Aerospace business in Yeovil. The site closure, which is expected to conclude by the end of 2017, has necessitated a reorganisation charge of £12 million. A decision was also taken to curtail operations of a GKN Driveline business with an associated reorganisation charge of £6 million.

Acquisition related restructuring charges

During the year there has been a charge of £31 million (2015: nil) in relation to redundancy and integration costs following the Group's acquisition of Fokker Technologies Group B.V. in 2015.

Impairment charges

Consistent with previous years, goodwill and cash generating units were tested for impairment. As a result of difficult markets and reduced sales of certain products during the year, an impairment charge of £52 million (2015: £71 million) has been recorded in respect of three cash generating units; two in GKN Aerospace and one in GKN Land Systems.

Post-tax earnings of equity accounted investments

On a management basis, the sales and trading profits of equity accounted investments are included pro rata in the individual divisions to which they relate, although shown separately post-tax in the statutory income statement. The Group's share of post-tax earnings on a management basis was £73 million (2015: £59 million), with trading profit of £89 million (2015: £70 million). The Group's share of the tax and interest charges amounted to £16 million (2015: £11 million). Trading profit increased £19 million, reflecting improved market conditions for our equity accounted investment companies, primarily in China.

Net financing costs

Net financing costs totalled £116 million (2015: £137 million) and comprise the net interest payable of £79 million (2015: £65 million), the non-cash charge on post-employment benefits of £53 million (2015: £49 million), a credit from fair value changes on cross currency interest rate swaps of £18 million (2015: £17 million charge) and charge for unwind of discounts of £2 million (2015: £6 million). The non-cash charge on post-employment benefits, fair value changes on cross currency interest rate swaps and unwind of discounts are not included in management figures. Details of the assumptions used in calculating post-employment costs are provided in note 24. Interest payable was £86 million (2015: £72 million), while interest receivable was £7 million (2015: £7 million) resulting in net interest payable of £79 million (2015: £65 million).

Profit before tax

Management profit before tax was £678 million (2015: £603 million). Profit before tax on a statutory basis was £292 million (2015: £245 million). The main differences between management and statutory figures for 2016 are the change in value of derivative and other financial instruments, amortisation of non-operating intangible assets arising on business combinations, acquisition related restructuring charges, impairment charges and non-cash charge on post-employment benefits. Further details are provided in note 3 to the financial statements.

Taxation

The book tax rate on management profits of subsidiaries was 24% (2015: 24%), arising as a £144 million tax charge (2015: £133 million) on management profits of subsidiaries of £605 million (2015: £544 million). The book tax rate is significantly lower than the theoretical weighted average tax rate, largely because of the tax on items excluded from management profit and movements in tax risk provisions as outstanding issues are settled. The tax rate on statutory profits of subsidiaries was 22% (2015: 23%) arising as a £48 million tax charge (2015: £43 million) on statutory profits of subsidiaries of £219 million (2015: £186 million).

Non-controlling interests

The profit attributable to non-controlling interests was £2 million (2015: £5 million).

Earnings per share

Management earnings per share was 31.0 pence (2015: 27.8 pence). Average shares outstanding in 2016 were 1,712.1 million (2015: 1,674.1 million). On a statutory basis earnings per share was 14.1 pence (2015: 11.8 pence).

Dividend

The Board has decided to recommend a final dividend of 5.9 pence per share (2015: 5.8 pence per share). The total dividend for the year will, therefore, be 8.85 pence per share (2015: 8.70 pence per share). The Group's objective is to have a progressive dividend policy reflecting growth in earnings per share and free cash flow generation. The final dividend is payable on 17 May 2017 to shareholders on the register on 7 April 2017. Shareholders may choose to use the Dividend Reinvestment Plan (DRIP) to reinvest the final dividend. The closing date for receipt of new DRIP mandates is 25 April 2017.

Cash flow

Operating cash flow, which is defined as cash generated from operations of £778 million (2015: £885 million) adjusted for capital expenditure (net of proceeds from capital grants) of £494 million (2015: £411 million), repayment of principal on government refundable advances of £6 million (2015: nil) and proceeds from the sale/realisation of fixed assets of £37 million (2015: £9 million), was an inflow of £315 million (2015: £483 million).

Cash generated from operations includes movements in working capital and provisions totalling a net outflow of £130 million (2015: £82 million inflow). In 2016, the reduction of £212 million was primarily as a result of a substantial one-off customer advance in 2015, the VAT on which was repaid in 2016.

Capital expenditure (net of proceeds from capital grants) on both tangible and intangible assets totalled £494 million (2015: £411 million). Of this, £410 million (2015: £330 million) was on tangible fixed assets and was 1.6 times (2015: 1.5 times) the depreciation charge. Expenditure on intangible assets, mainly initial non-recurring costs on aerospace programmes, totalled £84 million (2015: £81 million).

The Group invested £186 million in the year (2015: £157 million) on research and development activities not qualifying for capitalisation, net of customer and government funding.

Net interest paid totalled £76 million (2015: £54 million) including £9 million following adverse currency movements on the Group's cross currency interest rate swaps. Tax paid in the year was £93 million (2015: £111 million).

Free cash flow

Free cash flow, which is operating cash flow including equity accounted investment dividends and after interest, tax, dividends paid to non-controlling interests but before dividends paid to GKN shareholders, was an inflow of £201 million (2015: £370 million).

Net debt

At the end of the year, the Group had net debt of £704 million (2015: £769 million). The Group has a series of cross currency interest rate swaps, used to better align its foreign currency income receipts with its debt coupon payments. The fair value of these derivative instruments at 31 December 2016 was a liability of £214 million (2015: liability of £69 million) which is included in the net debt figure of £704 million. The translational currency impact of weaker sterling was to increase net debt but this was partly offset by the £151 million net proceeds from the Stromag disposal.

Pensions and post-employment obligations

GKN operates a number of defined benefit pension schemes and historical retiree medical plans across the Group.

At 31 December 2016, the total deficit on post-employment obligations of the Group totalled £2,033 million (2015: £1,558 million), comprising deficits on funded obligations of £1,322 million (2015: £1,007 million) and on unfunded obligations of £711 million (2015: £551 million). In total, the deficit has increased £475 million since 31 December 2015, primarily due to changes in the discount rates used and adverse currency movements.

The amount included within trading profit for the year comprises current service cost of £48 million (2015: £50 million), administrative costs of £3 million (2015: £3 million) and a settlement credit of £5 million (2015: a past service credit of £4 million). The interest charge on net defined benefit plans, which is excluded from management figures, was £53 million (2015: £49 million).

Cash contributions to the various defined benefit pension schemes and retiree medical arrangements totalled £121 million (2015: £100 million), including a £15 million contribution as part of a pensioner buy-out arrangement that resulted in the removal of £268 million of liabilities and £263 million of assets from the balance sheet. The settlement gain was £5 million (net of expenses) and is included in the income statement.

UK pensions
The accounting deficit for UK schemes increased to £1,221 million (2015: £912 million), following a 30% decrease in the discount rate.

The Group's two UK defined benefit pension schemes are currently undergoing triennial funding valuations as at 5 April 2016 and 31 December 2016 respectively. Once the valuation process is complete, the funding deficit in each scheme will be confirmed and any incremental deficit contributions payable by the Group will be established. It is likely that some additional Group funding will be required, but given the stage of negotiations with the scheme Trustees and variables involved in both finalising the valuation and agreeing any resulting recovery plan, the outcome cannot currently be predicted with any reasonable degree of certainty. The current deficit funding payment is £42 million per year.

Defined contribution pension schemes
In addition to defined benefit pension schemes, the Group also operates a number of defined contribution schemes for which the income statement charge was £62 million (2015: £42 million).

Net assets

Net assets of £2,162 million were £276 million higher than the December 2015 year end figure of £1,886 million. The increase is driven by management profit after tax (£534 million) and currency (including fair value changes in net investment hedging) movements in other comprehensive income, net of tax (£504 million) which have been partially offset by changes in value of derivative and other financial instruments (£154 million), amortisation of non-operating intangible assets arising on business combinations (£103 million), a loss on remeasurement of defined benefit plans, net of tax (£333 million) and dividends paid to equity shareholders (£150 million).

Treasury management

All treasury activities are coordinated through a central function (Group Treasury), the purpose of which is to manage the financial risks of the Group and to secure short- and long-term funding at the minimum cost to the Group. It operates within a framework of clearly defined Board-approved policies and procedures, including permissible funding and hedging instruments, exposure limits and a system of authorities for the approval and execution of transactions. It operates on a cost centre basis and is not permitted to make use of financial instruments or other derivatives other than to hedge identified exposures of the Group. Speculative use of such instruments or derivatives is not permitted. Group Treasury prepares reports at least annually to the Board, and on a monthly basis to the Group Finance Director and other senior executives of the Group. In addition, liquidity, interest rate, currency and other financial risk exposures are monitored weekly. The overall indebtedness of the Group is reported on a weekly basis to the Group Finance Director.

Funding and liquidity

At 31 December 2016, UK committed bank facilities were £863 million (2015: £864 million). Within this amount there are committed revolving credit facilities of £800 million (2015: £800 million) and a £48 million (2015: £64 million) eight-year amortising facility from the European Investment Bank (EIB). The revolving credit facilities of £800 million mature in 2019, while the second of five equal, annual £16 million EIB repayments was paid in 2016. At 31 December 2016, £48 million of the EIB facility was drawn (2015: £64 million drawn) and there were no drawings on any of the UK revolving credit facilities (2015: no drawings).

Capital market borrowings at 31 December 2016 and 31 December 2015 comprised a £350 million 6.75% annual unsecured bond maturing in October 2019 and a £450 million 5.375% semi-annual unsecured bond maturing in September 2022.

As at 31 December 2016, the Group had net debt of £704 million (2015: £769 million).

All of the Group's committed credit facilities have financial covenants requiring EBITDA of subsidiaries to be at least 3.5 times net interest payable and for net debt to be no greater than 3 times EBITDA of subsidiaries. The covenants are tested every six months using the previous 12 months' results. For the 12 months to 31 December 2016, EBITDA was 12.8 times greater than net interest payable, while net debt was 0.7 times EBITDA.

The Group has a series of cross currency interest rate swaps to better align its foreign currency income receipts in US dollars and Euros with its debt and had the effect of converting its sterling bonds into US dollars ($951 million) and Euros (€284 million). The cross currency interest rate swaps have been designated as a net investment hedge of the Group's US dollar and Euro net assets.

Going concern and viability statement

The Directors have taken into account both divisional and Group forecasts for the 18 months from the balance sheet date to assess the future funding requirements of the Group and compared them to the level of committed available borrowing facilities, described above. The Directors have concluded that the Group will have a sufficient level of headroom in the foreseeable future and that the likelihood of breaching covenants in this period is remote, such that it is appropriate for the financial statements to be prepared on a going concern basis.

The Directors confirm that they have a reasonable expectation that the Group will be viable for at least three years from 1 January 2017, continuing to operate and meet its liabilities as they fall due. The Directors' assessment has been made by stress testing the Group's 2017 budget and a sensitised forecast for 2018 and 2019.

The stress testing involved modelling the impact of our principal risks in a number of severe but plausible downside scenarios, taking account of additional mitigating actions available to the Group. The most severe risks that were modelled were a major global quality issue, global market deterioration and increased margin pressure. The assessment considered the potential impact of these risks on the 2017 budget and sensitised 2018 and 2019 forecasts including solvency and liquidity over this period.

The Directors consider a three-year period to be a reasonable time horizon for the viability statement because after that it becomes much more difficult to predict the Group's performance with a reasonable degree of certainty. While the Directors believe that three years is an appropriate period for the viability statement, they fully expect that GKN will continue in business for the foreseeable future given its proven longevity and strong balance sheet.

Exchange rates

Exchange rates used for currencies most relevant to the Group's operations are:

	Average		Year end	
	2016	2015	**2016**	2015
Euro	**1.22**	1.38	**1.17**	1.36
US dollar	**1.35**	1.53	**1.23**	1.47

The approximate impact on 2016 trading profit of subsidiaries and equity accounted investments of a 1% movement in the average rate would be Euro – £2 million, US dollar – £4 million.

Basis of preparation

In this report, financial information, unless otherwise stated, is presented on a management basis, the definition of which is below. The Group uses management measures, which are non-GAAP measures, to assess operating performance on a consistent basis, as we believe this gives a fairer assessment of the underlying performance of the business. The use of management measures allows the Group to chart progress, make decisions and allocate resources based on the actions for which management is responsible or can influence, without volatility arising from significant one-time trading and portfolio change transactions or the mark to market valuation of currency hedges.

Definitions

Financial information aggregates the sales and trading profit of subsidiaries with the Group's share of the sales and trading profits of joint ventures. The following definitions apply:

Information	Definition
Trading margin	Management trading profit expressed as a percentage of management sales.
Management sales	Management sales aggregate the sales of subsidiaries with the Group's share of the sales of equity accounted investments.
Management profit or loss before tax	Management trading profit less: net subsidiary interest payable and receivable; the Group's share of net interest payable and receivable; and taxation of equity accounted investments.
Organic results	Where appropriate, reference is made to organic results which are management results excluding the impact of acquisitions/divestments as well as currency translation on the results of overseas operations.
Operating cash flow	Cash generated from operations adjusted for capital expenditure, government capital grants, proceeds from disposal of fixed assets, and government refundable advances.
Free cash flow	Operating cash flow including interest, tax, equity accounted investment dividends, and amounts paid to non-controlling interests, but excluding dividends paid to GKN shareholders. Free cash flow in 2012 excludes special pension payments and before working capital refinancing for Volvo Aero.
Return on average invested capital (ROIC)	Management trading profit as a percentage of average total net assets of continuing subsidiaries and equity accounted investments, excluding current and deferred tax, net debt, post-employment obligations and derivative financial instruments.
Dividends per share	Amount declared as payable by way of dividend, divided by the number of ordinary shares in issue (excluding treasury shares).
Management earnings per share (EPS)	Management earnings for the Group (as set out in note 3(a) to the financial statements) divided by the weighted average number of ordinary shares in issue (excluding treasury shares).

In addition, the following definitions apply to the calculation of the other key performance indicators set out on pages 16 to 18.

Information	Definition
Sales growth	Management sales measured both in absolute terms and on an underlying basis (i.e. excluding the effects of currency translation, acquisitions and divestments) relative to the prior year.
New business wins	Aerospace: estimated value of products and services for new work packages won during the year. Based on forecast aircraft sales over the period of long-term agreements or total lifetime if contracts are for the life of the aircraft platform. Automotive: estimated peak annual revenues from new business contracted during the year. Separate measures are used to report performance for GKN Aerospace and the automotive divisions (GKN Driveline and GKN Powder Metallurgy) as these are considered to best reflect the nature of each business and industry norms. New business wins for GKN Land Systems are not reported given the short-term and recurring nature of its contracts.
Research and development (R&D) as a percentage of sales	Total research and development expenditure, including customer and government funding, expressed as a percentage of management sales.
Accident frequency rate (AFR)	The number of lost time accidents per 1,000 employees.
Accident severity rate (ASR)	The number of days/shifts lost due to accidents and occupational ill health per 1,000 employees.
Energy efficiency	Energy consumption expressed as a percentage of sales.
Apprentices	Total number of apprentices employed at the year end.
Employee disclosures	Total number of calls received through the Group's employee disclosure hotline during the year.
Management turnover	Voluntary turnover of management-level employees, excluding compulsory redundancies, terminations and retirements, expressed as a percentage of all management level employees.
Diversity	Percentage of women in management refers to the number of women in management roles expressed as a percentage of all management-level employees. Percentage of management-level employees from under-represented groups refers to the number of management-level employees from certain targeted developing markets expressed as a percentage of total management-level employees.
Online compliance training	Completion of mandated compliance training on anti-bribery and corruption, competition law, export control, and IT security measures as a percentage of a predefined audience of employees.

RISK MANAGEMENT

The Board is responsible for setting the Group's risk appetite and ensuring that appropriate risk management systems are in place.

The Board reviews the Group's principal risks throughout the year as part of its normal agenda, adopting an integrated approach to risk management by regularly discussing principal risks.

In addition, in the middle and at the end of each year, the Board assesses the Group's principal risks through our enterprise risk management (ERM) programme described opposite, taking the strength of the Group's control systems and our appetite for risk into account. We have a risk matrix which ensures that, between the Board and its committees, all the Group's principal risks are reviewed during the course of the year.

The Board delegates responsibility for day-to-day risk management to the Executive Committee, including the identification, evaluation and monitoring of key risks facing the Group and the implementation of Group-wide risk management processes and controls. The Executive Committee is supported in this by its Sub-Committee on Governance and Risk.

The Audit & Risk Committee keeps the effectiveness of the Group's risk management systems under review and reports to the Board on the results of its review. The occurrence of any material control issues, serious accidents or major commercial, financial or reputational issues, or the identification of new risks, are reported to the Board and/or Audit & Risk Committee as appropriate.

During 2016, we increased the level of oversight for certain principal risks while continuing to strengthen the independent assurance provided in respect of some risks. While overall we are happy with our risk management processes, our philosophy, as in all areas of the business, is one of continuous improvement.

How we manage risk

The Group has four levels of defence through which it manages significant risks.

Level 1
Risk ownership and control

Our businesses are responsible for maintaining an effective risk and control environment as part of day-to-day operations under the direction of the Chief Executive and the Executive Committee. This includes implementation and regular monitoring and review by divisional management of processes and controls which are designed to ensure compliance with the Board's appetite for risk, Group policies and delegated authority levels, and the GKN Code. These front line controls are regularly updated to respond to the Group's changing risk profile.

Level 2
Monitoring and compliance

Group functions monitor adherence to the procedures set out by the Executive Committee and provide guidance to the businesses on their application. This includes ongoing reviews by our health and safety audit team, Group IT and financial control functions. Representatives of these functions report their findings to the Executive Sub-Committee on Governance and Risk or directly to the Executive Committee. The Sub-Committee reports twice a year to the Executive Committee on matters relating to the Group's governance, risk management and assurance framework, including areas of concern or proposals for improvement.

Level 3
Independent assurance

Independent assurance over the Group's risk management, control and governance processes is provided by the Group's Corporate Audit team, the Head of Risk and external assurance providers.

Level 4
Oversight

The Board, Executive Committee and Audit & Risk Committee provide oversight and direction in accordance with their respective responsibilities, more information on which is set out in the governance section of this annual report.

Our ERM programme

GKN's enterprise risk management (ERM) programme facilitates a common, Group-wide approach to the identification, analysis, and assessment of risks and the way in which they are managed, controlled and monitored.

Identify and analyse
A broad spectrum of risks is considered through the ERM process. The Executive Committee and the Board review the output from ERM at both divisional and Group levels.

Manage and mitigate
Management controls designed to monitor and mitigate the risks are documented. Risk owners are assigned for each risk.

Assess
The ERM process provides a consistent set of definitions and a common approach to risk evaluation and assesses both risk likelihood and impact.

Respond
The risk response is based on the assessment of potential risk exposure and an acceptable level of tolerance. The response reflects whether we 'accept' the risk on the basis of its assessed level of exposure and mitigating controls currently in place, or 'reduce' the risk through additional mitigation to bring it in line with required levels of tolerance.

Monitor
The output from the ERM process is regularly reviewed together with the ongoing monitoring of progress against planned improvement actions.

Principal risks and uncertainties

The nature of both our business and our strategy means that we face a number of inherent risks and uncertainties.

The Board has carefully considered the type and extent of the principal risks to the Group achieving its objectives and delivering a satisfactory return for shareholders. These are summarised below, categorised according to the strategic objective to which they relate most closely. We seek to carefully manage risk, while at the same time recognising that we need to take some risk to achieve our strategic goals including to grow above the market.

Over time, our risk profile evolves and the Board's view of the principal risks facing the Group is updated accordingly. This year, acquisition integration has been removed as a principal risk following the successful integration of Fokker Technologies. Relationships with our largest joint venture Shanghai GKN HUAYU Driveline Systems Co Limited (SDS) remain strong and continue to develop positively. Accordingly, following the year end review, the Board has decided to remove this as a principal risk. Business continuity has also been removed as a separate principal risk. The Board considers the key elements of this risk to be appropriately covered by the remaining risks of supply chain, information resilience and health and safety. Each principal risk is described on the following pages together with the corresponding mitigating actions that are in place and an overview of the risk trends during 2016.

Risk trend

	Risks related to our strategic objectives				Other risks
	Leading in our chosen markets	**Leveraging a strong global presence**	**Differentiating ourselves through technology**	**Driving operational excellence**	
Increasing ▲	◆ Supply chain		◆ Technology and innovation		
Stable ◀▶	◆ Highly competitive markets ◆ Customer concentration	◆ Operating in global markets ◆ Laws, regulations and corporate reputation		◆ Product quality ◆ Programme management ◆ People capability ◆ Health and safety ◆ Information systems resilience	◆ Pension funding
Decreasing ▼				◆ Contract risk	

Supply chain

Description

Our suppliers are key to our success. It is essential that suppliers and subcontractors continue to meet our high standards of technical competence, innovation, product quality, reliability, delivery performance, cost, financial stability, safety, ethics and social responsibility.

Our supply chain network is exposed to potentially adverse events such as physical disruptions, environmental and industrial accidents, scarcity of supply and the insolvency of a key supplier, any of which could impact our ability to deliver orders to our customers.

The cost of our products can be significantly affected by the cost of the underlying commodities and materials from which they are made. Fluctuations in these costs cannot always be passed on to our customers.

Potential impact

A sustained supply chain disruption, or the delivery of defective product to us, could impact our ability to meet customer requirements, result in additional contractual liabilities and have a consequential impact on financial performance.

Mitigation

- Ongoing communication of our expectations of suppliers through our Supplier Code of Conduct.
- Contract terms and conditions that require our suppliers to meet specified performance standards.
- Ongoing assessment of supplier technology and dependency.
- Monitoring of the financial and operational viability of key suppliers.
- Ongoing monitoring of inventory levels to ensure availability in times of production volatility.
- Contingency plans designed to enable us to secure alternative key material supplies at short notice, to transfer or share production between manufacturing sites and to use substitute materials where required.
- Dual sourcing where appropriate to reduce dependence on single suppliers.
- Supplier quality reviews and audits.

Changes in 2016

During the year, the Executive Committee and Audit & Risk Committee reviewed our supply chain management processes in each division and agreed future actions.

We continue to carefully manage and monitor our supply chains and, where appropriate, build on long-term supplier relationships.

Under the leadership of the Group Finance Director and the Supply Chain Steering Committee, which comprises senior representatives from all three divisions, we continue to deliver on our supply chain excellence strategy.

Risk trend

▲

Technology and innovation

Description

Developing innovative technologies for our customers is critical to maintaining our differentiation and competitive advantage. We may lose market share or be subject to additional market pressure if we fail to develop innovative technologies that our customers want.

Potential impact

The failure to launch new products, new product applications or derivatives of existing products to meet customer requirements could have a significant impact on future profitable growth.

Mitigation

- Regular assessment of market and technology trends and drivers.
- Close relationships and technical partnerships with customers.
- Divisional technology plans aligned to emerging and future trends and business strategy.
- Technical leadership and promotion of engineering best practice by our Engineering Fellowship.
- Regular review of current and future technology plans by the Group Technology Strategy Board.
- Consideration of technology plans as part of the Board's annual strategy review.
- Focused investment in research and development.

Changes in 2016

We continue to invest in technology and develop internal capabilities to help meet customers' expectations for improving efficiency of aircraft, cars and other vehicles with solutions that are lighter and more fuel efficient.

We have continued to diversify into targeted areas of new technology including additive manufacturing, bionic tooling and vehicle electrification and have been recognised for a number of industry innovation awards.

Risk trend

▲

Read more on how the Group continues to differentiate itself through technology in the Chief Executive's and divisional reviews on pages 19 to 35

Highly competitive markets

Description

GKN operates in highly competitive markets with customer decisions typically based on price, quality, technology and service. Contracts for major programmes are subject to highly competitive bidding processes and the strength of our competitors and general market conditions continue to drive pricing pressure and challenging contractual terms.

Our margins may come under pressure if competition increases or as a result of customer actions. An inability or delay in developing or maintaining sufficient or appropriate engineering and manufacturing capabilities in our markets could further increase the risk.

Customer vertical integration (including OEMs taking production in-house), the entry of new competitors, and the consolidation of existing competitors also contribute to increased competition.

Potential impact

Competition risk, if not addressed, could result in reduced sales and profit margins and potentially lost growth opportunities. An inability to secure new business awards on major programmes could significantly impact future growth, cash flow and profitability.

Mitigation

- Maintaining a balanced portfolio of businesses across different end markets provides some protection against competition in particular markets.
- Regular review of competition and market trends.
- Targeted investment in engineering, and a commitment to Lean manufacturing, quality and customer relationships.
- Flexible management of our variable and fixed cost base including outsourcing and low-cost sourcing initiatives where appropriate.

Changes in 2016

Strong competition and customer pricing pressures have continued throughout 2016. Pressure on margins continue in Aerospace and in the high-growth electric and hybrid automotive vehicle markets. Despite these challenges, we continue to win new business and differentiate ourselves through our technology.

We have implemented a GKN-wide fixed cost optimisation programme and taken actions to progressively redirect expenditure towards productivity improvements. Previously announced restructuring activities are well progressed.

The reorganisation of GKN Driveline from three regions into two global product lines and the elimination of a divisional structure around our former Land Systems operations will provide better strategic and customer alignment and a more efficient organisation.

Risk trend

Read more about the trends in each of our markets on pages 4 to 11

Customer concentration

Description

There is significant customer concentration in the automotive and aerospace industries so a large portion of the Group's revenues comes from a relatively small number of customers. Around 50% of the Group's sales is derived from its top ten customers.

Potential impact

The insolvency of, damage to relations with, or significant worsening of commercial terms with, a major customer could seriously affect the Group's future results, and could result in loss of market share and future business opportunities, asset write-offs and restructuring actions.

Mitigation

- Regular review of the Group's relations with and exposure to key customers.
- Extensive and regular dialogue with key customers and strong commercial and engineering relationships.
- Quality, service and delivery performance are regularly reviewed based on customer KPIs.
- Credit exposure is actively reviewed and managed.

Changes in 2016

There have been no significant changes in the OEM customer landscape with the proportion of business from the Group's top ten customers remaining stable during 2016. No individual customer accounts for more than 10% of Group revenue.

We have continued to win new business in each of our key markets.

Risk trend

Read more about key customer trends on pages 4 to 11, and about credit risk in note 19 to the financial statements

Operating in global markets

Description

We operate globally and, as such, results could be impacted by global or regional changes in the macroeconomic or political environment, leading to changing consumer demand and preferences.

Our businesses could be affected by changing consumer preference and associated volatility in automotive demand; challenging credit conditions resulting in lack of access to finance by customers and end consumers; delay or cancellation of orders for civil aircraft and changes in the amount or timing of US military spending; volatility in agricultural and construction and mining markets; exchange rate fluctuations; and changing oil prices.

Potential impact

Major or prolonged economic or financial market deterioration, including movements in exchange rates of key currencies or political uncertainty in one of our key markets, may significantly impact the Group's operational performance and financial condition. Sustained market weakness could lead to impairment of assets or site closures. It may also materially impact our customers, suppliers and other parties with whom we do business.

Mitigation

- The Group has a diversified portfolio of businesses across its markets providing some protection against individual market or country risks.
- Lead market indicators are regularly reviewed so that we can respond quickly to changing trading conditions.
- Our mitigation strategy includes:
  - planning, budgeting and forecasting processes;
  - flexible management of variable and fixed cost base, investment spending and working capital;
  - further diversification into other sectors which present new opportunities;
  - focused restructuring activities, where necessary, to respond to markets which have suppressed levels of economic activity; and
  - regular review of our financial risk management processes, including foreign currency hedging.
- Alignment of our debt to the principal currencies in which our revenues and cash flows are generated through cross currency swaps.
- Currency hedging within our hedging policy.
- A strong balance sheet.

Changes in 2016

Market conditions are discussed in the Chief Executive's review on pages 19 to 21 and the markets overview section on pages 4 to 11.

Political and economic uncertainty continues into 2017 following the US presidential election and other political and economic changes across our markets including in Europe, the US and Japan.

The UK's vote to leave the EU has resulted in some uncertainty in future trading arrangements between the UK and the rest of the world, and falling expectations for UK GDP in the short to medium term. GKN is a global business with around 90% of its products manufactured outside the UK; this will limit the effect of the vote on the Group. Weaker sterling following the referendum has so far had a positive effect on the Group's reported sales and earnings but a negative impact on its reported debt and liabilities.

Risk trend

Laws, regulations and corporate reputation

Description

The Group is subject to applicable laws and regulations in the global jurisdictions and industries in which it operates. This includes certain territories where strong ethical standards may not be well established or where parts of the markets in which we operate are highly regulated. Regulations include those related to export controls, environmental and safety requirements, product safety, tax laws, intellectual property rights, competition laws and other ethical business practices.

Potential impact

Non-compliance could expose the Group to fines, penalties, damage to reputation, suspension or debarment from government contracting or suspension of export privileges.

Mitigation

- A strong culture of 'doing the right thing' which is regularly emphasised by senior management.
- Group-wide governance policies and procedures, ongoing compliance training and strong oversight.
- Ongoing monitoring of regulatory developments in major jurisdictions.
- Ongoing monitoring of employee concerns through our independent employee disclosure hotline.

Changes in 2016

There have been no significant new regulations impacting the Group during 2016, but our markets continue to be subject to robust enforcement activities in relation to existing regulations, particularly in relation to vehicle safety.

We continue to regularly remind our senior managers about the importance of 'doing the right thing' in all our activities. We emphasised its importance to all senior managers as part of our International Leadership Conference and as an integral part of the GKN DNA (see the Chief Executive's review on page 20 for further details). We also rolled out our GKN Governance Handbook to remind employees of our key Group policies and procedures and launched refresher training on competition law compliance.

During the year, we have aligned the risk management and governance procedures of our Fokker businesses with the rest of the Group.

Risk trend

Read more about doing the right thing on pages 50 to 59

Product quality

Description

Maintaining a high level of quality and safety in our products is essential. We are exposed to warranty, product recall and liability claims in the event that our products fail to perform as expected.

In automotive, the industry in general has experienced higher levels of recalls in recent years and the OEMs often seek contributions from throughout the supply chain. This risk increases where:

- vehicle manufacturers offer longer warranty periods;
- more vehicles are being built on standard platforms, so a single quality issue can affect a large number of vehicles; and
- regulators and our customers are taking a more stringent approach to recalling vehicles, particularly if there is a possible safety issue.

In aerospace, customers and regulators impose very strict product safety and quality obligations on all aircraft suppliers.

Potential impact

A product failure could result in serious losses, damaging GKN's financial performance and potentially our reputation. In particular, the costs associated with vehicle or aircraft recalls can be significantly higher than the cost of simply replacing defective products.

Mitigation

- Robust engineering design and validation processes from initial design and development through production and into service.
- High levels of quality assurance are embedded in robust manufacturing systems.
- Ongoing assessments of supply chain quality.
- Regular reporting and monitoring of quality performance based upon customer KPIs.
- Maintenance of critical parts lists.
- External agency quality reviews and certifications.
- Robust contract terms and conditions.

Changes in 2016

Excellence in quality has continued to be a priority during the year with continuous improvement programmes ongoing in each of our businesses. We continue to monitor quality and delivery performance as viewed by our customers and strive to continuously improve product quality, safety and delivery key performance indicators.

Our cross-divisional Quality Committee led a number of initiatives during the year to share best practice, review compliance with Group/divisional standards and coordinate Group-wide quality management projects.

Risk trend

Read more about our continuous improvement culture on page 56

Programme management

Description

Many of the programmes entered into by the Group are complex and long term and are subject to various performance conditions which must be adhered to throughout the programme. The management of such programmes brings risks related to:

- delays in product development or launch schedules;
- failure to meet customer specifications or predict technical problems;
- inability to manufacture on time for the start of production or to required production volumes;
- dependence on key or customer-nominated suppliers;
- failure to manage effectively internal or customer-driven change; and
- inability to forecast accurately and to manage costs.

Potential impact

Ineffective programme management could result in damage to customer relationships or cancellation of a contract resulting in claims for loss and reputational damage.

Poor performance against a contract could also undermine the Group's ability to win future contracts and could result in cost overruns and significantly lower returns than expected.

Mitigation

- Embedded programme management, including investment phasing and product testing activities.
- Periodic impairment reviews of capitalised development costs, including formal review at half year and year end.
- Ongoing review and approval of key programmes by the Executive Committee and the Board.
- Regular review of 'lessons learned' and best practice sharing.
- Periodic inspection of programmes by customers.

Changes in 2016

New product launch issues experienced in the year at our Newton plant, which had a significant financial impact, have been addressed and key learnings shared across the Group (see page 19 for further details).

During the year, we have continued to strengthen our programme management processes, organisation and training where required. This will continue in 2017 where we plan to further strengthen our programme of independent reviews of key programme deliverables.

Risk trend

People capability

Description	Mitigation	Changes in 2016	Risk trend
The Group's ability to deliver its strategic objectives is dependent upon the recruitment and retention of sufficiently qualified, experienced and motivated people. It is critical for the Group to secure and maintain the relevant capabilities in specific geographical regions and disciplines in both existing markets and to support growth markets. **Potential impact** The failure to recruit, or the loss of, key personnel, and the failure to plan adequately for succession or develop the potential of employees may impact the Group's ability to deliver its strategic and financial objectives.	◆ Competitive reward packages together with focused training and development programmes. ◆ A culture that motivates individuals to perform to the best of their abilities. ◆ Strong succession and development programmes. ◆ Local initiatives designed to engage young people, promote science, technology, engineering and mathematics (STEM) subjects and encourage the next generation of young engineers.	During 2016, we reviewed our incentive plans to ensure that the targets continue to be appropriate in light of shareholder expectations and remain an effective tool for attracting, retaining and incentivising senior managers and our top executives. The resulting changes will form part of our remuneration policy proposals put to shareholders under the normal three-year cycle. The recruitment and development of young engineering talent continues to be a focus supported by our Group-wide and divisional graduate programmes and a strong apprenticeship programme. We also continued to develop and align resources and capabilities to our growth markets. We are working on improving how we set objectives and manage performance, continually improving our performance management system.	◀▶

Read more in our sustainability report on pages 50 to 59

Health and safety

Description	Mitigation	Changes in 2016	Risk trend
Safety is our number one priority. We manage safety carefully through extensive Group-wide processes, yet we recognise we can never be complacent. Therefore we continue to include this as a principal risk and an area which will always be a priority for GKN. **Potential impact** A serious accident in the workplace could have a major impact on employees as well as their families, colleagues and communities. Such an incident could also result in legal claims, reputational damage and financial loss.	◆ Consistent Group-wide application of health and safety programmes. ◆ Regular reporting and monitoring of health and safety performance. ◆ Health and safety audits to ensure adherence to Group policies and procedures. ◆ A focus on process and behavioural safety through a number of Group-wide risk assessment and training programmes. ◆ Maintenance of insurance for costs associated with injury-related actions or claims against the Group. ◆ Targeted incident response and business continuity plans.	Regrettably there were two fatalities during the year – see page 52 for further details. We have completed a thorough investigation and strengthened our controls accordingly, particularly in the areas of managing visitors and contractors while on site and workplace movement of vehicles and pedestrians. The Group's underlying AFR and ASR again improved this year and we continued to increase our near miss reporting as a key leading indicator of our health and safety performance. Hazard awareness and risk assessment programmes continued with a particular focus on identifying and addressing potential catastrophic hazards.	◀▶

Read more about health and safety on pages 52 and 53

Information systems resilience

Description

The Group could be impacted negatively by information technology security threats including unauthorised access to intellectual property or other controlled information. Interruptions to the Group's information systems could also adversely affect its day-to-day operations.

The inherent security threat is considered highest in GKN Aerospace where data is held in relation to civil aerospace technology and controlled military contracts.

Potential impact

A major disruption to information systems could have a significant adverse impact on the Group's operations or its ability to trade. The loss of confidential information, intellectual property or controlled data could result in fines and damage to the Group's reputation, and could adversely affect its ability to win future contracts.

Mitigation

- Formal risk-based governance framework including dedicated IT security policies and related compliance processes, ongoing risk reviews, IT security awareness training and robust systems and processes to manage access, information assets, threats and vulnerabilities.
- External support and benchmarking of best practice information systems security and resilience.
- Ongoing development of appropriate incident detection and response plans and capabilities.
- Disaster recovery contingency plans which are regularly tested including data centres where the risk is deemed to be the greatest.
- Executive Committee oversight of IT security and assurance matters.

Changes in 2016

The Group has continued to strengthen its mitigating processes and controls over the security of our information systems. In particular, we completed a review of compliance with the National Institute of Standards and Technology (NIST) IT security requirements stipulated for all US government contractors by the end of 2017 and have defined clear actions to achieve compliance.

Risk trend

Pension funding

Description

The Group has a number of defined benefit pension plans with aggregate net liabilities of £2,033 million at 31 December 2016. These plans are exposed to the risk of changes in asset values, discount rates, inflation and mortality assumptions.

Potential impact

Increases to the pension deficit could lead to a requirement for additional cash contributions to these plans, thereby reducing the amount of cash available to meet the Group's other operating, investment and financing requirements.

Mitigation

- Close cooperation with scheme fiduciaries regarding management of pension scheme assets and liabilities, including asset selection and hedging actions.
- Alternative funding and risk mitigation actions are implemented where appropriate.
- Agreed recovery plans where required.

Changes in 2016

Falling yields on long-term bonds following the UK's decision to leave the EU has resulted in an increase in the UK pension liability. In addition, weaker sterling has so far had a negative impact on the reported liability associated with our overseas pensions.

The Group continues to have a reasonable degree of visibility over the likely short- to medium-term funding cash flows and requirements of its pension schemes and builds these cash flows into its budget and strategic planning process. We will continue to monitor the impact of market volatility and seek to reduce volatility where appropriate. Discussions with the trustees of the UK pension schemes in relation to the triennial funding valuation are progressing in a constructive manner.

Risk trend

Read more about the Group's pension arrangements in note 24 to the financial statements

Contract risk

Description	Mitigation	Changes in 2016	Risk trend
Across our businesses an increasing percentage of revenues are generated through contracts which are long term in nature and subject to complex terms and conditions. Contracts include commitments relating to pricing, quality and safety, and technical and customer requirements. Both our aerospace and automotive businesses enter into design and build contracts. These are complex contracts that are often long-term, so it is important that the contracted risk is carefully managed. Specifically within GKN Aerospace, the Group has risk and revenue sharing partnerships with key engine manufacturers. These contain formalised risk-sharing arrangements relating to risks which are not always within GKN management control. **Potential impact** A failure to fully understand contract risks or to anticipate technical challenges and estimate costs accurately at the outset of a contract can lead to unexpected liabilities, increased outturn costs and reduced profitability.	◆ Robust bid and contract management processes including thorough reviews of contract terms and conditions, contract-specific risk assessments and clear delegation of authority for approvals. ◆ Continuous review of contract performance.	During the year, we consistently followed the strengthened contract management processes introduced in each division in 2015. These processes aim to ensure effective management of risks associated with complex design and build contracts.	▼

Read more about key examples of new business wins in 2016 in the divisional business reviews on pages 24 to 35

Conducting business the right way

Nigel Stein
Chief Executive

GKN's approach to sustainability is summed up in one phrase: doing the right thing – by our people, as a business, and in our world. This means acting in a safe, ethical manner in everything we do. By conducting business the right way, every employee can contribute to the long-term success of the Group.

I visit many different sites across the world and am always impressed how GKN people, at every level, are doing their best to do the right thing, day in, day out.

After consultation and discussion, we also codified what makes GKN the company it is and summarised it in what we call the GKN DNA (see page 20). The GKN commitment to doing the right thing is a fundamental part of this DNA and this report sets out some of the main ways we aim to achieve it across GKN. It is supported by the GKN Code (see page 53) which guides how we act and the principles we follow to ensure we live our values every day.

Our leaders play an integral role in explaining what is expected of GKN people. They provide a strong sense of direction and are expected to always act to stop behaviour which is inconsistent with the Code, helping create an environment of trust. At GKN we believe in honest and proper conduct and will tolerate nothing less.

We are constantly seeking better ways of communicating with and training our people to ensure they deliver on expectations. We use a number of different techniques to achieve this. The best way of getting most messages across has always been through talking to employees and listening. Across our organisation there are a range of face-to-face meetings and the monthly PCI sessions are an excellent temperature check at each location. Weekly briefings in our plants ensure employees understand how they can help us succeed and regular HR sessions help cascade important messages throughout the organisation and improve the way we operate. Backing this up is intranet-based news, digital dashboards and targeted online training sessions to ensure our people not only understand our values and know what is expected of them, but also get to see how we are doing in achieving our objectives.

I am proud to lead such a committed GKN team. We have seen many improvements across our business during 2016 and this is due to the hard work of our employees around the world.

We must strive to keep improving, and I know that with the commitment of our people and the quality of our leadership we are building a sustainable future for GKN.

Doing the right thing

Our core value can be summed up in one simple phrase: doing the right thing.

By our people

We believe in:

- providing a safe working environment
- respecting the rights of others
- developing our people
- speaking up when we see behaviour which is wrong.

See pages 52 to 55 about how we do the right thing by our people

As a business

We believe in:

- creating a high performance business
- honest and proper conduct.

See pages 56 and 57 about how we do the right thing as a business

In our world

We believe in:

- helping to protect the environment
- supporting local communities
- open and honest communication.

See pages 58 and 59 about how we do the right thing in our world

Our people

At GKN, doing the right thing by our people means promoting a safe working environment, respecting the rights of others, developing our employees, encouraging a diverse workforce and building an environment where people feel comfortable speaking up if they see behaviour which is wrong. This approach helps GKN develop an outstanding team – recruiting the very best talent and creating a workforce of engaged colleagues around the world.

Providing a safe working environment

2016 performance

- **Two fatalities occurred during 2016. Lessons learned have been communicated across the Group.**
- **Reduction of accident frequency rate (AFR) and accident severity rate (ASR) to 0.96 and 20 respectively, and a planned increase in near miss reporting following the launch of an internal near miss app.**
- **63 health, safety and environment audits carried out globally.**
- **Further deployment of our global personal safety programme *think*SAFE! which received an external award from EEF, the manufacturers' organisation.**
- **Full integration of Fokker Technologies into GKN health, safety and environment systems.**
- **Five health and safety enforcement actions, resulting in penalties of $11,800 in the US and €440 in Romania.**

2017 priorities

- **Further development of our *think*SAFE! programme, with a focus on behavioural safety and occupational hygiene.**
- **Prepare to transition to the new ISO 45001 international standard for occupational health and safety management.**
- **Develop a global contractor accreditation programme.**

The health and safety of our people is our number one priority. However, we regret there were two fatal accidents during 2016. A contract construction worker at the GKN Driveline Roxboro plant in the US suffered a fatal injury when he fell from height, and an employee at the Hoeganaes plant in Buzau, Romania, suffered a fatal injury following a workplace transport incident. We deeply regret the loss of these lives and have provided support to all those involved with the incidents and the families of the deceased. A full investigation was carried out for both incidents and lessons learned have been communicated across the Group, including the strengthening of internal processes for managing visitors and contractors on site and workplace movement of vehicles and pedestrians.

We are, however, pleased with our progress in reducing the overall accident frequency rate (AFR) by 20% compared with 2015 (13% including Fokker), and our accident severity rate (ASR) by 49% (no change including Fokker). We achieved this through

20%
Reduction in AFR to 0.96 (2015: 1.20)

49%
Reduction in ASR to 20 (2015: 39)

22,500
Near misses reported (2015: 8,500)

continued deployment of our *think*SAFE! programme and general improvements in occupational health management and Group safety standards. During 2016, we successfully integrated Fokker into our GKN health and safety systems, with a much improved performance as they progressed throughout the year. In 2017, Fokker will be fully incorporated into GKN HSE reporting.

We continued to focus on near miss incident reporting, with 22,500 near misses being reported this year (2015: 8,500) supported by the launch of an internal near miss app, which allows for better reporting and visibility of near misses. Near misses are a key leading indicator of potential incidents and reporting is vital in allowing us to learn from them to avoid future accidents.

We help employees with their personal safety through our global programme, *think*SAFE!. The programme covers key health and safety topics in 26 languages and, in 2016, we developed new ebrochures to raise awareness of hand injuries, electricity, lock out/tag out, waste and workplace transport.

Auditing is key to maintaining safety standards. In 2016, we carried out 63 health and safety audits. We shared the key learnings and best practice from these audits across the Group.

We continued to strengthen our catastrophic risk management programme based on the BowTie model with further site-based training, increasing the number of risk assessments and implementing appropriate corrective actions.

The vast majority of our manufacturing sites continue to be certified to the health and safety standard OHSAS 18001 or equivalent, while a small number are working towards certification. Work has started on the transition to the new ISO 45001 international standard which is due during 2017.

Respecting the rights of others

2016 performance

- **100% of leaders completed our Leadership Assurance process, including Fokker for the first time.**
- **Further development of diversity and inclusion (D&I) awareness action plans and D&I awareness sessions were rolled out to employees, building on the training given to our senior leaders during 2015.**
- **Flexible working pilots were rolled out at selected sites.**
- **A programme was piloted to develop high potential female employees into leadership roles.**
- **New recruitment guidance and Appointment Policy issued to align with D&I priorities.**

2017 priorities

- **Establish D&I mentorship programmes.**
- **Introduce global flexible working guidelines.**

GKN Code

The GKN Code describes how we conduct business in order to build a long-term, sustainable future for GKN and ensure our business continues to be run in an ethical and socially responsible manner. It requires all Group companies to treat employees fairly and with respect, recognising their abilities, differences and achievements. All GKN employees and Board members must follow the Code. It sets out our company values, which guide us in the way we do business, and the standards of behaviour expected in support of these values. Each year, all GKN leaders are required to confirm that they understand the values and behaviours expected of them as leaders in promoting the right behaviours within GKN. All our leaders certified they had done so.

Diversity and inclusion

Our aim is to ensure that our workforce is representative of the countries and markets in which we operate and the communities in which we are located, including an appropriate mix of gender and other under-represented groups.

In 2015, we set a goal for 2020 that 20% of GKN's leadership should be women and, in time, 20% be from under-represented groups. As of 31 December 2016, women made up 13.8% of leaders, and under-represented groups accounted for 12.0% of leaders (see page 39).

This year, we updated our Appointment Policy outlining our hiring procedures for both internal and external recruitment in order to attract, retain and develop the best talent. D&I core belief statements have been established that reinforce the importance of inclusion to our leadership.

As at 31 December 2016	Men	Women
GKN plc Board	8	2
Senior managers[1]	342	34
Total employees[2]	41,618	8,341

1 Comprises GKN senior executives and, as required by s414C of the Companies Act 2006, GKN subsidiary company directors.
2 Excluding joint ventures.

Developing our people

2016 performance

- **Integration of our existing online learning management system 'Academy' into our 'MyGKN' system.**
- **Launch of the GKN DNA and Leadership Behaviours across the Group.**
- **Introduction of a new global employee engagement survey and refresh of our Positive Climate Index (PCI) measurement tool.**
- **Change in the criteria used to assess the performance of all employees to make them simpler and easier to understand.**

2017 priorities

- **Integration of the GKN DNA and Leadership Behaviours into our recruitment processes, and alignment with our performance evaluation and objective setting process.**
- **Roll out training for all managers on performance management.**
- **Continue to address the issues that matter to our employees shown by the EngageMe survey during 2016. The survey will be conducted again in 2017.**
- **Launch resourcing pilot to enable better recruitment.**

We are committed to helping all our employees succeed in developing their career and achieving their potential. Providing support and opportunities for our employees to grow is integral to the GKN DNA. A clear understanding of how we are each performing is an important part of this and changes to the GKN performance management criteria made during 2016 have improved how this happens.

We aim to support all our employees through training, development opportunities and regular feedback. We chart progress through managerial and technical career paths, supported by focused assessment and training.

In 2016, our online learning tool was upgraded and integrated into 'MyGKN', our HR system. Nearly 10,000 online courses were completed in the year by GKN employees.

EMPLOYEE ENGAGEMENT

A new employee engagement survey was introduced in 2016 to help make GKN a better place to work and help build a high-performance culture. The EngageMe survey, available in 22 different languages, will run annually across GKN. In partnership with an external provider, it enables us to benchmark against other organisations and prioritise actions that will ultimately improve the day-to-day experience for all our people, so that they can be at their best, every day.

In 2016, more than 41,000 (82%) employees took part in the survey that asked them to anonymously tell us how they feel about working for GKN. Feedback reports were provided to teams in every location and action plans to further improve engagement and performance are now under way.

Additionally, and in support of this annual survey, we updated our Positive Climate Index (PCI) sessions to improve the way we listen to employees. On a regular basis employees are invited to attend sessions, run across all sites, to gather feedback and discuss employee opinions about working for GKN. The process requires each business to record the collective engagement result each month. PCI performance continues to be a valued measure of business performance and is a key element of all monthly divisional operational reviews.

The Group has an organisation-wide succession planning and development programme to help our people develop the capabilities required to deliver our business plan. In 2016, the Group internal recruitment rate for management roles was 70% (2015: 78%). Voluntary turnover of management employees, which excludes compulsory redundancies, terminations and retirements, was 6.0% (2015: 4.1%), falling outside our target range of less than 5.0%.

GKN Leadership Behaviours

In 2016, we introduced the GKN DNA, a simple set of principles that summarise our culture (see page 20). These principles are supported by the GKN Leadership Behaviours which make clear what is expected of all our people to ensure we live the GKN DNA every day. During 2017, our performance and career management system will be updated to align with the GKN DNA and Leadership Behaviours.

Graduates and apprentices

In 2016, we continued to run both Group-wide and divisional graduate programmes to attract high-quality graduates, but with a renewed focus to strengthen the links between these programmes to ensure greater alignment. Programme managers from across the Group came together for the first time during the year to begin this process, which will continue in 2017.

The Group-wide International Graduate Programme (IGP) attracts graduates from China, the US, India, Sweden, Germany and the UK. Each participant undertakes a series of work placements, providing experience across a range of divisions, functions and cultures, developing potential future leaders for GKN. In total during the year, across the IGP and divisional programmes, GKN recruited 155 graduates, including 36 women.

GKN also has a strong apprenticeship programme, which combines practical skills with classroom learning. At the end of the year, there were almost 900 apprentices across the Group.

Speaking up when we see behaviour which is wrong

2016 performance

- **The GKN Code was communicated across Fokker Technologies, making clear what behaviours are expected of all GKN employees.**
- **Received and investigated 187 calls through our employee disclosure hotline.**

2017 priorities

- **Continue to emphasise and promote speaking up throughout GKN.**

Speaking up

We continue to actively promote the importance of our confidential employee disclosure hotline, available to all employees who can raise concerns in their own language, anonymously if they prefer. It is hosted by an external, independent company and is available 24 hours a day, seven days a week. In 2016, there were 187 calls to the hotline, up 18% from 158 calls in 2015. Matters reported are independently investigated and feedback is always provided to the caller.

187

Calls to employee disclosure hotline in 2016 (2015: 158)

GKN Aerospace was named as one of the UK's Top 100 Apprentice Employers in 2016 by the National Apprenticeship Service.

Our business

We believe in building a high performance business and are committed to delivering safe, high quality products and services. We also believe in creating a culture of continuous improvement across GKN, applying the Lean Enterprise model to everything that we do. While we want to win in business, we must do so fairly, and the GKN Code requires honest and proper conduct from all GKN employees. We also expect the same from our suppliers and other business partners.

Creating a high performance business

2016 performance

- **The Group Quality Committee continued to drive standardisation and best practice sharing throughout our quality management systems.**
- **Modularisation of Lean courses has shown real benefits for candidates allowing faster progression, eliminating duplication and the introduction of further specialised topics.**
- **Launched an initiative to introduce cobots (collaborative robots) across the Group.**

2017 priorities

- **Continue the work of the Group Quality Commitee to further strengthen our quality processes.**
- **Build cross-functional strengths and collaboration in order to exploit the advantages of Industry 4.0.**

Continuous improvement (CI)

We are committed to a culture of zero defects and continuous improvement, and GKN's Lean Enterprise model provides a well-established framework for CI across the Group. Employees from office, factory floor and executive levels are trained to identify value for customers and shareholders; to eliminate waste; to remove barriers; and to develop skills in coaching and problem solving.

Almost 280 leaders received GKN Lean training during the year delivered by GKN's own Lean experts.

2016 saw a further increase in the level of Business Process Excellence training reflecting the importance placed on applying Lean principles across the whole business, not just the shop floor.

During 2016, GKN was named one of Britain's Most Admired Companies, winning the Engineering – Aero & Defence category of the awards produced by Management Today and Leeds Business School which assesses the reputation of the UK's biggest businesses in the eyes of their peers.

BRITAIN'S MOST ADMIRED COMPANIES 2016/17 WINNER MT

COBOTICS

Cobots, collaborative robots, are an exciting new technology offering considerable advantages over conventional robots. In March 2016 we launched a challenge across the Group to think differently and exploit this technology. We now have 34 cobot projects in progress across all divisions covering a wide range of applications.

Right: A cobot in action on an assembly line at GKN Driveline in Koping, Sweden.

Honest and proper conduct

278

leaders trained in Lean principles in 2016

2016 performance

- **Rolled out a refresher training programme on Competition Law.**
- **Launched the GKN Governance Handbook in early 2016.**
- **Completed an assessment of the risk of slavery in our supply chain.**

2017 priorities

- **Roll out refresher training courses on anti-bribery and corruption.**
- **Further strengthen our processes to manage the slavery risk in our supply chain.**

Quality

We are committed to supplying safe and high quality products and services, judging our performance from the point of view of our customers. Robust quality management systems are in place across all divisions, with relevant industry standards held across the Group. The 'Voice of the Customer' initiative, launched in 2014, which tracks online customer scoring of our performance, is now firmly established in the monthly divisional operational review process, and we judge ourselves using our customers' quality data on our performance. 2016 saw an improvement in these metrics.

Governance

The GKN Governance Handbook was launched early in 2016. It provides our people with transparent and easy access to our core Group policies and procedures and helps ensure all our businesses are aware of what is expected of them in respect of those policies.

Human rights

A respect for human rights is implicit in our values and the policies which underpin them. We support the Universal Declaration of Human Rights and do not tolerate the use of child labour or forced labour. We have completed a Modern Slavery risk assessment within our supply chain during 2016 and will use the results of this to direct further work in this area during 2017.

Compliance training

Our online compliance training modules continue to be an important element of our overall compliance programmes. We target training to employees whose roles require it and periodically update our materials and audiences in order to align them with our risks. During 2016, we rolled out a refresher programme on compliance with Competition and Antitrust laws.

Of those targeted, 96% (being 14,300 since its launch) completed anti-bribery and corruption training, 95% completed competition law and export control training (4,100 and 7,400 respectively since their launch), and 92% (20,200) completed online IT security training. All new starters are required to complete the online courses appropriate to their role, which are supplemented by face-to-face training for higher risk individuals. During 2016, we have harmonised the course content of our Anti Bribery and Corruption and Competition Law eLearning packages across GKN and the newly acquired Fokker businesses.

Suppliers

Our suppliers are integral to the sustainability of our business. We are committed to treating all our suppliers and partners with fairness and integrity. Our supply chain management policy sets out the principles and procedures each GKN company should follow when dealing with suppliers and potential suppliers. Our Supplier Code of Conduct continues to be our key tool in communicating what we expect from our suppliers in relation to health, safety and environmental standards, internationally accepted standards of workers' rights, use of child and forced labour, ethical standards, anti-bribery and corruption, and compliance with relevant laws and regulations. The Code of Conduct is enforced by our contractual terms and conditions.

We have continued to emphasise compliance with global standards to ensure that conflict minerals are kept out of the supply chain, and to ensure compliance with European REACH guidance on the use of chemicals within our businesses.

94%

of target employees completed online compliance training

Our world

We aim to reduce the impact that both our operations and our customers have on the environment. Our products are designed to perform better than their predecessors, be that lighter, more efficient or resulting in less waste. Around the world, our sites and employees work hard to support the communities in which they operate. As a company, GKN contributes by building partnerships with schools and academic institutions, and inspiring future engineers. Our relationships are conducted with open and honest communication.

4%

improvement in energy efficiency to 449kWh per £000 sales
(2015: 470kWh per £000 sales)

Helping to protect the environment

2016 performance

- **4% improvement in energy efficiency.**
- **4% reduction in total greenhouse gas emissions.**
- **16 sites are now certified to ISO 50001 Energy Management Standard.**
- **Fokker Technologies is now fully integrated into our GKN environmental systems.**
- **There were five environmental enforcement actions in 2016 resulting in penalties of $4,600.**

2017 priorities

- **Train our energy experts to make effective use of the energy monitoring system to drive further efficiency gains and emission reductions.**
- **Deliver *think*WATER! training to all employees.**
- **Increase the number of sites certified to ISO 50001, with the objective of certifying all major manufacturing locations by 2020.**
- **Continue drive to improve energy efficiency, reduce our greenhouse gas intensity and reduce waste to landfill.**

In 2016, our energy efficiency improved by 4% to 449kWh per £000 sales (2015: 470kWh), helped by the full year impact of Fokker, which has a relatively low energy intensity. We progressed our energy efficiency programme using real-time data from the energy management system to optimise the programming of building management systems and compressed air systems, and to flex energy use in line with production demands. This system allows us to monitor 80% of our electricity consumption.

ISO 14001 is our mandated environmental management system and the great majority of our manufacturing sites are certified. A small number are working towards certification. We will also certify all major manufacturing locations to ISO 50001, the Energy Management System standard.

Greenhouse gas emissions methodology

GKN calculates greenhouse gas emissions using the Greenhouse Gas Protocol and refers to the greenhouse gas intensity of the Group (i.e. operations included in the consolidated financial statements).

Our Scope 1 estimates include emissions from fuel used on premises, transport emissions from owned or controlled vehicles, losses of refrigerant, and process and fugitive emissions.

Scope 2 emissions are those from electricity and heat purchased by GKN. For 2016, these emissions, and total greenhouse gas emissions, are calculated using both Location[2] and Market[3] based methods.

	-4% Total greenhouse gas emissions (tonnes CO_2 equivalent)[1]	-12% Total emissions per £million sales (tonnes CO_2 equivalent)[1]	+3% Scope 1: combustion of fuel (tonnes CO_2 equivalent)[1]	-6% Scope 2: electricity and heat (tonnes CO_2 equivalent)[1]
2016	1,292,000[2]			1,005,000[2]
2016	1,210,000[3]	163	281,000	922,000[3]
2015	1,340,000[1]	186	274,000	1,068,000[1]

1 Greenhouse gas figures include emissions related to the Fokker business.

Environmental performance

	Energy consumption per unit of production (kWh/tonne)	CO_2 emissions per unit of production (kg/tonne)	Water consumption per unit of production (m3/tonne)	Waste generation per unit of production (kg/tonne)	Recycled waste (% of total waste)
GKN Aerospace* 2016	243	79	0.54	7.2	69
GKN Aerospace* 2015	253	90	0.63	9.1	73
GKN Driveline 2016	1,208	461	1.26	147	94
GKN Driveline 2015	1,238	468	1.23	153	95
GKN Powder Metallurgy 2016	2,459	910	2.24	90	92
GKN Powder Metallurgy 2015	2,477	910	2.09	94	91
GKN Land Systems 2016	1,221	364	4.96	230	97
GKN Land Systems 2015	1,105	330	4.38	207	97

*GKN Aerospace performance expressed per £000 sales

When environmental data is expressed on the basis of sales, it is calculated at constant currency in order to facilitate direct year-on-year comparison.

Supporting local communities

2016 performance

- **£1 million invested in 290 projects aimed at supporting young people as part of our global Hearts of Gold community scheme.**
- **Many other local community events held around the world.**
- **A livestream of UK Formula Student provided support for young engineers competing in the event.**
- **Continued participation in See Inside GKN (where school children visit GKN locations) and launch of Take Your Daughters/Sons to Work initiative to promote STEM education for young people around the world.**
- **Outstanding community involvement recognised through our annual Hearts of Gold awards.**

2017 priorities

- **Maintain the success of See Inside GKN in the UK, and expand the initiative to China, Sweden and the US.**
- **Launch a Sustainability Newsletter.**
- **Continue to promote other local Hearts of Gold activities.**

Most GKN sites are actively involved in a huge variety of different projects, supporting their local communities, donating time to good causes and raising money for charitable projects around the world. Sometimes these are corporate initiatives, but in many cases projects and initiatives are instigated by employees. GKN calls this outstanding community involvement 'Hearts of Gold', and awards are given out every year to employees to celebrate the most inspiring examples, and to encourage others to follow their lead.

Support for young people is central to our Hearts of Gold activity. This includes inspiring children and young adults to study science and maths and consider a career in engineering through work experience and apprenticeships; and sponsoring education, technology institutions and events. In 2016, GKN hosted 69 school visits via our 'See Inside GKN' initiative, in which 5,000 children from over 20 countries visited our facilities.

In total during the year, GKN invested over £1 milllion in 290 significant projects aimed at supporting young people. These projects touched the lives of almost 60,000 young people in 30 countries.

Open and honest communication

2016 performance

- **Increased publication of information and news, and enhanced social media presence.**
- **Launch of a new corporate website.**

2017 priorities

- **Maintain the flow of news and information about GKN and ensure it reaches internal and external audiences.**
- **Expand understanding of key Group-wide technologies, such as additive manufacturing.**

We aim to help our shareholders and external audiences understand our business through honest communication which is easy to access and understand. In 2016, we launched a new corporate website and continued to promote community support online. We continued to use social media channels to reach and interact with a wider audience, and launched the GKN plc Facebook page.

FORMULA STUDENT

Formula Student is the world's largest student motorsport competition, challenging engineering students from across the globe to design, build and race their own Formula One-style racing car. GKN is an official partner of the UK event which is aimed at supporting the next generation of young engineers. In 2016, we broadcast live from across the four full days of Formula Student UK and a digital campaign reached over 1.5 million people via social media, with 35,000 viewers watching 342 days' worth of video. GKN also offered free sideshafts and connectors to 60 teams across the world for use on their racing cars.

See more at www.gkn.com/formulastudent

BOARD OF DIRECTORS

Mike Turner CBE (68) **N**
Chairman

Appointed to the Board in September 2009 and became Chairman in May 2012.

Experience Has extensive experience of the aerospace industry having worked for BAE Systems plc for over 40 years, including as its Chief Executive from 2002 to 2008. Former President of the Aerospace & Defence Industries Association of Europe. Fellow of the Royal Aeronautical Society.

External appointments Chairman of Babcock International Group PLC and non-executive director of Lazard Ltd. Member of the UK Government's Apprenticeship Ambassadors Network.

Nigel Stein (61) **E**
Chief Executive

Appointed to the Board in August 2001.

Experience Joined GKN in 1994 and held a range of commercial, general management and finance roles, including Group Finance Director and Chief Executive Automotive, before becoming Chief Executive in January 2012. Prior to GKN, he gained experience in the commercial vehicle and manufacturing sector and held senior financial positions with Laird Group plc and Hestair Duple Ltd. Member of the Institute of Chartered Accountants of Scotland and former non-executive director of Wolseley plc.

External appointments Non-executive director of Inchcape plc and chairman of the UK's Automotive Council.

Angus Cockburn (53) **A R N**
Independent non-executive Director

Appointed to the Board in January 2013.

Experience Currently Chief Financial Officer of Serco Group plc. He joined Serco in October 2014 from Aggreko plc where he held the role of Chief Financial Officer for 14 years and was latterly Interim Chief Executive. Prior to this he was Managing Director of Pringle Scotland, a division of Dawson International plc. Previously held a number of roles at PepsiCo Inc and was latterly Regional Finance Director for Central Europe. Former non-executive director of Howden Joinery Group plc and former chairman of the Group of Scottish Finance Directors. He is also an Honorary Professor at the University of Edinburgh.

Kevin Cummings (54) **E**
Chief Executive GKN Aerospace

Appointed to the Board in January 2016.

Experience Joined GKN in 2008 as Chief Executive Officer GKN Aerostructures North America. Appointed Chief Executive GKN Aerospace in January 2014 and has been a member of the GKN Executive Committee since October 2014. He has held various leadership roles in programme management, strategic planning, engineering and business development; prior to joining GKN he was Executive Vice President & General Manager Launch Systems at Alliant Techsystems.

Tufan Erginbilgic (57) **A R N**
Independent non-executive Director

Appointed to the Board in May 2011.

Experience Currently Chief Executive, Downstream for BP plc with specific responsibility for the Fuels, Lubricants and Petrochemicals businesses. He joined BP in 1997 and has held a number of senior marketing and operational roles, including Chief of Staff to the Group Chief Executive, Chief Operating Officer of the Fuels business and Chief Executive of the Castrol Lubricants business. His early career was spent at Mobil Oil.

External appointments Director of the Turkish-British Chamber of Commerce and Industry.

Shonaid Jemmett-Page (56) **A R N**
Independent non-executive Director

Appointed to the Board in June 2010.

Experience Former Chief Operating Officer of CDC Group plc, the UK Government's development finance institution. Joined CDC from Unilever, where for eight years she was Senior Vice-President Finance and Information, Home and Personal Care, originally in Asia and later for the group as a whole. Her early career was spent at KPMG, latterly as a partner. Former non-executive director of Havelock Europa, Close Brothers Group plc and APR Energy plc.

External appointments Independent non-executive director of MS Amlin plc, Greencoat UK Wind plc and Caledonia Investments plc. Non-executive chairman of Origo Partners plc.

Richard Parry-Jones CBE (65) **A R N**
Senior Independent Director

Appointed to the Board in March 2008 and as Senior Independent Director in May 2012.

Experience Has extensive experience of the automotive industry having previously worked for the Ford Motor Company for 38 years, latterly as Group Vice-President Global Product Development and Group Chief Technical Officer. Fellow of the Royal Academy of Engineering, the Institution of Mechanical Engineers and the Royal Society of Statistical Science. Former non-executive chairman of Network Rail Ltd, Kelda Eurobond Co Ltd and Yorkshire Water Services Ltd. Former chairman of the Welsh Assembly Government Ministerial Advisory Group and the UK's Automotive Council.

Anne Stevens (69) **A R N**
Independent non-executive Director

Appointed to the Board in July 2016.

Experience Has extensive experience across both the automotive and aerospace industries. Former chairman, Chief Executive Officer and President of Carpenter Technology Corp. Prior to this, Anne undertook a number of roles during a 16-year career at Ford Motor Company where she was latterly Chief Operating Officer for the Americas. Her early career was spent at Exxon Corporation where she held roles in engineering, product development and sales and marketing.

External appointments Non-executive director of Anglo American plc, Lockheed Martin Corporation and XL Group plc.

Phil Swash (53) **E**
Chief Executive GKN Driveline

Appointed to the Board in January 2016.

Experience Joined GKN in 2007 as Chief Executive Officer GKN Aerospace Europe. Appointed Chief Executive GKN Driveline in September 2015. Member of the GKN Executive Committee since October 2014. Prior to his current role, Phil was Chief Executive of GKN Land Systems. Has held a number of operational roles at BAE Systems and Airbus where, prior to joining GKN, he was responsible for the wing production of all Airbus aircraft.

External appointments Vice-President of CLEPA (the European Association of Automotive Suppliers), Fellow of the Institution of Engineering and Technology, and Honorary Fellow of Liverpool John Moores University.

Adam Walker (49) **E**
Group Finance Director

Appointed to the Board in January 2014.

Experience Became Group Finance Director in February 2014 and from September 2015 to December 2016 held the additional role of Chief Executive GKN Land Systems. Former Finance Director of Informa plc from 2008 to 2013 and operationally responsible for the Events Division from 2012 until leaving the group. Prior to this he was Group Finance Director at National Express Group plc from 2003 to 2008. His early career was spent at Touche Ross, NatWest Markets and, latterly, Arthur Andersen where he held a number of senior finance positions.

External appointments Non-executive director of Kier Group plc.

Kerry Watson
Company Secretary

Appointed Company Secretary in May 2016.

Experience Joined GKN in 2004 and was appointed Deputy Company Secretary and Head of Secretariat in 2012. A member of the Institute of Chartered Secretaries and Administrators.

A Member of Audit & Risk Committee

R Member of Remuneration Committee

N Member of Nominations Committee

E Member of Executive Committee

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

Leadership

As a Board, we are responsible for the stewardship of the Company and for protecting and growing the long-term value of GKN for the benefit of its shareholders. We are accountable to the Company's shareholders for the decisions that we make.

Our governance framework helps to protect our shareholders' investment by ensuring that processes are in place for decisions to be made by the right people, with the right information and within the right environment, having debated and given due consideration to the appropriate matters.

Culture

At GKN we always seek to operate at the highest ethical standards. Doing the right thing runs through everything we do – it's in our DNA.

As a Board, setting and demonstrating the values and behaviours that we expect from our employees is not enough. We also need to ensure that these values and standards are understood and embedded within the Group.

During the year, we defined a simple set of principles called the GKN DNA. These principles underpin the pillars of the Group's culture, policies and practices, and are supported by the leadership behaviours which define the qualities we look for in our employees.

Mindful of the increasingly regulated environment in which we operate, and therefore of the obligations that we have to impose on our employees, we issued a new Governance Handbook during 2016 to provide transparent and easy access to all the Group's governance policies and procedures.

Effectiveness

Maintaining a skilled, balanced and effective Board is crucial for the long-term success of the Group.

I am confident that the composition of our Board, which comprises skilled and experienced Directors, provides the appropriate balance of challenge and support to ensure that it operates effectively and makes the best possible decisions.

The non-executive element of the Board was strengthened in July 2016 with the appointment of Anne Stevens. Anne's appointment strengthens the gender diversity and international experience of the Board. I was pleased to welcome Anne to GKN and she has already proved to be a strong asset to the Board. Further details of Anne's appointment can be found on page 72.

At the end of February 2017, Richard Parry-Jones will complete nine years as a non-executive Director of GKN. Given Richard's length of tenure, feedback was sought as part of the external Board effectiveness evaluation conducted in November 2016 in order to determine that he remained independent in character and judgement. The feedback report strongly reflected the view that Richard remained independent notwithstanding the length of his tenure, and the Board accepted the recommendation of the Nominations Committee to extend his term of appointment.

Accountability

The Board is ultimately responsible for setting the risk appetite of the Group and for maintaining appropriate risk management systems. During the year, we continued to refine our risk procedures and strengthen our risk assurance processes in response to changes to our risk profile. A summary of our risk management and internal control procedures can be found on page 68 and details of the improvements made to these procedures during 2016 can be found in the strategic report and in the report on the Group's principal risks on pages 42 to 49.

The details of how we have complied with the principles and provisions of the UK Corporate Governance Code (the Code) are described more fully throughout this report.

Mike Turner CBE
Chairman
27 February 2017

Leadership

The role of the Board

We are responsible for the stewardship and long-term success of GKN. Our overarching aim is to create sustainable value for the benefit of our shareholders. Principally, we achieve this through:

- setting the strategic objectives of the Group and ensuring it has the executive leadership and necessary resources to meet those aims;
- approving key strategic projects and the Group and divisional budgets;
- ensuring that the Group has an effective risk management framework;
- setting and maintaining the values and standards of the Group; and
- reviewing management performance.

Our governance framework establishes a clear division of responsibilities of the Board which are summarised below.

A full description of our role, which includes a number of specific responsibilities reserved to us, is available on our website at www.gkn.com.

Shareholders

Board
Accountable to shareholders and responsible for the long-term success of the Company

Chairman	**Board committees**	**Chief Executive**
Leads the Board and is responsible for its effectiveness	Support the Board in the fulfilment of its duties	Leads the business and is responsible for executing the strategy
Senior Independent Director	**Non-executive Directors**	**Executive Directors**
Acts as a sounding board for the Chairman and intermediary for other Directors where necessary	Constructively challenge and help develop the Group's strategy	Responsible for the day-to-day operation of the business

Company Secretary
Provides independent advice to the Board, ensures good information flow, and maintains good shareholder relations

Board meetings

We meet formally approximately nine times a year. To increase our visibility of the Group's operations and provide further opportunities to meet senior management, at least one Board meeting is combined with a visit to the Group's business locations. In April 2016, we visited Fokker Technologies' facility in Papendrecht, Holland, and in October 2016 we visited GKN Sinter Metals' facility in Bonn, Germany. On both visits we toured the facilities, reviewed business performance and met employees.

In addition to regular Board reviews of strategic projects, we hold an annual two-day Board meeting which is devoted to reviewing progress made against Group strategy and discussing longer-term strategic options. During this meeting we receive detailed updates on markets and technology trends from external experts and we discuss and approve the strategy for each division and the Group. We also hold a number of informal meetings during the year to build and maintain strong relations between Directors. Additionally, I meet from time to time with the non-executive Directors without the executive Directors being present so that we can discuss their priorities and concerns.

I have set out below the areas on which we focused in 2016.

Board focus areas in 2016

Strategy	◆ Reviewed and approved the Group's strategic plans and annual budget. ◆ Reviewed a number of potential acquisitions. ◆ Approved the sale of the Group's Stromag business to Altra Industrial Motion Corp. ◆ Reviewed progress on the integration of the Fokker Technologies acquisition.
Risk	◆ Assessed the risks to the achievement of the Group strategy and calibrated the Group's risk appetite. ◆ Considered and debated the principal risks and uncertainties which could impact the Group. ◆ Approved the level of risk financing and insurance. ◆ Agreed severe but plausible scenarios to model and test the viability of the Group.
Capabilities	◆ Considered succession planning for the Board, the Executive Committee and senior executive positions within the Group, and in key geographic and strategic areas such as Asia and technology respectively. ◆ Evaluated the effectiveness of the Board and agreed appropriate actions.
Performance	◆ Considered Group financial performance against budget and forecast. ◆ Reviewed lessons learned from programme management issues in GKN Driveline. ◆ Considered a post-investment review on a significant customer programme for GKN Driveline. ◆ Considered health and safety performance throughout the Group. ◆ Reviewed the half-year and annual results and approved the annual report and interim financial statements.
Control	◆ Assessed, with the support of the Audit & Risk Committee, the effectiveness of internal control and audit processes.
People and culture	◆ Approved an updated set of values (the GKN DNA). ◆ Received a presentation on feedback from the Group's employee engagement survey. ◆ Reviewed progress against the Group's diversity targets.

Board committees

In line with the Code we delegate certain responsibilities to our Board committees, which assist the Board in carrying out its functions and ensure that there is independent oversight of internal control and risk management, executive remuneration and new Board appointments.

Reports on the activities of our principal committees can be found on the following pages and their terms of reference are available on our website. All Board committees are supported by the Company Secretariat.

Only the committee chairman and members are entitled to be present at committee meetings, although additional attendees may be invited should their input be required. In order that the Board remains fully updated on their work, the committee chairmen report on committee activities at the subsequent Board meeting.

GKN plc Board

	Audit & Risk Committee	Remuneration Committee	Nominations Committee	Executive Committee	Disclosure Committee
Chairman	**Shonaid Jemmett-Page**	**Richard Parry-Jones**	**Mike Turner**	**Nigel Stein**	**Nigel Stein**
Composition	All independent non-executive Directors	All independent non-executive Directors	All non-executive Directors	Chief Executive, Group Finance Director, divisional chief executives, Group HR Director, Group Communications Director and the General Counsel	Chief Executive, Group Finance Director and the Company Secretary
Role	◆ Monitors the integrity of the financial reporting process. ◆ Reviews management's responsiveness to the external auditors' findings. ◆ Reviews the Group's internal control and risk management systems. ◆ Reviews the effectiveness of the external and internal audit process.	◆ Agrees remuneration of the executive Directors and the Company Secretary within the terms of the agreed policy. ◆ Reviews and approves proposed short- and long-term incentive payments to executive Directors to ensure such payments are justified. ◆ Monitors the level and structure of remuneration of the most senior executives below Board level.	◆ Leads the process for identifying and appointing Directors with skills and experience to deliver the continued success of the Company. ◆ Keeps under review the succession planning and leadership needs of the Group. ◆ Keeps under review the structure, size and composition of the Board and its committees, recommending any changes to the Board.	◆ Leads, oversees and directs the activities of the Group. ◆ Executes the Group's strategic plan. ◆ Approves and leads the consistent implementation of business and operational processes. ◆ Identifies, evaluates and monitors the risks facing the Group and decides how they are to be managed.	◆ Ensures adequate procedures, systems and controls are maintained to enable the Company to comply with its obligations regarding identification and disclosure of inside information. ◆ Ensures that all significant regulatory announcements, the annual report and accounts and other documents issued by the Company comply with applicable requirements.

Executive sub-committees

The Executive Committee's execution of the Group's strategy is supported by three sub-committees as shown below.

Executive Committee

Lean Enterprise Sub-Committee	Governance and Risk Sub-Committee	Group Technology Strategy Board
Drives operational best practice through the application of Lean business processes	Monitors and reviews matters relating to governance, compliance and risk management	Develops the Group's technology plan

In addition, the Chief Executive's Council assists in shaping the Group's strategy and operations. Chaired by the Chief Executive, the Council's membership comprises members of the Executive Committee and 16 senior executives from divisional leadership teams involved in the day-to-day running of the businesses. Richard Parry-Jones and Shonaid Jemmett-Page attended a meeting of the Council in December 2016 to meet with senior executives and give their views on the business.

Effectiveness

- Diversity of skills, experience, knowledge and personalities
- Commitment to fostering an open and constructively challenging Board dynamic
- Sufficient time commitment

- Individual and Board performance evaluations to provide feedback and identify opportunities for improvement

- Induction
- Ongoing development

- Accurate and clear information in advance of meetings
- Access to the Company Secretary and independent advice when needed

The Board has considered the relationships and circumstances that may affect, or appear to affect, the independence of the non-executive Directors. In particular, it considered the length of service of Richard Parry-Jones who has been a non-executive Director since 1 March 2008 and Senior Independent Director since May 2012. As part of the Board effectiveness evaluation, the external facilitator was requested to seek feedback on Richard's independence. Based on feedback received, the report concluded that Richard continues to play a fully independent role on the Board.

In light of this, and recognising the importance of continuity and the value that experienced Directors can bring to the Board and the Group, the Nominations Committee recommended that Richard's term be extended and the Board accepted this recommendation.

Composition and commitment

The composition of our Board is kept under review by the Nominations Committee to ensure that it retains an appropriate balance of skills, experience, independence, diversity and knowledge of the Group to enable it to meet the needs of the business. The Committee then makes recommendations for appointments to the Board. Collectively we have many years of experience gained across a variety of areas and industries, including finance, engineering and manufacturing. Many Directors on the Board have strong international backgrounds having held executive positions in Asia and the Americas.

Following the appointment of Kevin Cummings and Phil Swash as executive Directors in January 2016, and recognising the need to refresh the Board and its committees in the context of the Company's strategy, we identified the need for an additional non-executive Director. The process that the Nominations Committee followed in recommending Anne Stevens' appointment is set out in its report on page 72. As with all our Board appointments, Anne's appointment was made on merit against objective criteria with due regard to diversity of skills, experience and gender.

Following her appointment to the Board on 1 July 2016, Anne will retire and offer herself for election at the 2017 annual general meeting. All other Directors will retire and seek re-election at the AGM in accordance with the provisions of the Code. Biographical details of all Directors are given on pages 60 and 61.

The Board is not aware of any matter that would likely affect the judgement of any Director. After careful deliberation and taking into account the output of the Board effectiveness review, the Board considers all the non-executive Directors, excluding the Chairman, to be independent.

Prior to the appointment of Anne Stevens in July 2016, the Board comprised four executive Directors and five non-executive Directors including the Chairman. Following Anne's appointment the Board comprises four executive Directors and six non-executive Directors including the Chairman.

Accordingly, at least half of the Board, excluding the Chairman, was composed of independent non-executive Directors during the year.

All Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively. The time commitment expected of each non-executive Director is set out in their letter of appointment and non-executive appointees must demonstrate that they have sufficient time to devote to the role. In accordance with the Code, Anne Stevens' other significant time commitments were disclosed to the Board prior to her appointment as a non-executive Director.

Recognising the benefits that experience on other boards can bring to the Company, executive Directors may accept one external non-executive directorship, excluding the chairmanship of a FTSE 100 company. Any proposed appointment is subject to review and takes into account the Director's duty to avoid a conflict of interest. During the year, Nigel Stein and Adam Walker continued in their respective roles as non-executive directors of FTSE companies.

The time commitment of each Director was reviewed in the Board's individual performance evaluations and I can confirm that each Director continues to devote sufficient time to their respective role.

Board and committee attendance

Attendance at relevant meetings of the Board and of the Audit & Risk, Remuneration and Nominations Committees held during 2016 was as follows:

Director	Board (10 meetings)	Audit & Risk Committee (6 meetings)	Remuneration Committee (10 meetings)	Nominations Committee (4 meetings)
Chairman				
Mike Turner	10	–	–	4
Executive Directors				
Nigel Stein	10	–	–	4
Kevin Cummings	10	–	–	–
Phil Swash	10	–	–	–
Adam Walker	10	–	–	–
Non-executive Directors				
Angus Cockburn	10	6	10	4
Tufan Erginbilgic[1]	9	4	9	4
Shonaid Jemmett-Page	10	6	10	4
Richard Parry-Jones	10	6	10	4
Anne Stevens[2]	5/5	3/3	4/4	1/1

1 Tufan Erginbilgic was unable to attend the July and September Audit & Risk Committee meetings, the June Remuneration Committee meeting and the September Board meeting due to prior business commitments.
2 Actual attendance/maximum number of meetings Anne Stevens could attend based on date of appointment of 1 July 2016.

Development

Induction

On joining the Board, a Director receives a tailored induction to suit the individual's background and experience. This includes:

- a comprehensive induction pack with background information about GKN, details of Board meeting procedures, and Directors' duties and responsibilities in addition to a number of other governance-related issues;
- a briefing with the Company Secretary who is responsible for facilitating the induction of new Directors both into the Group and as to their roles and responsibilities as Directors;
- meetings with the Chief Executive and with relevant senior executives to be briefed on the Group strategy and each individual business portfolio;
- plant visits; and
- external training where appropriate, particularly on matters relating to the role of a Director and the role and responsibilities of Board committees.

The above process was applied following the appointment of Anne Stevens. Anne took part in the Board trip to GKN Sinter Metals, Bonn, and also visited GKN Driveline's technology centre and GKN Land Systems' facility in Lohmar.

Ongoing development

Directors are continually updated on the Group's businesses, the markets in which they operate and changes to the competitive and regulatory environment through briefings to the Board and meetings with senior executives. Non-executive Directors are encouraged to visit Group operations in addition to formal Board visits to increase their exposure to the business.

I discuss training and development needs with each Director as part of our annual individual performance evaluation process. The Company Secretary keeps under review the suitability of external courses so that any needs identified either through the evaluation process or on an ad hoc basis can be addressed.

During the year, Directors received training and formal updates in the following areas:

Governance	◆ Ethics and bribery ◆ Corporate integrity ◆ Building public trust ◆ The EU Market Abuse Regulation
Strategy	◆ Long-term market and technological trends ◆ Technology and innovation
Risk	◆ Cyber risk ◆ The impact of the EU referendum
Finance	◆ Accounting technical updates
Capabilities	◆ Succession planning and diversity

In relation to plant visits, Shonaid Jemmett-Page visited our winter testing facility in Japan.

Information and support

As Chairman, I am responsible for ensuring that Directors receive accurate, timely and clear information. I set Board agendas following consultation with the Chief Executive and with the assistance of the Company Secretary. An annual programme of items for discussion is kept under review by the Company Secretary to ensure that all matters reserved to us and other key issues are considered at the appropriate time.

To ensure that adequate time is available for Board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors one week prior to scheduled Board meetings. All Directors have direct access to the advice and services of the Company Secretary who ensures that the Board is fully briefed on legislative, regulatory and corporate governance developments.

Briefing papers are also circulated to committee members in advance of committee meetings and, in respect of the Audit & Risk Committee, are made available to all other Directors. The Company Secretary supports the committee chairmen by ensuring that agendas are appropriate and address all matters for which the committee has specific responsibility.

In addition to the above, Directors may take independent professional advice at the Company's expense in the furtherance of their duties.

Performance evaluation

Board evaluation

Each year a performance evaluation of the Board is undertaken. In accordance with the Code, an external evaluation is carried out every three years. The Board and committee evaluation process in 2016 was externally facilitated by Ffion Hague of Independent Board Evaluation, an independent consultant who has no connection with the Company. The evaluation process is described opposite.

Overall, feedback from the evaluation was very positive. In particular, Directors identified the Board culture and the high standards of governance as a strength. While some areas for improvement were identified, all Directors viewed the Board as performing effectively and noted that their colleagues were extremely committed to the Company and its future.

Progress against our key actions for 2016 and the 2017 key actions agreed by the Board following discussion of the evaluation results are set out below:

Performance evaluation process

Areas of focus believed to be critical to the Board's effectiveness were used to provide a comprehensive brief to the external assessment team. For 2016, the areas of focus included:

- strategy and process;
- culture;
- decision making and quality of debate;
- succession planning;
- Board composition; and
- risk management, governance and compliance.

Extensive one-to-one interviews with each Director and key stakeholders

Observation of Board and committee meetings

Summary of results presented to the Board for discussion

Key actions agreed by the Board

	2016 key actions		2017 key actions
Area of focus	**Key action**	**Progress**	**Key action**
Strategy	Refine the strategy process to ensure there is adequate time to debate the key issues.	The approach to the strategy meeting was restructured; as a result, Directors felt the session provided adequate time for deep dives, challenge and debate.	Conduct a deep dive on the bid process to enhance consistency of approach across the divisions.
	Major projects and contracts to be taken to the Board at the earliest possible stage.	An 'authority to negotiate' format has been introduced which provides the Board with an initial view of returns on investment prior to the decision-making point.	
Risk	The internal control system of each division relating to procurement risk to be reviewed.	The systems in place in each division for managing procurement risk have been reviewed by the Audit & Risk Committee.	Continue the programme of deep dive reviews to assess the robustness and consistency of key risk management programmes across the divisions.
	Third line of defence in key risk areas to be reviewed. Actions arising from the divisional risk reviews to be tracked.	The Audit & Risk Committee considered the remit of Corporate Audit and aligned the internal audit plan to the Group's principal risks. Actions arising from divisional risk reviews are tracked at divisional operational reviews attended by the Chief Executive.	
Succession planning	Increase focus on succession planning for the Executive Committee and throughout the Group.	Additional detail was included in the Board's formal review of succession planning. The Executive Talent Board, a forum in which executive Directors discuss succession below the Executive Committee, increased its focus on these matters.	Hold a Board discussion around the Board skills matrix.
Board papers			Review the format of the Board pack to ensure it is standardised.

Director evaluation

The individual performance of the Directors was evaluated during the external Board evaluation process described above. I provided feedback on the performance of individual Board members during one-to-one meetings. Following the evaluation, I can confirm that each Director continues to make a valuable contribution to the Board and demonstrates commitment to their role. Feedback on my performance was provided by the Senior Independent Director who took into account the results of the Board evaluation and the views of the other Directors.

Committee evaluation

Committee evaluations were carried out as part of the Board evaluation process described above and feedback was provided to committee chairmen on the performance of their respective committees.

Accountability

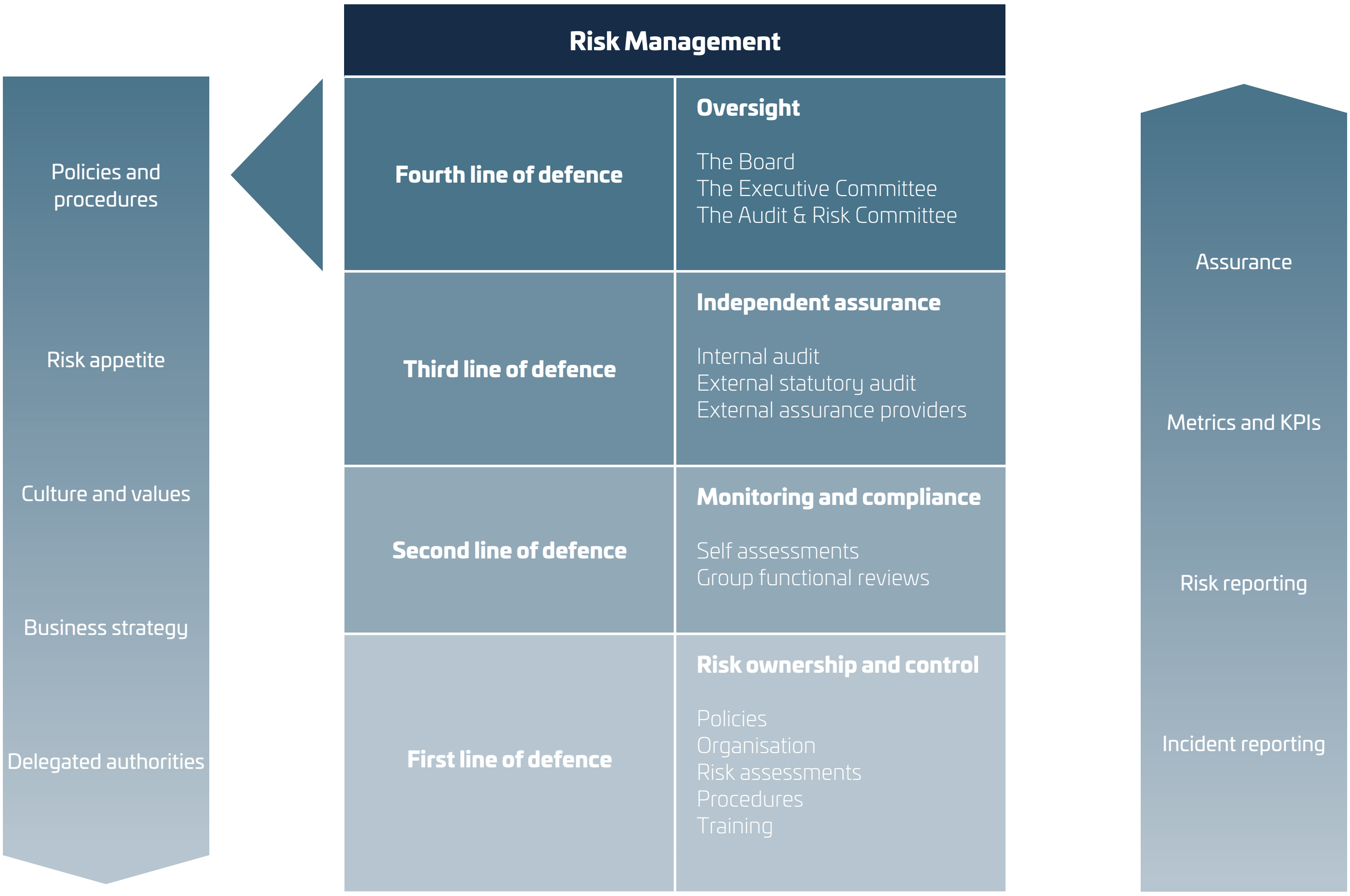
Financial and business reporting

When reporting externally, the Board aims to present a fair, balanced and understandable assessment of the Group's position and prospects. During the year, the Board satisfied itself that appropriate assurance processes are in place to enable it to state that this annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. A statement of this responsibility, together with additional responsibilities of the Directors in respect of the preparation of the annual report, is set out on page 110. The auditors' report on page 111 includes a statement by Deloitte LLP about their reporting responsibilities. As set out on page 38, the Directors are of the opinion that GKN's business is a going concern. An explanation of how the Board has assessed the prospects of the Company, taking into account its current position and principal risks, can be found on the same page.

Risk management and internal control

GKN's enterprise risk management (ERM) programme facilitates a Group-wide approach to the identification and assessment of risk. Each year all Group businesses are required formally to review their business risks and to report on whether there has been any material breakdown in their internal controls. This formal review is supplemented by an interim review conducted at the half year. A description of the ERM programme can be found on pages 40 and 41.

Our risk management and internal control systems and procedures are designed to identify, manage and where practicable, reduce and mitigate the effects of the risks that could adversely affect our business objectives. They are not designed to eliminate such risk, recognising that any risk management system can only provide reasonable and not absolute assurance against material misstatement or loss.



Our four lines of defence approach to risk management helps us to delegate and coordinate risk management responsibilities and provides assurance that internal control systems and procedures are implemented and operating effectively across the Group.

First line of defence Risk ownership and control

Our first line of defence comprises the day-to-day risk management controls that are implemented and monitored by our businesses. They ensure that appropriate risk management systems are in place to identify, evaluate, and mitigate our business risks.

Key elements of our first line of defence include:

- the GKN Code which clearly defines the behaviours we expect from our employees;
- our Group and supporting divisional policies which set out the minimum standards to be incorporated into our risk management and internal control systems;
- our delegated authority levels which set out the procedures and approval limits for matters requiring authorisation by the Board and its committees;
- our enterprise risk management programme which facilitates a Group-wide approach to the identification and assessment of risk;
- the development and dissemination of training programmes to educate employees on relevant topics and reinforce the behaviours expected of them;
- the use of key performance indicators to evaluate and respond effectively to trends and key indicators of risk; and
- an independent disclosure hotline which employees can use to report any instances of suspected wrongdoing.

Second line of defence Monitoring and compliance

Our second line of defence encompasses central monitoring of the control systems and processes implemented by the businesses to ensure that they comply with the standards imposed by the Board and Executive Committee.

Our self-certification processes provide guidance to the businesses on the application of our policies and enable them to assess their compliance with defined policy requirements and address any issues that are identified. Areas in which the businesses are asked to certify their compliance include:

- non-financial controls such as quality certifications, ethical standards and applicable laws and regulations;
- internal financial controls, accounting judgements and representations of divisional financial results;
- key HR controls and procedures; and
- mandated IT controls.

To ensure that the values in the GKN Code are embedded throughout the Group all managers are required to certify annually that they are aware of and understand the behaviours expected of them.

The output from these self-certifications is reviewed by the Executive Sub-Committee on Governance and Risk (ESCGR) with matters of non-compliance reported to the Executive Committee.

Our second line of defence also includes ongoing reviews by our health and safety audit team, Group IT, Group Risk and financial control function to check compliance with key requirements in their respective fields. Representatives from these functions report their findings to the ESCGR or directly to the Executive Committee with serious incidents and material non-compliance being reported to the Board.

Third line of defence Independent assurance

Our internal audit function provides independent assurance in relation to the Group's financial risk and has recently expanded its scope to assess the risk management and internal control systems relating to some of the Group's principal risks. The function is supported by Ernst & Young LLP and BDO UK LLP who provide co-sourced assistance where appropriate.

Deloitte, as our statutory auditors, provide independent assurance to the Audit & Risk Committee that the financial statements are free from material misstatement. Assurance is also provided through other external sources, including customer, regulator and industry certification audits.

Fourth line of defence Oversight

The Board is responsible for setting the risk appetite of the Group. We also retain responsibility for maintaining sound risk management and internal control systems and for undertaking an annual review of the effectiveness of these systems.

As described in the governance framework on page 64, certain elements of this responsibility are overseen on our behalf by the Executive Committee and the Audit & Risk Committee.

Our risk management and internal control processes are regularly reviewed and revised to ensure that they remain relevant to changes in the Group's internal and external risk profiles. Details of the improvements made to these processes during 2016 can be found in the strategic report and in the report on the Group's principal risks on pages 42 to 49.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A description of these risks, together with the details of how they are managed or mitigated, is set out on pages 42 to 49.

We also have specific controls in place to manage risk in respect of financial reporting and the preparation of consolidated accounts. These include:

- the implementation of Group accounting policies and procedures, supported by regular bulletins from the central and divisional finance teams on the application of accounting standards and reporting protocols;
- Group and divisional policies governing the maintenance of accounting records, transaction reporting and key financial control procedures;
- a proprietary internal control monitoring system, GKN Reporting and Integrity Procedures (GRiP), to assess compliance with key financial controls on monthly, quarterly and annual cycles;
- monthly operational review meetings which include, as necessary, reviews of internal financial reporting issues and financial control monitoring;
- divisional certifications in relation to internal financial controls, accounting judgements and representations of divisional financial results; and
- ongoing training and development of financial reporting personnel.

Process for review of effectiveness

The Audit & Risk Committee is responsible for reviewing the ongoing control processes. The actions undertaken by the Committee to discharge this responsibility are described in the Audit & Risk Committee's report on pages 74 to 80.

The Board receives an annual report from the Audit & Risk Committee concerning the operation of the key systems of internal control and risk management. This report is considered by the Board in forming its own view on the effectiveness of the systems.

The Board has reviewed the effectiveness of the Group's systems of internal control and risk management during the period covered by this annual report. It confirms that the processes described in this report, which accord with the FRC guidance on risk management, internal control and related financial and business reporting, have been in place throughout that period and up to the date of approval of the annual report. The Board also confirms that no significant failings or weaknesses were identified in relation to the review.

Relations with investors

The Board maintains a dialogue with investors with the aim of ensuring a mutual understanding of objectives.

Major shareholders

Communication with major institutional shareholders is undertaken as part of GKN's investor relations programme, in which non-executive Directors are encouraged to participate.

The Chief Executive and Group Finance Director have regular meetings with the Group's major shareholders and feedback from these meetings is reported to the Board. In 2016, an investor perception survey was undertaken with results reported to and considered by the Board.

Discussion
The Chief Executive, Group Finance Director and Director of Investor Relations meet regularly with major shareholders to discuss strategy, financial and operating performance.

Feedback
Feedback is sought by the Company's brokers to ensure that the Group's strategy and performance is being communicated effectively and to develop a better understanding of shareholders' views.

Report
This feedback is included in a twice-yearly report to the Board, which also provides an update on investor relations activity, highlights changes in holdings of substantial shareholders and reports on share price movements.

I am responsible for ensuring that all Directors are aware of major shareholders' views. With support from the Company Secretary, I meet with institutional shareholders and investor representatives to discuss matters relating to governance and strategy, and feed back their views to the Board. The Senior Independent Director is also available to discuss issues with shareholders where concerns cannot be addressed through normal channels of communication.

Richard Parry-Jones, in his capacity as Remuneration Committee Chairman, also engages in discussion with shareholders on significant matters relating to executive remuneration.

GKN hosted a number of events for institutional investors in 2016, which included site visits and presentations. A recording of the presentations and slide material shown is available on our website.

Annual general meeting

Information regarding the 2017 AGM is given on page 178. Shareholders who attend the AGM are invited to ask questions during the meeting and to meet with Directors after the formal AGM business has been completed. Resolutions for consideration at the AGM are voted on by way of a poll rather than by show of hands to allow the votes of all shareholders to be counted, including those cast by proxy. The results of the poll vote are announced to the London Stock Exchange and published on our website after the meeting.

Compliance statement

This corporate governance statement, together with the Nominations Committee report on pages 72 and 73, the Audit & Risk Committee report on pages 74 to 80 and the Directors' remuneration report on pages 81 to 106, provide a description of how the main principles of the 2014 edition of the UK Corporate Governance Code (the Code) have been applied within GKN during 2016. The Code is published by the Financial Reporting Council and is available on its website at www.frc.org.uk.

It is the Board's view that, throughout the financial year ended 31 December 2016, GKN was in compliance with the relevant provisions set out in the Code.

This statement complies with sub-sections 2.1, 2.2(1), 2.3(1), 2.5, 2.7 and 2.10 of Rule 7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown on pages 107 to 109.

NOMINATIONS COMMITTEE REPORT

Dear Shareholder

The appointment and retention of strong candidates is key to the success of the Company. The Nominations Committee plays a vital role in ensuring the selection and recommendation of appropriate candidates for appointment to the Board.

We keep under review the balance of skills, knowledge and experience on the Board and the composition of Board committees, with any changes recommended to the Board for its consideration. We also review succession planning, both to the Board and to the senior management grade immediately below Board.

2016 activities

During 2016 we:

- reviewed the composition of the Board following the appointment of Kevin Cummings and Phil Swash as executive Directors in January 2016;
- considered and recommended to the Board the appointment of Anne Stevens as a non-executive Director;
- recommended to the Board a three-year extension to Shonaid Jemmett-Page's term of appointment; and
- considered and recommended the appointment of Kerry Watson as Company Secretary.

Board and committee composition

We keep the composition of the Board under constant review to ensure that it is appropriately balanced and diverse in terms of skills, experience and industry knowledge. To supplement this diversity, we also aim to have at least 25% female representation on the Board and we made progress towards this aim during the year. However, our overriding policy in recommending any new appointment is to select the best candidate on merit against objective criteria; all Directors need to be able to add real value to Board debates and support the achievement of our strategic objectives. As a Committee, we also need to fulfil our role in safeguarding the continued success of the Company.

Taking into consideration the appointment of Kevin Cummings and Phil Swash as executive Directors in January 2016 and the tenure of the non-executive Directors, we identified the need for an additional non-executive Director. We drew up a role specification which included experience of the automotive and aerospace industries and extensive international experience. Odgers Berndtson were appointed as external search consultants to assist with the selection and recruitment process. Odgers Berndtson does not provide any other services to the Group.

Short-listed candidates were interviewed and, as the preferred candidate, Anne Stevens subsequently met with other members of the Board.

In recommending Anne for appointment to the Board, we took into account the following factors:

- The relevance of her experience, including her executive career at Ford Motor Company, her non-executive directorship of Lockheed Martin, and her past role as chairman, chief executive officer and president of Carpenter Technologies, a specialty metals company.
- The benefits of diversity that Anne would bring to the Board in terms of skills, industry experience, gender and nationality.
- Any potential conflicts of interest arising from her directorship of Lockheed Martin (a customer of GKN) and her directorship of XL Catlin, a global insurance company which provides some insurance cover to GKN.

We recommended to the Board that, as sales to Lockheed Martin were not material to the Group, decisions to exclude Anne from discussions relating to Lockheed Martin should be taken on a case-by-case basis. It was noted that board directors of XL Catlin were not involved in reviewing or approving individual policies and therefore a conflict was unlikely to arise.

Committee membership	Role
Mike Turner (Chairman) **Angus Cockburn** **Tufan Erginbilgic** **Shonaid Jemmett-Page** **Richard Parry-Jones** **Anne Stevens** Nigel Stein stepped down as a member of the Committee in December 2016. He will continue to attend meetings and be consulted on appointments. As such, all members are non-executive Directors. The Secretary to the Committee is Kerry Watson, Company Secretary.	The role of the Nominations Committee is to lead the process for identifying, and making recommendations to the Board on, candidates for appointment as Directors and as Company Secretary, giving full consideration to succession planning and the leadership needs of the Group. It also: ◆ makes recommendations to the Board on the composition of the Nominations Committee and the composition and chairmanship of the Audit & Risk and Remuneration Committees; ◆ keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge, experience, ethnicity and gender and the independence of the non-executive Directors; and ◆ makes recommendations to the Board with regard to any changes. The Committee follows Board-approved procedures in making its recommendations. These procedures, together with written terms of reference that outline the Committee's authority and responsibilities are available on our website at www.gkn.com. The Committee met four times in 2016. Our attendance at these meetings is set out in the table on page 66.

Extension of term of non-executive appointments

During the year, the Committee considered the extension of the term of appointment of Shonaid Jemmett-Page. Taking into account her contribution to the Board and, in particular, her strong performance in and commitment to the role of Audit & Risk Committee chairman, the Committee recommended to the Board the extension of her term for a further three years. The Board approved this recommendation.

We also considered the length of service of Richard Parry-Jones who has been a non-executive Director since 1 March 2008. As part of the external Board effectiveness evaluation, the external facilitator was requested to seek feedback on Richard's independence. Based on feedback received, the report concluded that Richard continues to play a fully independent role on the Board, that his views continue to be strongly linked to shareholder interest and that he remains a valuable contributor to Board discussions. The views of significant shareholders were also sought.

In light of this, and recognising the importance of continuity and the value that experienced Directors can bring to the Board and the Group, in January 2017 we recommended that Richard's term be extended and the Board accepted this recommendation.

Appointment of Company Secretary

The Committee followed the Board-approved procedures in recommending the appointment of Kerry Watson as Company Secretary following the 2016 annual general meeting. The Board accepted this recommendation.

Diversity

2016 saw us making progress towards our diversity objectives, both on the Board and in the Group as a whole. Anne Stevens' appointment as a non-executive Director strengthens the female representation on the Board to 20%. The Group's diversity initiative, which targets 20% female representation in each of our management grades, aims to develop and support diversity in our executive pipeline. Activities during the year included the cascade of diversity and inclusion awareness sessions to all employees, a new diversity and inclusion intranet site with tools to promote awareness and understanding of unconscious bias, and the creation of a new mentorship programme. Further information can be found in the sustainability review on page 53 and the Group's key performance indicators on page 18.

Performance evaluation

The Committee's annual evaluation was carried out as part of the Board review process described on page 67. No changes were considered necessary to the Committee's terms of reference as a result, and the Committee was considered to be effective in fulfilling its role throughout 2016.

On behalf of the Committee

Mike Turner CBE
Chairman of the Nominations Committee
27 February 2017

AUDIT & RISK COMMITTEE REPORT

Dear Shareholder

I am pleased to present the Audit & Risk Committee report for 2016. The Committee provides independent oversight and plays a fundamental role in protecting shareholders' interests by monitoring management and auditor conduct, reviewing the effectiveness of the Group's internal controls and risk management systems and ensuring the integrity of the Group's financial statements. Details of our activities during the year and up to the date of this report are set out on the following pages.

During 2016, we welcomed Anne Stevens to the Committee. Anne brings a fresh perspective to the Committee and strengthens its composition.

Following completion of the formal audit tender in 2015 and the appointment of Deloitte LLP (Deloitte) in May 2016, the Committee oversaw the handover between PricewaterhouseCoopers LLP (PwC) and Deloitte to ensure a seamless transition. Deloitte followed a detailed transition plan which focused on developing a deeper understanding of our businesses and people, and leveraging the knowledge and experience of PwC to minimise the impact of the transition on our business. The Committee received regular updates on the status of the transition and was provided with valuable feedback on the processes and controls at GKN. Further details of Deloitte's activities during the transition period can be found on page 78.

During the year, we continued to increase our focus on risk management and received reports on the systems in place for managing risks relating to the supply chain and export control, which is particularly relevant in our Aerospace division. We also received updates from the divisional finance directors in respect of their businesses and a report from the Group Financial Controller on the implementation of Group controls in the Fokker businesses.

During the year, we reviewed a report on the impact assessment of IFRS 15 which we, along with other listed companies, will be required to adopt for the financial year ending 31 December 2018. The assessment considered the areas that will drive changes in the Group's financial statements and highlighted that the standard was likely to require more estimates and judgement in application, particularly in the Aerospace division, and would impact both the amount and timing of revenue recognition. More details relating to the initial impact assessment on the Group's future transition to IFRS 15 can be found in Note 1 to the financial statements.

The UK Corporate Governance Code and the FRC Guidance on Audit Committees were updated during the year and we have reviewed and updated our terms of reference to ensure that they are aligned with the new requirements which come into effect during 2017.

Looking ahead to 2017, we will continue to focus on the assurance and risk management processes in the business and plan to receive updates on the improvements made to the risk management systems and assurance processes in each division to manage quality and programme management risk. We will also review the project plan to implement IFRS 15 and receive updates on progress made against the plan during the year.

Committee membership	Role
Shonaid Jemmett-Page (Chairman) **Angus Cockburn** **Tufan Erginbilgic** **Richard Parry-Jones** **Anne Stevens** The Committee comprises independent non-executive Directors with a wide range of skills, experiences, professional qualifications and knowledge. In the Board's view, the Committee has competence relevant to GKN's sectors and operations; Richard Parry-Jones and Anne Stevens have extensive engineering and automotive experience and Tufan Erginbilgic has a significant amount of international experience in a multinational corporation. Additionally, and as required by the UK Corporate Governance Code, both Angus Cockburn and I have recent and relevant financial experience. The Secretary to the Committee is Kerry Watson, Company Secretary. In order to maintain effective communication, we invite the Group Chairman, Chief Executive, Group Finance Director, Head of Corporate Audit, the external audit engagement partner and other members of senior management to attend Committee meetings as necessary. Members of the Committee meet separately at the start of each meeting to discuss matters in the absence of any invitees. At the conclusion of meetings, the Head of Corporate Audit and the external audit engagement partner are each given the opportunity to discuss matters without executive management being present. Both the Head of Corporate Audit and the external auditors have direct access to me should they wish to raise any concerns outside formal Committee meetings.	The primary role of the Committee is to ensure the integrity of the financial reporting and audit processes and the maintenance of sound internal control and risk management systems in order to safeguard shareholder interests. This includes responsibility for monitoring and reviewing: ◆ the integrity of the Group's financial statements and the significant accounting judgements contained in them, ensuring that the judgements and policies taken by management are appropriate; ◆ the appropriateness of the Group's relationship with the external auditors, including auditor independence, fees and provision of non-audit services; ◆ the effectiveness of the external audit process, making recommendations to the Board on the appointment of the external auditors; ◆ the activities and effectiveness of the internal audit function (Corporate Audit); ◆ the effectiveness of the Group's internal control and risk management systems; and ◆ the effectiveness of the Group's whistleblowing policies. Written terms of reference that outline the Committee's authority and responsibilities are available on our website at www.gkn.com. The Committee met six times in 2016, with meetings generally timed to coincide with the financial and reporting cycles of the Company. Attendance at these meetings is set out in the table on page 66. I report formally to the Board on Committee proceedings after each meeting and Committee meeting papers and minutes are made available to all members of the Board.

Activities

Our activities during the year and up to the date of this report have principally related to financial reporting, the external audit and internal control and risk management.

Financial reporting

We have:

- considered information presented by management on significant accounting judgements and policies adopted in respect of the Group's half-year and annual financial statements and agreed their appropriateness;
- considered accounting matters relating to key areas including impairment testing, the clarity and completeness of reporting and the finalisation of the Fokker opening balance sheet;
- examined key points of disclosure and presentation to ensure the adequacy, clarity and completeness of the financial statements;
- discussed audit reports with the external auditors which highlighted key accounting matters and significant judgements in respect of each set of financial statements; and
- reviewed documentation prepared to support the going concern judgement and the viability statement given on page 38.

Significant issues

We identified the issues below as significant in the context of the 2016 financial statements. We consider these areas to be significant taking into account the level of materiality and the degree of judgement exercised by management. We debated the issues in detail to ensure that the approaches taken were appropriate.

Area of focus	Committee action
Impairment testing An impairment review is carried out annually by management to identify business units in which the recoverable amount is less than the value of the assets carried in the Group's accounts. Impairment results in a charge to the Group income statement. Key judgements and assumptions need to be made when valuing the assets of the business units including the amount of potential future cash flows arising from them.	We considered the significant judgements, assumptions and estimates made by management in preparing the impairment review to ensure that they were appropriate. We considered the appropriateness of assumptions relating to: ◆ the discount rates, which reflect the risk inherent in each unit taking into account factors such as geography and sector, used to discount the expected future cash flows to their present value; ◆ the long-term growth rates for the regions in which the units were based; and ◆ the forecast of operating cash flows, based on the most recent budget and strategic reviews and taking into account data such as sales profile and prices, market performance, volume, raw material costs and capital expenditure. We also considered sensitivities that would impact the assumptions noted above. We obtained the external auditors' view in relation to the appropriateness of the approach and outcome of the review. Taking this into account, together with the documentation presented and the explanations given by management, we were satisfied that the approach taken was thorough and the judgements were appropriate. The review resulted in the impairment of three units and a charge to the income statement of £52 million.

See Note 11 (c) to the financial statements

Clarity and completeness of reporting GKN Driveline and GKN Aerospace operate in highly competitive markets. Contracts, commercial transactions and commercial claims can be complex and can require judgement as to accounting treatment and the estimation of potential liabilities. Significant events during the year require judgement in determining which items should be separately identified.	We considered the clarity and completeness of the accounts as a whole taking into account matters such as: ◆ the presentation and disclosure relating to the sale of Stromag; ◆ the closure of the GKN Aerospace facility in Yeovil; ◆ a decision to curtail operations of a Driveline business; ◆ the Group's strategic restructuring plan undertaken in the second half of 2016; and ◆ acquisition-related restructuring during the integration of Fokker. We received updates from management explaining the basis of accounting for complex contracts and significant events. We sought Deloitte's opinion on the proposed presentation and disclosure and concluded that it was appropriately transparent and complete.

We also reviewed the following areas due to their materiality and the application of judgement. However, we considered them to be stable in nature and therefore we did not classify them as significant issues in the context of the 2016 financial statements.

Area of focus	Committee action
Development costs on aerospace programmes Development costs for large aerospace programmes can be significant. Assessing the likelihood of future recoverability of costs involves various judgements and assumptions relating to anticipated volumes, forecast cash flows and discount rates.	Impairment reviews of GKN Aerospace's programme development costs against associated future cash flows are circulated to the Committee every six months. On each occasion we reviewed the valuation and the assumptions made, including programme risk factors, and the most recent external forecasts of aircraft programme demand. Actions and factors likely to influence levels of headroom in impairment tests were noted and the view of the external auditors was sought in relation to the appropriateness of the approach and outcome. Taking into account the documentation presented and the assessment from the external auditors, we were satisfied with the approach and judgements taken.
See Note 11 (b) to the financial statements	
Tax matters GKN is subject to tax audits globally which are often long and complex processes. Provisions made for uncertain tax positions involve judgement in their valuation and the likelihood of challenge to tax positions.	We reviewed management updates and the external auditors' assessments on certain tax matters, including: ◆ the creation of new provisions for uncertain tax positions. In particular, 2016 saw an increase in the level of provision in certain countries where GKN has been subject to lengthy audits and challenging assessments; and ◆ the release of tax provisions on resolution of previously uncertain tax positions, including releases following the finalisation and settlement of audits in respect of specific subsidiaries. Having considered updates from management and the external auditors' views, the Committee was satisfied with the judgements taken by management.
See Note 6 to the financial statements	
Fokker accounting The Group acquired Fokker in October 2015. Due to the complexity of the transaction, management have used a one-year hindsight period to further assess the valuation of intangible assets and the assumptions underpinning certain provisions in order to finalise a fair value opening balance sheet.	We considered a number of key assumptions in order to assess the appropriateness of judgements taken by management in finalising a fair value opening balance sheet. In particular, we focused on: ◆ the reassessment and adjustment of certain provisions and liabilities principally in relation to a resolved regulatory matter and ongoing contractual obligations; and ◆ the reclassification of certain small balances. We obtained the external auditors' view on the appropriateness of these judgements. Having considered Deloitte's view and the explanations given by management, we were satisfied with the judgements put to us by management.
Post-employment obligations Determining the current value of the Group's future pension obligations requires a number of assumptions. These assumptions relate principally to life expectancy, discount rates applied to future cash flows, rates of inflation and future salary increases.	Key matters reviewed included the appropriateness of valuation assumptions such as discount rates, mortality and inflation. The Committee also reviewed the impact of certain pension de-risking activities on the financial statements. Valuation assumptions, prepared by external actuaries and adopted by management, were considered in the light of prevailing economic indicators and the view of the external auditors. The approach adopted by management was accepted as appropriate.
See Note 24 to the financial statements	

External audit

We have:

- considered the FRC's Audit Quality Review of PwC's audit of the Group's 2015 financial statements and communicated the review to Deloitte as the current auditors;
- monitored the handover from PwC to Deloitte;
- approved Deloitte's audit plan, terms of engagement and fee for the audit of the 2016 financial statements;
- reviewed the independence, objectivity and effectiveness of Deloitte;
- recommended to the Board the re-appointment of Deloitte for 2017; and
- noted the non-audit fees payable to Deloitte, having regard to the transitional policy on the provision of non-audit services.

The Committee is responsible for making recommendations to the Board in relation to the appointment of the external auditors. We also approve the terms of engagement and fees of the external auditors, ensuring that they have appropriate audit plans in place and that an appropriate relationship is maintained between the Group and the external auditors.

Auditor appointment

Following a formal tender process, Deloitte was appointed by shareholders as the Group's statutory auditors in May 2016. In line with regulations on auditor rotation the external audit contract will be put out to tender at least every ten years. In addition, Deloitte will be required to rotate the audit partner responsible for the Group audit every five years. As a result, Ian Waller, the current lead partner, will be required to change in 2021.

Auditor transition

Deloitte's transition plan focused on developing a deeper understanding of the Group's businesses and people, and leveraging the knowledge and experience of PwC. Key elements of their transition included: shadowing PwC during the 2015 year-end audit process and attending Committee meetings prior to their formal appointment; meeting with PwC and reviewing their audit files; meeting with the divisional finance teams, key members of management and members of specialist Group functions; performing detailed planning processes for key sites; and testing the design and implementation of controls over our significant risks. The Committee received regular updates on the status of the transition during the year and was provided with valuable feedback on the processes and controls at GKN.

2016 audit plan

Deloitte's audit plan set out the scope and objectives of the audit together with an overview of the planned approach, an assessment of the Group's risks and controls and proposed areas of audit focus. Additionally, Deloitte worked with Corporate Audit and management to identify factors which could increase the risk of control breakdown. These areas were then targeted proactively to ensure they received the appropriate amount of attention during the audit.

Independence and objectivity

As a Committee we are responsible for safeguarding the independence and objectivity of the external auditors in order to ensure the integrity of the external audit process. As such, we are responsible for the development, implementation and monitoring of the Company's policies on external audit which regulate the appointment of former employees of Deloitte and set out the approach to be taken when using the external auditors for non-audit work.

Given the recent tender process, we did not need to consider the impact of Deloitte's tenure on its independence. However, our annual review processes included:

- receiving confirmation from Deloitte that they remained independent and objective within the context of applicable professional standards;
- ensuring that management confirmed compliance with the Group's policies on the employment of former employees of Deloitte and the use of Deloitte for non-audit work; and
- considering Corporate Audit's review of Deloitte's objectivity, independence and effectiveness, and of the audit process.

As a result of this review, we concluded that Deloitte remained appropriately independent.

Non-audit services

In order to safeguard independence further, we monitor compliance with the policy for the provision of non-audit services. The policy sets out a core list of permissible non-audit services which can be undertaken by the external auditors if there are compelling reasons to do so. It generally excludes the external auditors from undertaking consultancy work and tax services. In order to facilitate the efficient termination of existing contracts with Deloitte, transitional relief was provided for additional permitted services during 2016 relating to Remuneration Committee advisory work, corporate tax compliance, expatriate tax services and payroll services. Deloitte's work in 2016 in relation to these matters was restricted to the conclusion of their activities in 2015; no work was undertaken in relation to 2016 matters.

The use of Deloitte for non-audit services is subject to materiality thresholds based on the value of the proposed non-audit service engagements. Any proposal to use Deloitte for non-audit work with a value between £50,000 and £250,000 must be submitted to the Group Finance Director for approval prior to their appointment. All proposals above this amount must be approved by me as Chairman of the Committee. In addition, the Group Finance Director will seek my prior authorisation for certain aspects of non-audit services relating to acquisitions, disposals and investigative accounting services, regardless of the fee value. The use of contingent fees is strictly prohibited under the policy.

There were no significant engagements, or categories of engagements, of the external auditors for non-audit services during 2016.

Details of the fees paid to Deloitte in 2016 can be found in note 4(a) to the financial statements. Non-audit fees incurred during 2016 amounted to £0.2 million which related principally to audit-related assurance services. Non-audit fees as a percentage of audit fees totalled 4.1% (ratio of 0.041:1). All such activities remained within the policy approved by the Board.

Effectiveness and reappointment of Deloitte for 2017
The Committee assessed Deloitte's performance throughout the year taking into consideration:

- their feedback and insights on the Group's business and internal control systems;
- the quality of Deloitte's reports to the Committee;
- their planning process and audit plan for the 2016 financial statements;
- feedback from Deloitte on their own performance against their transition plan; and
- their performance in the 2016 half-year audit process.

Our assessment was supplemented by our review of Deloitte's 2016 Audit Transparency report and the FRC Audit Quality Inspection report in respect of Deloitte.

A survey to review the effectiveness of Deloitte's audit process has commenced and will be finalised following completion of their year-end work. The views of senior management and finance personnel will be taken into account and the results will be reported to the Committee later in 2017.

Following our assessment, we consider both Deloitte and their audit processes to be effective. It is our opinion that Deloitte have developed a good understanding of the Group's businesses and internal control systems in the time since their appointment and have a strong comprehension of the challenges that we face. Deloitte have also developed a good working relationship with management which is supplemented by robust challenge of management judgements.

Taking these elements into account, we concluded that it was appropriate to recommend to the Board Deloitte's reappointment as the Company's auditors for 2017.

There are no contractual obligations restricting our choice of external auditors.

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

FRC Audit Quality Review
The FRC's Audit Quality Review team selected PwC's audit of the Company's 2015 financial statements as part of their annual inspection of audit firms. The focus of their review is on identifying areas where improvements can be made. I received a full copy of the findings of the review and discussed them with Committee members, senior management and Deloitte. There were no significant findings and only one matter relating to the audit of the Group's SDS joint venture in China was identified as requiring limited improvement. As Deloitte are the incumbent auditors of SDS, we expect that this matter will be addressed during the 2016 audit process.

Internal control and risk management

In fulfilling our remit we:

- considered the Internal Control Review conducted by Corporate Audit;
- reviewed the results of audits undertaken by Corporate Audit;
- received reports on control issues of significance to the Group;
- reviewed the status of the Group's internal financial control monitoring system;
- reported to the Board on our evaluation of the effectiveness of the Group's systems of internal control and risk management, informed by reports from Corporate Audit and Deloitte; and
- carried out in-depth reviews of each division's risk management system in relation to the supply chain and the systems in place for managing risks in respect of export control in GKN Aerospace and GKN Powder Metallurgy.

In reviewing the effectiveness of the Group's systems of internal control and risk management, we considered the Internal Control Review conducted by Corporate Audit. The review drew together and assessed the output and results of key sources of assurance for the Group and provided the Committee with assurance that the processes reviewed were continuing to operate effectively.

During the year, we considered feedback from Deloitte with regard to the Group's internal control systems and reviewed quarterly reports from Corporate Audit which detailed any internal control issues and identified any themes arising with regard to audit recommendations. We received regular updates on progress in respect of the continued development and improvement of the Group's risk management systems and independent assurance programmes. In particular, we were updated on the mapping exercise which saw all the divisions complete risk maps for contracting, quality and programme management which are three of the Group's principal risk areas. We also reviewed each division's risk management system in relation to supply chain risk and the systems in place in the GKN Aerospace and GKN Powder Metallurgy divisions to manage export control risk.

Where we identified areas requiring improvement, specific actions were delegated to management with progress against the actions tracked at subsequent meetings. No significant failings or weaknesses were identified during our review of the Group's systems of internal control and risk management and we concluded that the risk management and internal control processes in place during 2016 and up to the date of this report were effective.

I reported the outcome of our review to the Board and confirmed that the Committee was satisfied that it was appropriate for the Board to make the statements required by the 2014 UK Corporate Governance Code with regard to the Group's systems of internal control and risk management.

Internal audit

In fulfilling our responsibilities, we:

- reviewed progress against the 2016 Corporate Audit programme;
- approved the 2017 Corporate Audit programme, including the proposed audit approach, coverage and allocation of resources; and
- reviewed the effectiveness of Corporate Audit.

To safeguard its independence, Corporate Audit reports directly to the Committee and, as Chairman, I play a key role in setting the Head of Corporate Audit's objectives and reviewing performance.

The Committee reviews and approves the annual audit programme prior to the start of each year to ensure that it is aligned to the key risks of the business. During the year the Committee is updated on:

- audit activities;
- progress against the approved annual programme;
- any control issues identified;
- any themes arising in relation to audit recommendations; and
- the results of any unsatisfactory audits and the action plans to address them.

We considered the adequacy of management's response to matters raised by Corporate Audit and monitored the implementation of all recommendations made.

The Group's risk profile is constantly changing. As a crucial part of the Group's four lines of defence, we need to ensure that Corporate Audit's remit remains fit for purpose and that it is operating at the highest levels of quality and effectiveness.

Following a tender process in 2016, PwC was selected to undertake an external effectiveness evaluation of the function. The evaluation confirmed that Corporate Audit was independent and objective, and remained an effective element of the Group's corporate governance framework. Opportunities for development included further alignment of Corporate Audit's work with other sources of assurance and an assessment of how technology can be leveraged to deliver more insight and efficiency. These are key areas of focus for Corporate Audit in 2017 and part of the continued development of the Group's internal assurance programme.

Employee disclosure

GKN operates a Group-wide international employee disclosure hotline. Run by an external and independent third party, the hotline enables employees to make (anonymously if preferred) confidential disclosures about suspected impropriety and wrongdoing. Any matters reported are investigated and escalated to the Committee as appropriate, and statistics on the volume and general nature of all disclosures made are reported to the Committee on an annual basis.

Other matters

During the year we:

- reviewed progress against the Group's IT security plan;
- reviewed the integration of Fokker and the transition to GKN compliance standards; and
- received updates from divisional finance directors on matters relevant to their divisions.

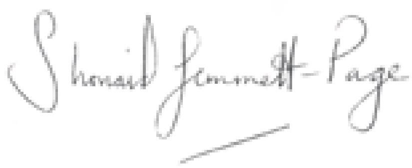
Advice provided to the Committee

The Committee has independent access to the services of the Company Secretary, Corporate Audit and to the external auditors, and may obtain outside professional advice as necessary in the performance of its duties.

Performance evaluation

The Committee's annual evaluation was carried out as part of the Board evaluation process described on page 67. A report on the Committee's performance was provided by the external facilitator and circulated to Committee members. Feedback showed that the Board had confidence in the effectiveness of the Committee and requested that the Committee continue its focus on risk matters in 2017.

On behalf of the Committee



Shonaid Jemmett-Page
Chairman of the Audit & Risk Committee
27 February 2017

DIRECTORS' REMUNERATION REPORT

Dear Shareholder

I am pleased to present the Directors' remuneration report for 2016.

Looking back... remuneration outcomes in 2016

Base salaries
Base salary increases for executive Directors ranged from 2% to 2.5% taking into account performance and increases awarded elsewhere in the Group. The average global increase for all employees was 3.2%.

Annual bonus
Payouts based on Group and divisional performance against profit, margin, cash and strategic measures, underpinned by solid quality of earnings, ranged from 51.98% to 77.30% of salary.

Long-term incentives
- The second year of the 2012 SEP sustainability award vested due to EPS performance in 2016 exceeding EPS performance in the three-year performance period of the 2012 SEP core award.
- The 2014 Sustainable Earnings Plan (SEP) core award, which required compound annual EPS growth of at least 6%, lapsed along with the associated 2014 sustainability award.
- The 2015 Share Incentive and Retention Plan (SIRP) award (granted to Kevin Cummings and Phil Swash prior to their appointment as Directors) vested in full based on profit growth in 2015 and 2016.

Annual bonus plan

As described in the strategic report, GKN made good progress in 2016. Management sales and profit before tax increased although trading margin reduced due to restructuring and excess launch costs in GKN Driveline. STVRS payments reflected these elements together with a strong focus on cash and strategic measures such as the integration of Fokker.

The Committee exercised its discretion to reduce payouts for Nigel Stein and Phil Swash following two fatalities in 2016 to reinforce the Group's commitment to safety as our top priority.

Long-term incentive plan

The 2014 SEP award lapsed as we did not reach the very challenging targets. In order to start vesting, an annual compound growth rate of at least 6% in management earnings per share (EPS) was required. While management EPS increased over the three-year performance period, it remained below 6% due to a combination of factors including operational issues, an increase in the cash tax rate and lower than anticipated end market growth. As reported last year, from 2016 onwards EPS targets are set relative to actual automotive and aerospace end market growth. This more accurately calibrates executive pay with performance against the Group's strategy of growing above our markets.

The 2012 SEP sustainability award vested as to 50% of maximum, reflecting that EPS in 2016 exceeded the highest annual level of EPS achieved during the 2012 SEP core performance period between 2012 and 2014. This reflects the progress we have made in EPS performance over the longer term.

The SEP is cascaded to all levels of senior management in order to align their interests with those of shareholders. From time to time, additional long-term incentive plans are put in place for employees below Board level to increase focus on particular measures. Awards under the 2015 SIRP were based on performance against targets relating to growth in management profit before tax over a two-year period. Kevin Cummings and Phil Swash were granted 2015 SIRP awards prior to their appointment to the Board; these awards vested in full. Vested shares under this award are subject to a holding period and will be released in February 2018.

Looking forward... proposed changes from 2017

Our remuneration policy and framework are key ingredients in driving the long-term success of the Group. They are vital both for facilitating the attraction and retention of high calibre individuals who can manage the Group successfully and for ensuring that executives are appropriately incentivised and remunerated for their performance.

Principles

Our policy continues to be designed around three key principles which have underpinned our executive remuneration framework for a number of years:

- **Alignment to GKN strategy and performance**
  A significant element of executive remuneration is variable and linked to Group performance. Our annual bonus plan rewards the delivery of a balanced selection of financial and strategic measures while long-term incentives are designed to focus executives on our strategic objective of delivering sustainable long-term earnings growth.
- **Aligning executives with shareholders**
  A substantial proportion of the remuneration package is delivered in shares through the Deferred Bonus Plan and the SEP. This supports our shareholding requirement and creates a culture of share ownership, long-term stewardship and alignment with our shareholders.

- **Paying within the competitive range**
  In setting quantum, we consider remuneration practices in comparable businesses to ensure remuneration remains within the competitive range, so as to properly mitigate the risks of executive turnover, without paying more than is necessary. We also consider the remuneration of executive Directors in the context of other executives and employees throughout the Group.

In last year's report, I highlighted a number of issues centred on retention risk, principally in relation to the following:

- Annual bonus payouts being well below the bottom of the market competitive range, including in years when GKN performed strongly, which reflects both the maximum opportunity of 110% of salary, well below peer practice, and very stretching performance targets.
- Targets set for the long-term incentive awards of annualised compound growth in management EPS of 6% at threshold and 12% at maximum proved overly stretching in the context of slowing global GDP and an increasing tax rate.
- The need to align performance even more strongly with pay, by reducing the relative fixed portion and increasing the proportion related to performance.

Following discussions with shareholders about these matters at the end of 2015, we decided not to proceed with any policy changes, pending a full review of our policy in 2016 in line with the normal cycle. However, we did make some revisions to how we implemented our policy in 2016, when we amended the EPS targets under the SEP to better align them with GKN's overriding strategic objective of achieving above market growth relative to its end markets.

In line with the requirement to put our remuneration policy to a binding shareholder vote at least every three years, in 2016 we focused on reviewing the effectiveness of our remuneration policy with reference to our guiding principles, the issues previously identified and further shareholder feedback. Taken together, we believe that we can further improve the linkage between pay and performance for 2017 under a slightly revised policy.

Proposals

In order to strengthen the alignment between our principles and our remuneration framework, we propose the following changes.

Element of remuneration	Proposed change	Rationale
STVRS and pension	Rebalance the proportion of fixed and performance-related pay	We propose to increase the target STVRS opportunity from 55% to 75% of salary and the maximum STVRS opportunity from 110% to 150% of salary. This will provide a more significant performance-related element in the executives' total remuneration package. Profit targets will be stretched at maximum so increased levels of outperformance will be required to achieve a maximum payout under the STVRS. GKN's bonus opportunity is currently below the market competitive range and total remuneration is in the lower quartile compared to industry peers and companies of a similar size. This proposal seeks to alleviate retention risk by making total remuneration more competitive and aid the attraction of the right talent across our global markets, while maintaining a close link between pay and performance. As part of this proposal, we also intend to bring the legacy pension benefit allowance for the Chief Executive, Nigel Stein, more into line with the current allowance of 25%. His pension benefit allowance will be reduced from 40% to 25% of salary, further increasing his proportion of performance-related pay.
Sustainable Earnings Plan	Amend the structure of the long-term incentive plan	As stated above, the SEP is cascaded to all levels of senior management. It is therefore important that the line of sight between reward and performance is clear and visible. We propose to simplify the plan from a three-year core performance period and two-year sustainability performance period to a three-year performance period with a two-year holding period for executive Directors. We believe that this will simplify the plan while maintaining the award opportunity, and aid transparency while continuing to provide a motivational incentive and a good retention tool for executives. We also propose to provide flexibility under the policy to introduce additional financial measures and/or an appropriate strategic element weighted up to 20% of the maximum opportunity. Additional measures would be discussed with significant shareholders in advance of their introduction.
Deferred Bonus Plan	Change the amount of annual bonus payouts deferred into shares	Currently, bonus payouts in excess of 65% of salary are deferred into shares. We propose that, going forward, 33% of any bonus payment is deferred into shares. This will ensure the continued building of a shareholding in GKN by executives, which will further align their interests with those of shareholders. The deferral period of two years remains unchanged.
Long-term awards on recruitment	Increase flexibility in relation to external recruitment	The attraction and retention of high-calibre candidates is key to the long-term success of the Group. GKN operates globally in competitive markets and competes for talent in those markets so the flexibility to compete where necessary is important. We therefore propose to amend the recruitment policy to allow the Committee to award long-term incentives of up to 250% of salary where to do so would facilitate the recruitment of an outstanding external candidate. This would also enable the candidate to build up a significant shareholding in the Company more quickly.
Shareholding requirement	Increase the shareholding requirement	We propose to increase the shareholding requirement for executive Directors from 200% to 250% of base salary. At 1.25x the annual long-term incentive opportunity, we believe this is an appropriate level.

We recognise that there is a significant amount of concern among stakeholders regarding increasing executive pay levels and pay for performance. We have taken into account shareholder feedback in refining our proposals and are confident that these changes increase the link between pay and performance, increase the alignment between shareholders and executives, provide a fair remuneration package to executives, and will help to ensure that we attract, motivate and retain the right talent for the continued success of GKN.

Professor Richard Parry-Jones CBE
Chairman of the Remuneration Committee
27 February 2017

At a glance...

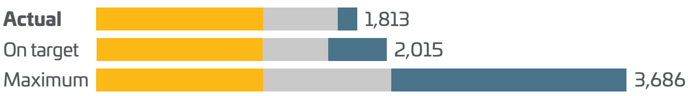
2016 key activities

Salary and annual incentive plan	◆ Considered and approved STVRS payout for 2015 and set targets for 2016. ◆ Approved salary proposals for executive Directors, Company Secretary and members of the Executive Committee and reviewed fees for the Chairman.
Long-term incentive arrangements	◆ Agreed recalibration of performance measures for 2016 SEP awards. ◆ Determined vesting levels for 2013 SEP awards.
Policy and remuneration framework	◆ Agreed scope of review of incentive arrangements. ◆ Consulted with shareholders on proposed changes to our remuneration policy.
Compliance and governance	◆ Implemented competitive tender process and appointed new independent advisers. ◆ Considered and reviewed practices and changes to corporate governance environment with regard to remuneration arrangements.

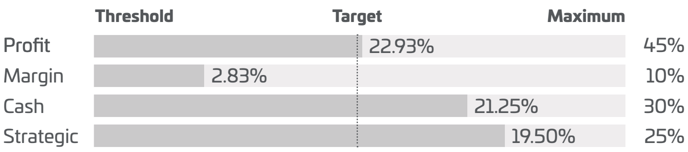
2016 executive remuneration

Nigel Stein

Total remuneration vs opportunity (£000)



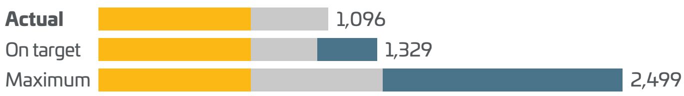
Annual bonus outturn[1] (performance as % of salary)



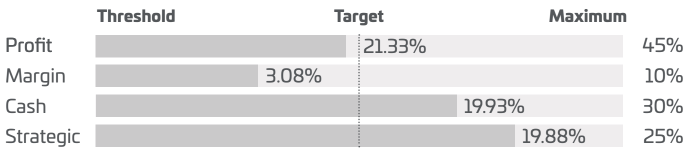
Long-term incentive outturn
(value of SEP awards £000)

Adam Walker

Total remuneration vs opportunity (£000)



Annual bonus outturn[2] (performance as % of salary)

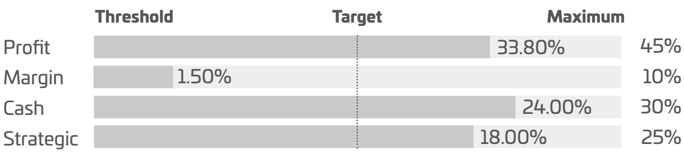


Long-term incentive outturn
(value of SEP awards £000)

Kevin Cummings

Total remuneration vs opportunity (£000)

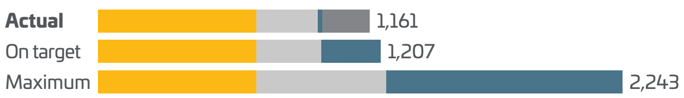
Annual bonus outturn (performance as % of salary)



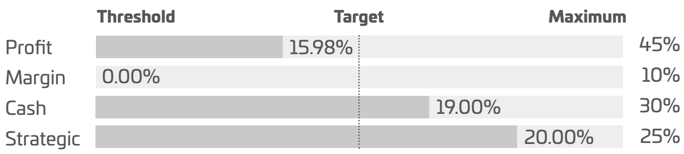
Medium- and long-term incentive outturn
(value of SEP and SIRP awards £000)

Phil Swash

Total remuneration vs opportunity (£000)



Annual bonus outturn[1] (performance as % of salary)



Medium- and long-term incentive outturn
(value of SEP and SIRP awards £000)

Fixed pay
Annual variable – STVRS
Long-term variable – SEP
Other remuneration – SIRP
Performance element
Share appreciation element

1 These figures exclude the 3% reduction in bonus for Nigel Stein and Phil Swash following the exercise of discretion by the Committee in relation to two fatalities in 2016.
2 Adam Walker was Group Finance Director & Chief Executive, GKN Land Systems throughout 2016. His STVRS was weighted 75% on Group performance and 25% on GKN Land Systems performance.

Directors' remuneration policy

The proposed future remuneration policy as set out below will be put to shareholders for approval by a binding vote at the 2017 AGM on 4 May 2017. Subject to approval, it will take effect from that date and will be displayed on our website at www.gkn.com/remuneration.

It is intended that the policy will apply for three years from that date. Should any changes be required to the policy mid-cycle, these will be subject to a reasoned rationale and consultation with major shareholders before being submitted to shareholders for approval.

Future policy table

Base salary

Purpose and link to strategy

To provide a market competitive salary to recruit and retain individuals with the necessary knowledge, skills and experience to deliver the Group's strategic objectives.

Operation

Normally reviewed annually with any increase generally taking effect from 1 July. Salary increases will normally be in line with the average increase awarded to other employees in the Group.

Salaries may be set and/or paid in GBP or any other currency, to reflect the circumstances of the individual Director.

Assessment

Key factors taken into account include individual experience, scope of the role, responsibility and performance, Group profitability, prevailing market conditions and pay awards in the Group generally.

Performance measures

None.

Maximum opportunity

Maximum annual increases will be broadly in line with those for other salaried UK employees in the normal course of business. Higher increases may be appropriate to reflect a significant change in a Director's role or responsibilities, or if (in shareholders' interests) a Director was intentionally appointed on a below-market salary initially and their subsequent performance in the role warrants an above-average salary increase.

Changes

Revised definition of 'Maximum opportunity'.

Benefits

Purpose and link to strategy

To provide benefits consistent with the scope and location of the role.

Operation

Benefits principally include car and fuel allowance, life assurance, disability and healthcare benefits.

Other benefits may be provided at the discretion of the Committee based on individual circumstances and business requirements, such as appropriate relocation and expatriate allowances and support.

Benefits are provided on a grossed up basis where appropriate.

Assessment

Benefits are consistent with those provided to senior managers. They are set at a level which the Committee considers appropriate and are kept under review.

Performance measures

None.

Maximum opportunity

Car and fuel allowances will not increase by more than 15% in any one year.

Maximum life assurance is 4x salary for defined benefit members and 8x salary for defined contribution members.

Some benefits (such as healthcare insurance) are provided through third parties and therefore the cost to the Company may vary from year to year.

Relocation and expatriate allowances, where granted, are set at a level which the Committee considers appropriate based on market practice and individual circumstances.

Changes

No change.

Pension

Purpose and link to strategy

To provide appropriate retirement benefits and assist with recruitment and retention.

Operation for external appointments

Since 1 January 2013, benefits have been provided by means of a cash allowance and/or payment into the defined contribution section of the GKN Group Pension Scheme (the Scheme).

Operation for current Directors and internal appointments

Benefits may be provided through the defined contribution or legacy defined benefit sections of the Scheme, or as a cash allowance. For Directors subject to legacy arrangements under the defined benefit scheme, the pension due under these arrangements is up to two-thirds pensionable salary calculated on a career average basis for service from 1 September 2007.

The closure of the Company's UK defined benefit section is currently subject to consultation; should it be closed, Phil Swash will receive pension benefits through a cash allowance and/or as a payment into the defined contribution section of the Scheme.

For non-UK appointments, benefits will be provided in accordance with local practice and the maximum opportunity set out in this policy. Benefits for US nationals will be provided through a retirement benefit allowance or 401(k) retirement savings plan.

The specific arrangements for individual Directors are set out in the relevant section of the annual report on remuneration.

Performance measures

None.

Maximum opportunity

The maximum total contribution (into the defined contribution section and/or a cash allowance in lieu) is 25% of base salary. If Directors continue to accrue benefits under the defined benefit section of the Scheme, they will be eligible for a contribution (into the defined contribution section and/or a cash allowance in lieu) worth 25% of the difference between pensionable salary and base salary.

Changes

Maximum retirement benefit for Directors participating in legacy arrangements reduced from 40% to 25% of the reference salary used for this calculation, and inclusion of benefits for non-UK Directors.

Annual bonus (STVRS)

Purpose and link to strategy

To drive and reward achievement of short-term financial and strategic measures which support long-term strategic objectives.

Operation

Award levels and performance measures (including the proportion relating to strategic measures and weightings) are reviewed annually to ensure alignment with the Group's financial and long-term strategic objectives.

A total of 33% of the bonus payment is deferred into shares under the DBP; the balance is paid in cash.

Assessment

Performance is measured over one financial year. The level of payment is determined by the Committee after the year end based on performance against targets.

Malus and clawback may be applied as set out in note 2 on page 87.

Performance measures

Appropriate targets are set each year which align with the specific business objectives for that year. Targets are normally applied to a combination of financial and strategic measures relating to Group and, where appropriate, divisional performance. A significant proportion of the total award is based on financial measures.

Payments range between 0 to 150% of base salary with 75% of base salary payable for achievement of on-target performance.

Maximum opportunity

Maximum is 150% of base salary.

Changes

Maximum increased from 110% to 150% of base salary. Amount deferred into shares changed from any payment in excess of 65% of base salary to a mandatory deferral of 33% of any payment earned.

Deferred Bonus Plan (DBP)

Purpose and link to strategy

A total of 33% of any STVRS payment is deferred into shares to assist with retention of key executives and to align their interests with those of shareholders.

Operation

DBP awards are released at the end of a two-year deferral period. Awards generally lapse in the event of resignation during the deferral period.

On release, a cash amount is paid equivalent to the aggregate dividends per share paid during the deferral period.

Malus provisions will be applied as set out in note 2 opposite.

Performance measures

No additional performance measures beyond those required for STVRS (see previous page).

Release is subject to continued employment.

Maximum opportunity

No additional opportunity above the STVRS maximum.

Changes

Change to amount deferred into shares (see changes for STVRS on previous page).

Sustainable Earnings Plan (SEP)

Purpose and link to strategy

To encourage and reward sustained earnings performance in line with the Group's growth strategy and its objective of creating long-term shareholder value.

To assist with retention of key executives.

Operation

SEP awards are normally granted annually with vesting based on performance over a three-year period. A holding period of two years is applied for any vested awards.

The value of dividends accrued on vested shares from date of grant to date of release is delivered in additional shares or cash at the discretion of the Committee.

The Committee reviews the award levels annually and keeps performance targets under review to ensure continued alignment with strategy.

Vesting at threshold is 25% rising to a maximum of 100%.

All vested shares to be retained (net of tax) until shareholding requirement is met.

Malus and clawback provisions will be applied as set out in note 2 opposite.

Assessment

In considering the extent to which an award has vested, the Committee assesses both the extent to which the EPS target has been met and the quality of earnings.

The Committee must be satisfied that the level of vesting is justified by the quality of earnings and EPS performance against shareholder expectations by taking into account Group return on invested capital (ROIC) against internal projections, new investment performance and cost of capital; shareholder value creation; and whether EPS has grown in absolute terms during the performance period. Having considered these factors and the underlying financial performance of the Company, the Committee can reduce the level of SEP vesting if it feels it is justified in doing so.

Performance measures

Measured over a three-year period based on a stretching EPS growth target. The Committee retains flexibility to determine (at the time of making an award) that additional elements in relation to long-term financial and strategic measures may be introduced (subject to a maximum weighting of 20% of the maximum opportunity).

While stretching, targets under the SEP are designed to discourage inappropriate risk taking.

Maximum opportunity

Maximum award level is 200% of base salary (or 200% of a notional UK salary for non-UK executive Directors).

Changes

The three-year core award and two-year sustainability award have been simplified to a single award with a three-year performance period and additional two-year post-vesting holding period. Flexibility to introduce additional performance measures if appropriate.

Notes to future policy table

1. Discretion

The Committee may exercise discretion as set out below. Any discretion will be exercised diligently and in the interests of shareholders.

Pension: to provide alternative arrangements on terms no more favourable if it considers it to be in the interests of the Company.

STVRS: to (i) alter targets to reflect changed circumstances such as material changes in accounting standards or changes in the Group's structure; (ii) reduce payments based on its assessment of underlying performance of the Group, including health and safety performance; and (iii) make a payment wholly in cash in certain circumstances (such as to a departing Director).

SEP: to adjust and/or set different performance measures and targets if events occur (such as a change in strategy, a material acquisition and/or divestment of a Group business, or a change in prevailing market conditions) which causes the Committee to determine that the measures or targets are no longer appropriate and that amendment is required to achieve their original purpose.

Exceptional circumstances: flexibility to exercise discretion in genuinely unforeseen and exceptional circumstances not referred to in this policy. If this should happen, the Committee will implement the arrangements within the boundaries of the policy taking a reasonable and appropriate position had such discretion been included and it being in the interests of shareholders. Before doing so, the Committee will consult with major shareholders and explain the exercise of this type of discretion in the following year's annual report on remuneration.

2. Malus and clawback

Malus and clawback provisions are operated as follows.

Clawback provisions allow the Company to recover the value of cash or vested shares in the event of a material misstatement in GKN plc's accounts, gross misconduct or a serious failure to comply with our Code of Conduct. These provisions apply for a period of two years from the date any STVRS payment is made or the date shares are released under the SEP.

Malus provisions allow the Company to reduce a cash payment or share award in full or in part in the event of a failure of risk management or major reputational damage to GKN. It also includes the clawback provisions set out above. These provisions apply to awards under the DBP and SEP.

3. Legacy arrangements

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out above where the payment is made pursuant to terms that were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' include the satisfaction of awards of variable remuneration and, in relation to an award over shares, the terms of the payment were 'agreed' at the time the award was granted.

Differences in remuneration policy for all employees

The remuneration framework for executives in senior management grades is broadly consistent with that for executive Directors. In addition to salaries, they receive benefits, pension, and entitlement to short- and long-term incentive awards. Maximum opportunities vary dependent on grade. Further information can be found on page 102 of the annual report on remuneration.

Statement of consideration of employment conditions elsewhere in the Company

GKN seeks the view of employees on a range of matters; however there is no explicit employee consultation process in relation to the Directors' remuneration policy.

The Committee also considers the most recent pay awards in the Group generally, with the aim of maintaining salary increases for executive Directors in line with the average increase awarded to other employees in the Group (other than as described in the policy table).

Statement of consideration of shareholder views

The Committee Chairman consults with the Company's major shareholders on a regular basis to understand their expectations with regard to executive remuneration generally and to seek their views on the application of GKN's remuneration policy.

Major shareholders were consulted in 2015 and 2016, and the Committee took into account the views expressed during these consultations in amending long-term incentive targets within the current policy and in setting the future policy, as described above.

Illustration of the application of the remuneration policy

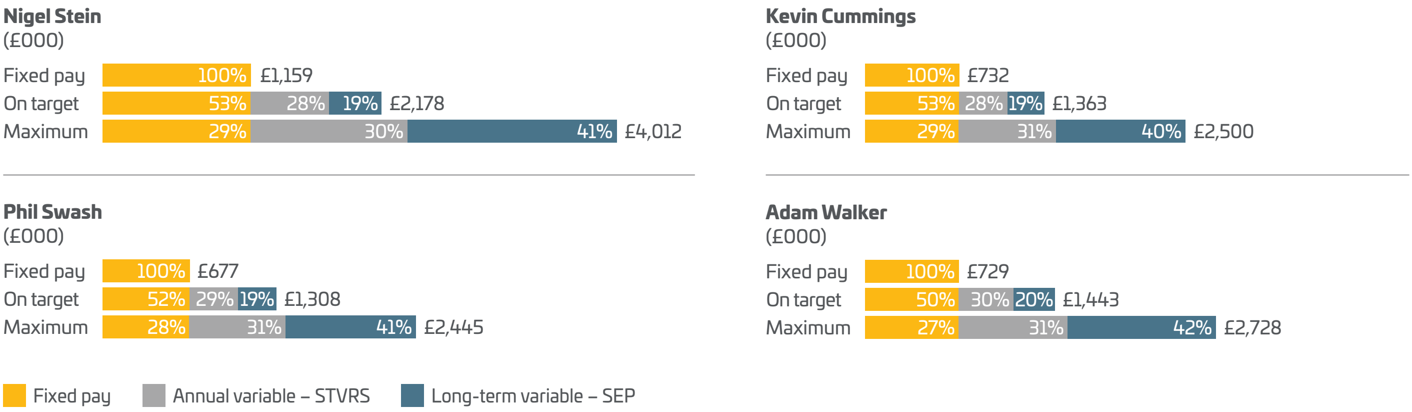
The charts below illustrate the potential total remuneration that each executive Director could receive in the first year of the proposed policy. The potential outcomes are based on the three scenarios set out below.

(a) Fixed pay comprises base salary and the value of pension and benefits in kind as shown in the single figure table. For Kevin Cummings this includes his expatriate allowances.

(b) On target performance is the level of performance required to achieve 50% of the STVRS opportunity (75% of base salary) and 25% of the maximum SEP award (50% of base salary).

(c) Maximum is 150% of base salary for STVRS and 100% vesting of the maximum SEP award (200% of base salary).

The illustrations for on-target and maximum performance levels do not take account of share price growth or the accrual of dividends over the relevant performance periods under the SEP.



Recruitment policy

Provision	Policy
Overall approach	The policy aims to facilitate the appointment of individuals of sufficient calibre to lead the business and execute the strategy effectively for the benefit of shareholders. When appointing a new executive Director, the Committee seeks to ensure that arrangements are in the best interests of the Company and not to pay more than is appropriate. The Committee will take into consideration a number of relevant factors, including calibre, existing remuneration package, and specific circumstances of the individual including the jurisdiction from which the candidate was recruited. The Committee will typically seek to align the remuneration package with the Company's remuneration policy (as set out in the policy table). However, it retains discretion to include other remuneration components or awards which are outside the specific terms of the policy to facilitate the hiring of candidates of an appropriate calibre, where the Committee believes there is a need to do so in the best interests of the Company. The Committee will not use this discretion to make a non performance-related incentive payment such as a 'golden hello'. In addition, the Committee may consider it necessary to modify the limits of variable remuneration in order to attract an external candidate of the appropriate calibre. Any awards of variable remuneration will remain linked to the achievement of appropriate and challenging performance measures.
Fixed remuneration	Salary, benefits and pension will be set in line with the policy based on the scope of the role and the calibre and experience of the individual.
Variable remuneration	In order to ensure that the Committee retains the flexibility to attract a candidate of the appropriate calibre, the maximum level of variable remuneration that may be granted in respect of external appointments (excluding awards referred to below) is 250% in relation to long-term incentive awards. Any share awards will normally be granted under the Company's existing share plans. If necessary, and subject to the limit referred to above, recruitment awards may be granted outside these plans as currently permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of a Director.
Buy-out	In some circumstances, the Committee may make payments or awards to recognise or buy out remuneration arrangements forfeited on leaving a previous employer. The Committee will normally aim to do so broadly on a like-for-like basis taking into account a number of relevant factors regarding the forfeited arrangements which may include the form of award, any performance conditions attached to the awards and the time at which they would have vested. The Committee's intention is that the value awarded would be no higher than the expected value of the forfeited arrangements and would be paid in shares not cash. These payments or awards are excluded from the maximum level of variable remuneration referred to above.
Non-executive Directors	In accordance with the policy on page 91, new non-executive Directors are paid a base fee in relation to their appointment as a Director. No sign-on payments are offered to non-executive Directors.

Executive Directors' service contracts and policy on payment for loss of office

Provision	Policy
Notice period	12 months' notice period from the Company and 6 months from the executive Director.
Non-compete	12 months from date of leaving.
Termination payments	By mutual consent: Nigel Stein is entitled to be paid during his notice period, or in respect of any notice period not served, a termination payment up to a maximum of 12 months' salary, pension and other benefits. Other executive Directors (appointed since 1 January 2013) are entitled to payments in lieu of notice (PILON) made on a monthly basis in respect of the notice period or any part not served. In the event that a Director is discovered to have failed to comply with his duties under the contract, any PILON payment will cease and any payments made will be subject to clawback. The Committee may make additional termination payments where such payments are made in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.
Mitigation	All Directors have a duty to mitigate their loss; if a Director obtains alternative employment, payments are subject to reduction or cancellation up to the value of the remuneration, benefits and incentives received in respect of the new role. The Committee retains discretion not to reduce or cancel termination payments if an executive Director obtains alternative employment if it is considered to be in the Company's best interests not to do so or if no duty to mitigate is applicable.
Change of control	No pre-determined payments are made.
Benefits	Benefits normally cease to be provided on the date employment ends. However, the Committee has discretion to allow some minor benefits (such as health insurance and repatriation allowances) to continue to be provided for a period following cessation where this is considered fair and reasonable or appropriate on the basis of local market practice. Accrued holiday pay will be paid on leaving. Appropriate out-placement assistance will generally be offered to an executive Director in line with practice applicable to executives in senior management grades.
Annual bonus	An executive Director has no entitlement to an annual bonus in respect of the year of termination. However, the Committee retains discretion to make a bonus payment dependent upon the particular circumstances of the executive Director's departure and performance. Any such payment would normally be made on a pro rata basis to take account of time served during the financial year and can, at the discretion of the Committee, be paid wholly in cash in cases where deferral into shares would normally be made. No payments will be made to any individual defined as a bad leaver.
Unvested long-term incentive awards and awards under the DBP	All awards lapse on termination other than for good leavers (see definition below) in respect of whom the following applies: ◆ Under the SEP, provided termination occurs on or after the first anniversary of the start of the performance period (the start of the core performance period for awards made in 2016 and earlier), vesting of an award is dependent upon the achievement of relevant performance targets and is normally pro-rated to reflect time employed during the measurement period. ◆ DBP awards will be released as soon as practicable following the date of cessation. In relation to legacy arrangements, ESOS awards have all vested and are capable of release within six months of date of cessation. SIRP awards will be released on the normal date subject to achievement of the performance target.
Unvested long-term incentive awards and awards under the DBP on change of control	Outstanding SEP awards vest on a change of control subject to the Committee's assessment of the performance of the Company from the grant date to the effective date of the change of control. Deferred shares under the DBP are released as soon as practicable following a change of control. In relation to legacy arrangements, all awards under the ESOS have vested and would be released as soon as practicable following a change of control. The treatment of SIRP awards is identical to that of SEP awards, as set out above.
Discretion	Where the Committee retains discretion, it will be used to provide flexibility in certain situations taking into account the particular circumstances of the Director's departure and performance, with the objective of ensuring that a Director is not paid for poor performance.

Good leavers: death, disability, illness, injury, redundancy, sale of business outside the Group, retirement (for SEP awards to be made from 2017 onwards), termination by the Company (other than for dishonesty or misconduct) and other circumstances at the Committee's discretion.

Chairman and non-executive Directors

Purpose and link to strategy

To provide fees within a market-competitive range to recruit and retain individuals with the necessary experience and ability to make a substantial contribution to the Group's affairs.

Operation

Fees are reviewed annually and paid in cash.

The Chairman is paid a single consolidated fee.

Non-executive Directors are paid a basic fee plus an additional fee for any chairmanship of Board committees and for the role of Senior Independent Director.

The Chairman and non-executive Directors do not receive benefits in kind nor do they participate in the Group's short- and long-term incentive arrangements or in its pension scheme. Their expenses for travel to and from Board meetings and Board events are reimbursed by the Company.

Assessment

Key factors taken into account when reviewing fees include scope of the role, time commitment, prevailing market conditions and pay awards in the Group generally.

Maximum opportunity

Set at a level which reflects the contribution and commitment required of them, taking into account fee levels in other companies of similar size and complexity.

Overall the fees paid to non-executive Directors will remain within the limit stated in the articles of association, currently £1 million per annum.

Changes

Fees to be reviewed annually to bring them in line with the salary review for Group employees and executive Directors.

Letters of appointment – Chairman and non-executive Directors

Provision	Policy
Notice period	Appointments may be terminated by either party giving 12 months' notice in the case of the Chairman or three months' notice in the case of other non-executive Directors.
Term	The Chairman is appointed for an initial term of three years subject to review at the end of this period. Other non-executive Directors are appointed for an initial term of three years renewable for an additional two terms of three years subject to performance and the agreement of both parties. The appointment may be extended beyond this term if deemed appropriate.
Termination	There are no provisions for termination payments for the Chairman or non-executive Directors.

Annual report on remuneration

Executive Directors

The Committee presents the annual report on remuneration which sets out how the remuneration policy in place during 2016 has been implemented and how the proposed future policy for 2017 will be implemented. This, together with the Chairman's letter, will be put to shareholders for approval as an advisory vote at the 2017 AGM to be held on 4 May 2017.

Single total figure of remuneration (audited)

The table below shows the single total figures for 2016 and the comparative figures for 2015.

	Fixed pay						Variable pay									
	Salary £000		Taxable benefits £000		Pension £000		STVRS – cash £000		STVRS – deferred shares £000		Long-term incentives £000		Other remuneration £000		Total remuneration £000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Executive Directors																
Nigel Stein	815	795	18	18	326	333	518	517	–	18	136	–	–	–	1,813	1,681
Kevin Cummings	505	–	126	–	101	–	328	–	62	–	26	–	229	–	1,377	–
Phil Swash	505	–	15	–	157	–	263	–	–	–	19	–	202	–	1,161	–
Adam Walker	571	518	15	15	143	130	367	337	–	12	–	–	–	273	1,096	1,285
Total	**2,396**	1,313	**174**	33	**727**	463	**1,476**	854	**62**	30	**181**	–	**431**	273	**5,447**	2,966

Explanatory notes

Salaries

Kevin Cummings and Phil Swash were appointed to the Board on 8 January 2016.

Kevin Cummings is a US national on assignment; his salary for 2016 was set in sterling with payment in US dollars. In accordance with his contract, payment was made at GKN's budget exchange rate for the first six months of the year and subsequently recalculated at the average market rate for June for the remainder of the year. The same principle also applies to pension and taxable benefits to the extent they are paid in US dollars.

Taxable benefits

Relates to healthcare benefits, car and fuel allowances and Kevin Cummings' US benefits and expatriate allowances.

Pension

Nigel Stein currently receives a cash retirement benefit allowance of 40% of salary under legacy arrangements. Kevin Cummings receives a retirement benefit allowance of 20% of salary less Company contributions in line with US law and practice. Adam Walker receives a cash retirement allowance of 25% of salary. Phil Swash is a member of the defined benefit section of the GKN Group Pension Scheme. He accrues a benefit under this section of the Scheme as detailed on page 93, and receives an allowance worth 25% of the difference between pensionable salary and his annual base salary. The value of Phil Swash's pension in the table above is calculated in line with the Regulations.

Annual bonus (STVRS)

STVRS payouts are made in cash up to 65% of salary.

Any amount above 65% of salary is deferred into shares for two years. The amounts deferred for 2016 as a percentage of salary are: Nigel Stein nil (2015: 2.2%); Kevin Cummings 12.3% (2015: nil); Adam Walker nil (2015: 2.2%). No amounts were deferred for Phil Swash in 2016 or 2015.

Long-term incentives (SEP)

The values represent:

- shares vested under the 2012 sustainability award; and
- dividend equivalent shares accrued from date of grant to date of release (6 August 2012 to 31 December 2016) for shares vested under the 2012 sustainability award.

These values are based on the GKN share price of 350.2p on 21 February 2017 (the date on which the Committee determined the outcome of the performance conditions).

The performance period for the 2014 SEP core award ended on 31 December 2016 and both the core and associated sustainability awards lapsed in full.

Other remuneration

For Kevin Cummings and Phil Swash, this comprises the value of a vested share award granted in 2015 to executives below Board level. The performance period ended on 31 December 2016 and awards are subject to a post-vesting holding period until February 2018. The values are calculated on the same basis as the SEP awards above.

For Adam Walker, the prior year figure relates to the release of a restricted award made on joining the Group (based on the GKN share price of 373.6p on 24 February 2015, the release date). There are no further joining awards outstanding.

Further details on each element are set out in the relevant sections of this report.

Salary

The annual salary reviews for executive Directors were carried out in June 2016. Our assessment took into account a number of factors including individual performance, scope of responsibilities, benchmarking data from our remuneration advisers, and increases awarded to other employees.

We approved salary increases ranging from 2% to 2.5% (rounded to the nearest thousand) to take effect from 1 July 2016. The average increase for employees globally was 3.2%.

As stated in last year's report, Adam Walker received a 10% increase in October 2015 having assumed operational responsibility for GKN Land Systems in addition to his role as Group Finance Director. Following the sale of the industrial arm of the division, Adam Walker retains management responsibility for the remaining two business streams of Wheels & Structures and Shafts & Services. He has also assumed functional responsibility for procurement and supply chain matters. In light of his ongoing and additional responsibilities, we therefore decided that the salary increase awarded on 1 October 2015 should stand.

	Date of last salary change				
	1 July 2016 £	8 Jan 2016[1] £	1 Oct 2015 £	1 July 2015 £	Increase %
Executive Directors					
Nigel Stein	**825,000**	–	–	805,000	2.5%
Kevin Cummings	**510,000**	500,000	–	–	2.0%
Phil Swash	**510,000**	500,000	–	–	2.0%
Adam Walker	**578,000**	–	564,300	513,000	2.4%

1 Salary on appointment to the Board.

The next annual salary review will take place in July 2017. Any increases will be in line with the new policy and reported in next year's annual report on remuneration.

Taxable benefits

All UK executive Directors received healthcare benefits and car and fuel allowances. The values of these benefits are shown in the single figure table on page 92.

Kevin Cummings received US benefits and expatriate allowances as part of his assignment to the UK. These are set out in the table below.

Tax equalisation[1] £000	Expatriate allowance (net)[2] £000	Tax return[3] £000	Car[4] £000	Medical insurance £000	Total £000
(26)	135	4	5	8	126

1 Company operates hypothetical US tax and social security withholding so that he is placed in a tax neutral position to prevent double taxation in the UK and US. The amount represents the best estimate of the cost of the tax equalisation benefit that is expected to be refunded to the Company, based on the information available to date.
2 Assignment expenses including housing and home leave costs.
3 Assistance with completion of tax return.
4 Amount represents provision of a car net of payroll contributions.

Benefits for 2017 will be unchanged and implemented in line with the new policy.

Pension entitlements

Pension benefits are provided to executive Directors through the GKN Group Pension Scheme (2012) (the Scheme). Directors may receive benefits either under the defined benefit or the defined contribution sections of the Scheme depending on when they joined the Group.

Defined benefit section

These are legacy arrangements that apply to Nigel Stein and Phil Swash.

Nigel Stein has opted out and receives a cash retirement benefit allowance of 40% of his base salary. Subject to shareholder approval of the 2017 remuneration policy, his pension allowance will be reduced to 25% of salary. This change will take effect from the 2017 AGM and will be in line with the policy for new executive Director appointments.

Phil Swash continues to accrue benefits under the defined benefit section and receives a pension of up to two-thirds of pensionable salary on his normal retirement date with a maximum accrual rate of 1/40th. These benefits have been calculated on a career average basis since 1 September 2007. He also receives a cash allowance of 25% on the difference between his pensionable salary and base salary in line with the policy for Directors appointed after 1 January 2013.

Defined contribution section

Adam Walker receives retirement benefits under the defined contribution section by way of a cash allowance equivalent to 25% of base salary which may be delivered in cash or as a payment into the Scheme. He has opted out and receives the full allowance as cash.

Benefits for US nationals

Kevin Cummings does not participate in the Scheme and instead receives a retirement benefit allowance of 20% of base salary less any Company contributions made into a 401(k) retirement plan up to the maximum permitted by US law. These arrangements are consistent with US practice. He is not eligible to participate or contribute in the non-qualified deferred compensation plan during his period of assignment.

Additional information

No compensation is offered for any additional tax suffered by a Director in the event that the value of their pension exceeds the statutory lifetime allowance.

Details of the pension benefit provisions under the defined benefit and defined contribution sections of the Scheme are shown on page 100.

Pension entitlements for 2017 will be implemented in line with the new policy.

Annual bonus: Short Term Variable Remuneration Scheme (STVRS)

The operation of the 2016 STVRS award and proposed changes from 2017 (which remain subject to shareholder approval at the AGM) are set out below.

	Operation for 2016 award	Proposed changes from 2017
Performance period	One year.	No change.
Opportunity	Up to 110% of salary.	Up to 150% of salary.
Measures	A combination of financial measures and strategic measures, the weighting of which is reviewed annually. Financial measures are assessed against profit, margin and cash targets in relation to the Group and divisions as appropriate. Strategic measures vary from year to year and by division in accordance with Group priorities. In 2016, they included goals relating to the integration of Fokker, new business wins in eDrive, and increasing productivity and overall equipment effectiveness.	No change. Measures will be simplified to remove margin (included implicitly through profit) and increase focus on profit and cash. Goals will be disclosed in next year's annual report on remuneration.
Qualitative assessment of performance	Financial measures are subject to assessment by the Committee. The achievement of strategic measures is assessed by the Corporate Audit function which provides a report to the Committee.	No change.
Other restrictions	Subject to malus and clawback.	No change.
Release	Bonus payouts above 65% of salary will be deferred into shares and will be subject to a two-year holding period under the Deferred Bonus Plan (DBP).	33% of bonus payments will be deferred into shares and will be subject to a two-year holding period under the DBP.

The measures and weighting for 2016 and the proposed measures and weightings for 2017 are set out in the table below. The outcome of these measures will be disclosed in the next annual report on remuneration.

	2016		2017	
	% of salary		% of salary	
	Target	Maximum	Target	Maximum
Profit	22.5	45	37.5	75
Cash	15	30	18.75	37.5
Margin	5	10	–	–
Strategic objectives	12.5	25	18.75	37.5
Total	**55**	**110**	**75**	**150**

2016 STVRS performance (audited)

The financial and strategic measures for the 2016 STVRS were linked to our overall strategic objectives and financial goals as set out below. See pages 14 and 15 for further information on our strategic framework.

Performance measure	Link to strategic objectives and financial goals
Financial measures	
Profit	Delivering strong financial returns
Margin	Delivering strong financial returns
Cash	Delivering strong financial returns
Strategic measures	
Successful integration of Fokker	Leading in our chosen markets Leveraging a strong global presence Differentiating ourselves through technology Sustaining above market growth
Deliver new business wins in eDrive	Differentiating ourselves through technology
Strengthen organic growth (at margin)	Leading in our chosen markets
Increase future growth above market	Sustaining above market growth

The performance against the financial measures is set out below and shows the extent to which performance was met at threshold, target and maximum levels:

Director	Measure	Target performance: Threshold	Target performance: Target	Target performance: Maximum	Actual	Actual performance (as % of salary)	Maximum opportunity (% of salary)
Nigel Stein[1]	Group profit	£595m	£626m	£647m	£626m	22.93%	45
	Group margin	8.2%	8.5%	8.7%	8.4%	2.83%	10
	Group cash		See below			21.25%	30
	Group strategic measures		See below			19.50%	25
						Total achieved: 66.51%	110
Kevin Cummings	Group profit	£595m	£626m	£647m	£626m	7.64%	15
	Divisional profit	£281m	£302m	£314m	£311m	26.16%	30
	Divisional margin	9.9%	10.2%	10.4%	10.0%	1.50%	10
	Divisional cash		See below			24.00%	30
	Divisional strategic measures		See below			18.00%	25
						Total achieved: 77.30%	110
Phil Swash[1]	Group profit	£595m	£626m	£647m	£626m	7.64%	15
	Divisional profit	£289m	£317m	£330m	£305m	8.34%	30
	Divisional margin	8.1%	8.5%	8.6%	8.0%	0.00%	10
	Divisional cash		See below			19.00%	30
	Divisional strategic measures		See below			20.00%	25
						Total achieved: 54.98%	110
Adam Walker[2]	Group profit	£595m	£626m	£647m	£626m	19.11%	33.75
	Divisional profit	£27m	£33m	£38m	£31m	2.22%	11.25
	Group margin	8.2%	8.5%	8.7%	8.4%	2.12%	7.5
	Divisional margin	4.4%	4.9%	5.3%	4.8%	0.96%	2.5
	Group cash		See below			15.93%	22.5
	Divisional cash		See below			4.00%	7.5
	Group strategic measures		See below			14.63%	18.75
	Divisional strategic measures		See below			5.25%	6.25
						Total achieved: 64.22%	110

1 These figures exclude the 3% reduction in bonus for Nigel Stein and Phil Swash following the exercise of discretion by the Committee in relation to two fatalities in 2016.
2 Adam Walker's 2016 STVRS award was weighted 75% for Group targets and 25% for GKN Land Systems targets to reflect his role as Group Finance Director & Chief Executive, GKN Land Systems.

The management profit and margin figures above are calculated using the 2016 budget exchange rates to eliminate the impact of translational currency fluctuations. As stated in the Committee Chairman's letter, payouts for Nigel Stein and Phil Swash were reduced in light of two fatalities at our Powder Metallurgy site in Romania and our Driveline site in Roxboro, US.

Annual profit and margin targets for the Group and each division are set in line with the budget approved by the Board in light of shareholder expectations, the Group's strategy and market conditions.

Cash targets for the Group and the divisions included operating cash flow targets (measured monthly over ten months), cash conversion targets (measured at two points in the year) and rolling three-month stock turn targets (measured monthly over ten months). These targets were based on the Group's budget. The rationale for measuring cash on a monthly basis is to encourage smooth flow of cash throughout the year so as to incentivise sustainable cash flow. Given the complex structure and number of cash targets, we believe the disclosure of such targets would not be practical or meaningful to shareholders.

Performance directed on strategic measures included the following:

Strategic measures	**Outcome**
◆ Successful integration of Fokker	◆ Successfully integrating into GKN Aerospace, demonstrated by strong financial performance, retention of key executives and no significant customer disruption.
◆ Deliver new business wins in eDrive	◆ Significantly increased business wins in this area compared to prior years including key development orders won with original equipment manufacturers.
◆ Strengthen organic growth at margin	◆ Orders won in GKN Driveline were in line with target with both CVJ and AWD win levels above 2015. A supporting programme management system was effectively deployed.
◆ Position for future growth above market	◆ A substantial amount of new business was won in both GKN Aerospace and GKN Automotive which supports the growth set out in their strategic plans.

Deferred Bonus Plan (DBP)

The operation of the 2016 DBP and implementation for 2017 are set out below.

	Operation in 2016	Proposed changes from 2017
Amount deferred	Bonus payouts above 65% of salary.	There will be no change for 2017 as any 2017 DBP awards will be made prior to the AGM. The proposed policy, which remains subject to shareholder approval at the AGM, provides for the deferral of 33% of any bonus payment into shares. Therefore any DBP awards under the new policy, if approved, will take effect in 2018 in relation to the 2017 STVRS.
Performance condition	None.	
Other restrictions	Subject to continued employment and malus provisions.	
Retention period	Two years.	

The table below sets out the DBP awards granted during the year in relation to the amounts deferred under the 2015 STVRS:

Director	% of salary deferred into shares	Face value of award (£)[1]	No of shares awarded[2]	Date of release
Nigel Stein	2.2	17,728	6,515	2018
Adam Walker	2.2	11,559	4,248	2018

1 Value excludes amount of dividend equivalents paid in cash from date of grant to date of release.
2 Granted with no exercise price. Further details are shown on page 99.

As reported on page 92, Kevin Cummings' 2016 STVRS payout exceeded 65% of salary; the amount above 65% will be deferred into shares under the DBP in 2017.

Long-term incentives: Sustainable Earnings Plan (SEP)

As reported last year, in order to strengthen the alignment between remuneration and GKN's overriding strategic aim to sustain above market growth, we recalibrated the SEP's targets to reference EPS growth relative to our end markets. The operation of the 2016 SEP and proposed changes to be implemented in line with the simplified structure set out in the new policy (which remain subject to shareholder approval at the 2017 AGM) are summarised below.

	Operation for 2016	Proposed changes from 2017
Performance period	Core award: three-year performance period. Sustainability award: two years following the end of the core award performance period, with performance assessed separately in each year.	Single award with three-year performance period.
Opportunity	198% of salary (165% relating to the core award and 33% relating to the sustainability award).	Normal annual maximum opportunity remains at 200% of salary. However, an exceptional award of 250% of salary may be made to facilitate the external recruitment of a new executive Director.
Quantitative measure	EPS growth relative to automotive and aerospace end markets.	No change to EPS as a primary measure. Committee retains flexibility to implement additional financial or strategic measures if appropriate.
Qualitative assessment of performance	We assess the level of vesting to ensure that it is justified by the quality of earnings over the performance period. In doing so, we take account of: ◆ EPS performance against shareholder expectations; ◆ Group ROIC against internal projections, new investment performance and cost of capital; ◆ shareholder value creation; and ◆ whether EPS has grown in absolute terms.	No change.
Additional information	Sustainability award: in order to vest, the highest level of management EPS in any year of the core performance period must be achieved or exceeded. Vesting of the sustainability award is reduced to reflect the extent to which the core target is not satisfied.	Sustainability award to be removed.
Other restrictions	Subject to malus and clawback.	No change.
Release	50% of the vested core award is released at the end of the three-year core performance period with the balance released two years later at the end of the sustainability award performance period. Any vested sustainability shares are also released at this time.	Vested shares will be subject to a two-year holding period prior to release.

The change to the SEP rules in relation to the introduction of an exceptional award of 250% of salary will require shareholder approval at the 2017 AGM and is summarised in the AGM circular.

The detailed performance measures for the 2016 awards are set out below.

2016 SEP core target

Growth in EPS target[1]	Vesting level[2]
5% growth above end markets	100%
1% growth above end markets	25%
Less than 1% growth above end markets	0%

2016 SEP sustainability target

Year 4	Year 5	Vesting level
✓	✓	100%
X	✓	50%
✓	X	50%
X	X	0%

1 Compound annual EPS growth based on management EPS calculated using book tax rate as reported in note 7 to the financial statements.
2 Vesting between 1% and 5% growth above end markets is on a straight line basis.

The core target vesting schedule above will also apply to the 2017 SEP awards. Performance will be measured against a base year EPS for 2016 (using book tax rate) of 30.4p (adjusted to take account of the disposal of the Stromag business in December 2016).

Vesting of awards in 2016 (audited)

The performance periods for the 2012 SEP sustainability award and 2014 core award ended on 31 December 2016. The outcome of these awards is set out below.

The 2012 sustainability award vested at 50% and relates to achievement of the sustainability target in year five only. In order for this award to vest, we were required to assess the quality of earnings to ensure that the level of vesting was justified. This is an important assessment as it looks at the creation of both financial and shareholder value taking into account the factors listed against 'Qualitative assessment of performance' in the table on the opposite page. Our assessment concluded that we were satisfied with the quality of earnings. The long-term incentive amounts shown in the single figure table on page 92 relate to:

- the value of the vested shares under the 2012 sustainability award; and
- the dividend equivalent shares accrued from date of grant to the release date for shares vested under the 2012 sustainability award.

These shares will be released on 28 February 2017.

As stated in the Committee Chairman's letter, the 2014 core and sustainability awards lapsed in full on 21 February 2016.

2012 SEP sustainability award	Performance met	Maximum	Actual
Performance measure (sustained EPS growth)			
Year 4	X	50%	0%
Year 5	✓	50%	50%

	Target for vesting[1]		
2014 SEP core award	Threshold	Maximum	Actual
Performance measure (EPS growth[2])	6%	12%	1.9%
Vesting level	25%	100%	0%

1 Core awards vest on a straight line basis between threshold and maximum levels.
2 Compound annual growth in management EPS normalised for tax, and excluding exceptional items, post-employment finance charges and volatile IFRS charges or credits.

The table below shows the maximum number of shares available and those that vested and lapsed under the relevant SEP and SIRP awards. In relation to shares vested, page 83 shows the value that relates to performance and share price appreciation.

	2012 SEP sustainability award		2014 SEP core award[1]		2015 SIRP	
	Maximum shares	Vested shares	Maximum shares	Vested shares	Maximum award	Vested shares
Nigel Stein	69,991	34,995	279,585	–	–	–
Kevin Cummings	13,523	6,761	68,595	–	65,391	65,391
Phil Swash	9,874	4,937	57,693	–	57,563	57,563
Adam Walker	–	–	177,485	–	–	–

1 Excludes shares under the 2014 sustainability award which lapsed in full (Nigel Stein 55,917 shares; Kevin Cummings 13,719 shares; Phil Swash 11,538 shares; and Adam Walker 35,497 shares).

Awards granted in 2016 (audited)

Director and award type[1]	% of salary	Face value of award (£)[2]	No. of shares awarded	% vesting at threshold	End of performance period
Nigel Stein					
Core award	165	1,328,250	488,201	25	31.12.18
Sustainability award	33	265,650	97,640	50	31.12.20
			585,841		
Kevin Cummings					
Core award	165	825,000	303,230	25	31.12.18
Sustainability award	33	165,000	60,646	50	31.12.20
			363,876		
Phil Swash					
Core award	165	825,000	303,230	25	31.12.18
Sustainability award	33	165,000	60,646	50	31.12.20
			363,876		
Adam Walker					
Core award	165	931,100	342,226	25	31.12.18
Sustainability award	33	186,220	68,445	50	31.12.20
			410,671		

1 Core and sustainability awards were granted as performance share awards with no exercise price.
2 Value is based on the maximum number of shares vesting assuming the relevant performance conditions are satisfied in full. The number of core award shares was calculated using the GKN share price of 272.07p, being the average share price for the three dealing days immediately before the date of grant (1 March 2016). The number of sustainability award shares is based on 20% of the core award shares. The value excludes dividend equivalent amounts (paid in additional shares or cash) accrued from the date of grant to date of release and released at the same time as shares vested under the core and sustainability awards.

Other remuneration

The GKN Share Incentive and Retention Plan (SIRP) was introduced in 2015 for participants below Board level. Kevin Cummings and Phil Swash received SIRP awards prior to their appointment to the Board. They will receive no further awards under the SIRP.

The performance period for the 2015 SIRP award ended on 31 December 2016. Awards are subject to a post-vesting holding period until February 2018. Further details of these awards are shown on page 99.

Vesting of awards in 2016 (audited)

The performance targets and vesting levels for the 2015 SIRP awards are set out in the table below. The vesting of these awards required the Committee to be satisfied that the Company's management profit before tax (PBT) for the performance period was consistent with the underlying financial performance of the Company.

	Target for vesting		
Performance measure (PBT[1])	Threshold	Maximum	Actual
Year 1[2]	10%	50%	50%
Year 2[3]	10%	50%	50%

1 50% of the award is measured on 2015 PBT and 50% on 2016 PBT.
2 Shares vest on a straight line basis for achievement of PBT growth from £601 million to £620 million.
3 Shares vest on a straight line basis for achievement of PBT growth from £625 million to £645 million.

Historic plans

The GKN Executive Share Option Scheme (ESOS) is the only remaining historic long-term incentive plan with outstanding awards. No awards have been granted under the ESOS since the introduction of the SEP in 2012. Details of vested and outstanding ESOS awards are shown on page 99.

Executive Directors' share interests (audited)

We operate a shareholding requirement as we believe that the interests of Directors should be closely aligned with those of shareholders. Executive Directors can achieve a considerable part of this alignment through the retention of shares released under the DBP and long-term incentive plans.

The review of our remuneration framework took into account our shareholding requirement. In order to strengthen further the alignment of interests between executive Directors and shareholders, we approved an increase in the shareholding requirement from 200% of salary to 250% of salary. Directors are expected to retain all vested long-term incentive awards (net of tax) until the requirement is met in full.

For 2016, the shareholding requirement was 200% of salary. Nigel Stein continues to meet the requirement comfortably. The remaining Directors, Adam Walker (appointed on 1 January 2014) and Kevin Cummings and Phil Swash (both appointed on 8 January 2016) are expected to achieve 100% of base salary within five years of appointment. The table below sets out the progress they are making towards meeting the current shareholding requirement.

We recognise that the performance of the SEP plays an important factor in Directors achieving their shareholding requirement. The recent performance of the SEP has resulted in no payout in either 2016 or 2017 and therefore it may take some Directors longer to achieve the requirement. This will also be the case for the other executives described below who are also subject to a shareholding requirement.

We apply a similar shareholding requirement to Executive Committee members and the top 100 executives in the Group as we believe their interests should be closely aligned with shareholders in the same way as those of executive Directors and non-executive Directors. Executive Committee members are expected to achieve a minimum shareholding of 100% of base salary (having to retain all vested long-term incentive awards net of tax until the requirement is met in full). The top 100 executives below that level are required to achieve a minimum shareholding of either 20% or 30% of base salary, depending on their grade (having to retain 50% of vested long-term incentive awards net of tax until the requirement is met in full).

The shareholding requirement for all executives is tested annually on 31 December using the average share price for the final three months of the year based only on shares held outright by the executives or their connected persons. Shares deferred under the DBP and those vested and deferred under the SEP are not taken into account until they are released.

The table below shows the number of shares held by executive Directors and their connected persons at 31 December 2016. It also shows their interests in share awards and options at the same date.

	Shares			Interests in share awards and options				
	Shares held	Shareholding requirement		Without performance conditions	With performance conditions			
		% of salary		DBP[2]	SEP[3]		SIRP[4]	ESOS[5]
		Required	Achieved[1]	Unvested	Vested	Unvested	Unvested	Exercised
Executive Directors								
Nigel Stein	2,004,024	200%	773%	6,515	174,978	1,372,689	–	635,041
Kevin Cummings	180,474[6]	200%[7]	113%	–	33,809	565,503	65,391	116,346
Phil Swash	100,607	200%[7]	63%	–	24,686	536,109	57,563	61,453
Adam Walker	115,899	200%[7]	64%	4,248	–	865,582	–	–

1 Based on average share price of 318.15p per share for the period 1 October 2016 to 31 December 2016 and salary as at 31 December 2016.
2 DBP awards granted as conditional awards. Vesting is subject to continued employment only. Malus provisions apply.
3 SEP awards granted as conditional awards. Vesting is subject to the achievement of an EPS performance condition. Malus and clawback provisions apply. The vested award represents 50% of the 2012 SEP core award that will be released on 28 February 2017.
4 SIRP awards granted as conditional awards before appointed to the Board. Vesting is subject to the achievement of a performance condition based on management profit before tax. Malus and clawback provisions apply. Vested SIRP awards have a holding period until February 2018.
5 ESOS awards are market value options. Vested ESOS awards are those not exercised at 31 December 2016.
6 Includes 10,000 GKN American Depository Receipts.
7 Currently required to achieve a shareholding of 100% of salary within five years of appointment and 200% of salary as soon as possible after that.
8 All Directors are potential beneficiaries under the employee share ownership plan trust (Trust) and have a deemed interest in shares held in the Trust (see page 106).

Further details on the interests in share awards and options shown above can be found in the table and additional notes on page 99.

There were no changes in the interests of Directors in the period 31 December 2016 to 27 February 2017.

Directors' interests in share awards and options

Director and plan	Shares held at 01.01.2016[1]	Shares granted in year	Shares released/ options exercised in year	Dividend shares released in year	Shares lapsed in year	No. of shares at 31.12.2016	Status at 31.12.2016[2]	Share price (pence)[3]	Performance period
Nigel Stein									
ESOS 2010^	434,621	–	–	–	–	434,621	Vested	134.60	2010-2012
ESOS 2011^	200,420	–	–	–	–	200,420	Vested	199.58	2011-2013
SEP 2012	244,969	–	–	–	–	244,969[4]	Vested/unvested	208.36	2015-2016
DBP 2014	32,569	–	32,569	–	–	–	Released	402.16	n/a
	912,579	**–**	**32,569**	**–**	**–**	**880,010**			
SEP 2013	482,128	–	–	–	482,128	–	Lapsed	268.87	2013-2017
SEP 2014	335,502	–	–	–	–	335,502[5]	Unvested	396.23	2014-2018
SEP 2015	381,355	–	–	–	–	381,355	Unvested	358.17	2015-2019
SEP 2016	–	585,841	–	–	–	585,841	Unvested	272.07	2016-2020
DBP 2016	–	6,515	–	–	–	6,515	Unvested	272.07	n/a
	1,198,985	**592,356**	**–**	**–**	**482,128**	**1,309,213**			
Kevin Cummings									
ESOS 2009^	55,056	–	–	–	–	55,056	Vested	110.08	2009-2011
ESOS 2010^	36,714	–	–	–	–	36,714	Vested	134.60	2010-2012
ESOS 2011^	24,576	–	–	–	–	24,576	Vested	200.90	2011-2013
SEP 2012	47,332	–	–	–	–	47,332[4]	Vested/unvested	208.36	2015-2016
DBP 2014	10,081	–	10,081	–	–	–	Released	402.16	n/a
SIRP 2015	65,391	–	–	–	–	65,391	Unvested	289.73	2015-2016
	239,150	**–**	**10,081**	**–**	**–**	**229,069**			
SEP 2013	97,165	–	–	–	97,165	–	Lapsed	268.87	2013-2017
SEP 2014	82,314	–	–	–	–	82,314[5]	Unvested	396.23	2014-2018
SEP 2015	105,790	–	–	–	–	105,790	Unvested	358.17	2015-2019
SEP 2016	–	363,876	–	–	–	363,876	Unvested	272.07	2016-2020
	285,269	**363,876**	**–**	**–**	**97,165**	**551,980**			
Phil Swash									
ESOS 2010^	36,714	–	–	–	–	36,714	Vested	134.60	2010-2012
ESOS 2011^	24,739	–	–	–	–	24,739	Vested	199.58	2011-2013
DBP 2014	8,057	–	8,057	–	–	–	Released	402.16	n/a
SEP 2012	34,560	–	–	–	–	34,560[4]	Vested/unvested	208.36	2015-2016
SIRP 2015	57,563	–	–	–	–	57,563	Unvested	289.73	2015-2016
	161,633	**–**	**8,057**	**–**	**–**	**153,576**			
SEP 2013	74,818	–	–	–	74,818	–	Lapsed	268.87	2013-2017
SEP 2014	69,231	–	–	–	–	69,231[5]	Unvested	396.23	2014-2018
SEP 2015	93,128	–	–	–	–	93,128	Unvested	358.17	2015-2019
SEP 2016	–	363,876	–	–	–	363,876	Unvested	272.07	2016-2020
	237,177	**363,876**	**–**	**–**	**74,818**	**526,235**			
Adam Walker									
Performance shares 2014	76,218	–	–	–	76,218	–	Lapsed	396.23	2014-2015
SEP 2014	212,982	–	–	–	–	212,982[5]	Unvested	396.23	2014-2018
SEP 2015	241,929	–	–	–	–	241,929	Unvested	358.17	2015-2019
SEP 2016	–	410,671	–	–	–	410,671	Unvested	272.07	2016-2020
DBP 2016	–	4,248	–	–	–	4,248	Unvested	272.07	n/a
	531,129	**414,919**	**–**	**–**	**76,218**	**869,830**			

^ Indicates awards granted as share options.
1 For SEP awards, figure includes both the core and sustainability awards.
2 Actual and expected release dates:
- ESOS dates exercisable up to: 11 August 2009 (2009 award); 6 May 2020 (2010 award); and 31 March 2021 (2011 award).
- DBP actual/expected release dates: 24 February 2016 (2014 award) and February 2018 (2016 award).
- SIRP expected release date: February 2018 (after end of holding period for 2015 award).
- SEP expected release dates: 28 February 2017 (2012 award); in 2018/2020 (2015 award); and in 2019/2021 (2016 award). Release dates are based on 50% of any vested core award being released after three years and the remaining 50% (and any vested sustainability award) being released after five years, in both cases after the announcement of the prior year annual results.

3 The share price used to calculate the number of shares granted under awards and options is:
- for SEP, DBP and SIRP it is the average price for the three dealing days immediately before the grant dates; and
- for ESOS options, it is the average price for the five dealing days immediately before the grant dates. This is also the price at which options can be exercised.

4 Represents 50% of the vested core award (Nigel Stein 174,978 shares; Kevin Cummings 33,809 shares; and Phil Swash 24,686 shares). The balance of the shares relate to the sustainability award, the performance condition for which was met at 50% (see page 97). The vested core award and sustainability award shares (together with dividend equivalent shares) will be released on 28 February 2017 (see page 106 for further details of shares released). The unvested sustainability award shares lapsed on 21 February 2017.
5 Performance condition was not met so the 2014 SEP core and sustainability awards lapsed in full on 21 February 2017.

The aggregate gain made by Directors on the release of the above awards during the year was £133,000.

Pension (audited)

The table below sets out details of the pension benefit provisions under the defined benefit and defined contribution sections of the Scheme for executive Directors who served during the year.

	Pivotal retirement date[1]	Accrued pension at 31.12.16[2] £000	Transfer value of accrued pension at 31.12.2016[3] £000	Increase in accrued pension during year (net of inflation) £000	Pension value in year from defined benefit scheme (A) £000	Pension value in year from cash allowance/defined contribution (B) £000	Total pension value in year as reported in single total figure table (A+B)[4] £000
Nigel Stein	31.12.15	86	2,279	–	–	326	326
Phil Swash[5]	07.10.23	21	532	3	59	98	157
Adam Walker	–	–	–	–	–	143	143

1 Earliest date that a non-reduced pension is payable to Directors. No additional benefits are provided for early retirement.
2 Accrued annual pension includes entitlements earned as an employee prior to becoming a Director as well as for qualifying services after becoming a Director.
3 Transfer value represents the present value of accrued benefits. It does not represent an amount of money which the individual is entitled to receive. The change in transfer value over the year reflects the additional pension earned and the effect of changes in financial market conditions during the year. The method and assumptions used to calculate transfer values from the Scheme were last reviewed in March 2015 and remain applicable.
4 Notional value of defined benefit and cash allowances included in single total figure table on page 92.
5 Appointed to the Board on 8 January 2016 and member of the defined benefit section since 2007.

Non-executive Directors

Single total figure of remuneration (audited)

	Basic fees £000		Senior Independent Director/ Committee Chairman fee £000		Total £000	
	2016	2015	**2016**	2015	**2016**	2015
Chairman						
Mike Turner	**335**	335	**–**	–	**335**	335
Non-executive Directors						
Angus Cockburn	**60**	60	**–**	–	**60**	60
Tufan Erginbilgic	**60**	60	**–**	–	**60**	60
Shonaid Jemmett-Page	**60**	60	**15**[1]	15[1]	**75**	75
Richard Parry-Jones	**60**	60	**25**[2]	25[2]	**85**	85
Anne Stevens[3]	**30**	–	**–**	–	**30**	–
Total	**605**	575	**40**	40	**645**	615

1 Fee for Audit & Risk Committee Chairman.
2 Fees for Remuneration Committee Chairman (£15,000) and Senior Independent Director (£10,000).
3 Fees received from 1 July 2016, date of appointment. Anne Stevens is a US national and her fee is converted into US dollars using the exchange rate quoted on Bloomberg for the last practicable date before the quarterly payment date.

Fees

The Committee and the Board carried out their periodic review of fees for the Chairman and non-executive Directors respectively in November 2016. The last review took place in 2014. Factors taken into account as part of their review included time commitment, market data and salary increases awarded to employees in the UK and globally over the past two years. Having considered these factors, fee increases of 4.5% for the Chairman and 5% for non-executive Directors were approved by the Committee and the Board respectively with effect from 1 January 2017. The Board also reviewed the additional fees for the Chairmen of the Remuneration and Audit & Risk Committees and the Senior Independent Director, and agreed that no changes were necessary.

The table below sets out the fees with effect from 1 January 2017.

	1 Jan 2017 £	1 Jan 2016 £	Increase %
Chairman	**350,000**	335,000	4.5%
Non-executive Directors	**63,000**	60,000	5.0%
Audit & Risk Committee Chairman	**15,000**	15,000	–
Remuneration Committee Chairman	**15,000**	15,000	–
Senior Independent Director	**10,000**	10,000	–

From 2017, fees for non-executive Directors will be reviewed (but not necessarily increased) annually in line with employee salary reviews.

Non-executive Directors' shareholdings

Non-executive Directors are required to achieve a minimum shareholding of 30% of base fees within three years of appointment. The minimum requirement level was reviewed in November 2016 and continues to remain appropriate. The shareholding requirement is tested annually on 31 December using the average share price for the final three months of the year based only on shares held outright by the Directors or their connected persons.

Anne Stevens was appointed to the Board on 1 July 2016 and has three years from that date in which to reach her shareholding requirement. The Chairman and remaining non-executive Directors, all of whom have been in post for longer than three years, meet the requirement comfortably.

The table below shows the number of shares held by the Chairman and non-executive Directors and their connected persons at 31 December 2016.

		Shareholding requirement	
	Shares held	% of fees required	% of fees achieved[1]
Chairman			
Mike Turner	260,000	30	247%
Non-executive Directors			
Angus Cockburn	10,000	30	53%
Tufan Erginbilgic	30,000	30	159%
Shonaid Jemmett-Page	12,900	30	68%
Richard Parry-Jones	10,000	30	53%
Anne Stevens[2]	–	30	–

1 Based on average share price of 318.15p per share for the period 1 October 2016 to 31 December 2016 and fees as at 31 December 2016.
2 Appointed to the Board on 1 July 2016.

Remuneration in context

Our remuneration framework is cascaded to the management population globally. Salary reviews for management are undertaken annually with reference to their position in range and local rates of inflation to ensure that they are paid fairly. STVRS awards and benefits such as car allowances are granted to some 700 employees worldwide and SEP awards are granted to around 300 executives to encourage share ownership and align their interests with those of shareholders. Shareholding requirements currently apply to the top 100 executives.

Below Board level, the Share Incentive and Retention Plan (SIRP) was introduced in 2015 to drive particular medium-term financial objectives and aid retention. Any performance shares that crystallise at the end of the performance period are subject to a holding period prior to vesting and release. The SIRP also enables the Company to make restricted share awards in order to aid the retention of employees who hold key strategic positions or are deemed key talent critical to the business.

Salary reviews for executive and non-executive Directors take into account average increases awarded to the senior management population, the wider management population and all employees in the Group. Given that the Group operates in more than 30 countries, all of which are subject to different practices and rates of inflation, and differing levels of market competitiveness, cost of living and skills, the Company does not directly consult with employees as part of the process of reviewing the remuneration framework.

Percentage change in the remuneration of the Chief Executive

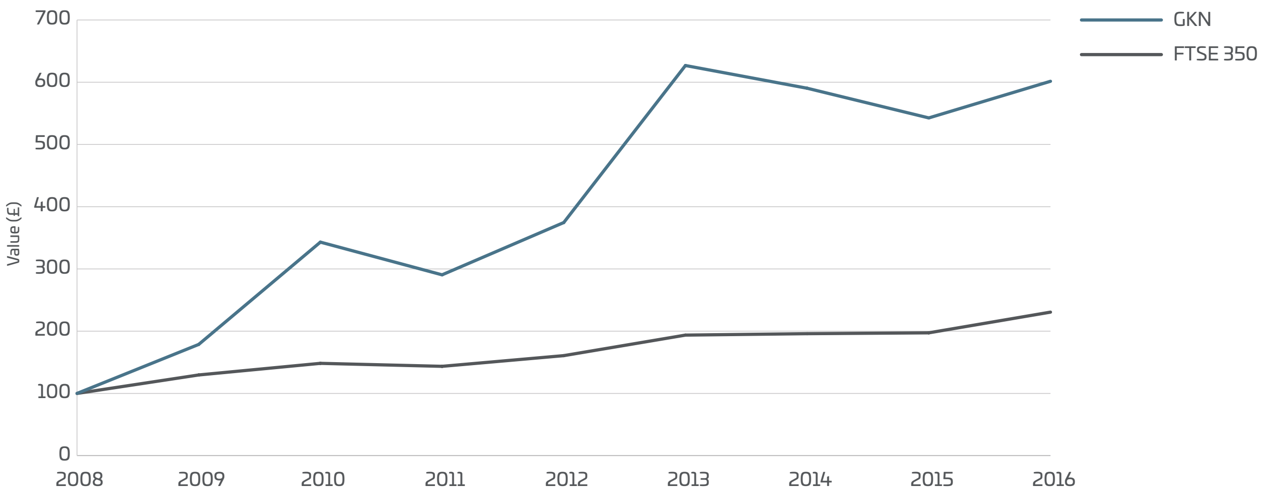
The table below shows the percentage change in salary, benefits and bonus for the Chief Executive compared to a senior management population of approximately 485 employees worldwide. We consider this group to be appropriate as it includes employees with international responsibilities who have similar remuneration arrangements to the Chief Executive; however some benefits to employees globally are driven by local practice and can vary according to the jurisdiction.

	Chief Executive %	Senior management %
Salary	2.5[1]	4[2]
Benefits	0	0.4
Annual bonus	(3.1)	19.3

1 The average increase for all employees globally (3.2%) was taken into account when considering the salary increase for the Chief Executive.
2 Salary increases reflect additional responsibilities, promotions and increases awarded in certain high-inflation countries.

Historical performance graph

The graph below provides a comparison of GKN's total shareholder return with that of the FTSE 350 Index, based on an initial investment of £100 over the eight-year period to 31 December 2016. The FTSE 350 Index was chosen for this chart as it is a broadly based index which contains more manufacturing and engineering companies than the FTSE 100 Index.



Pay for performance

The table below shows the total remuneration of the Chief Executive over the past eight years as well as the level of STVRS payout and long-term incentive vesting achieved as a percentage of maximum.

	Kevin Smith[1]			Nigel Stein[1]				
	2009	2010	2011	2012	2013	2014	2015	**2016**
Total remuneration (single total figure, £000)	1,267	1,779	3,659	3,206	3,853	2,922	1,681	**1,813**
STVRS payout (% of maximum)	50	95	39	42	75	48	61	**58**
LTIP vesting (% of maximum)	0	0	100	100	100	67.5	0	**10**

1 Sir Kevin Smith retired as Chief Executive on 31 December 2011 and Nigel Stein was appointed Chief Executive on 1 January 2012.

Relative importance of spend on pay

The table below compares the total remuneration for all employees with dividends paid to shareholders for 2016 and 2015.

	2016 £m	2015 £m	Change %
Total employee remuneration[1]	**1,849**	1,513	22.2[2]
Dividends[3]	**150**	142	5.6

1 Includes salary, bonus and benefits (see note 9 to the financial statements).
2 This relates principally to currency fluctuations and the inclusion of Fokker employees for the full year. Normal wage and inflation growth amounted to 2%.
3 Includes the total dividends paid in each financial year (see note 8 to the financial statements).

Governance

Membership of the Remuneration Committee

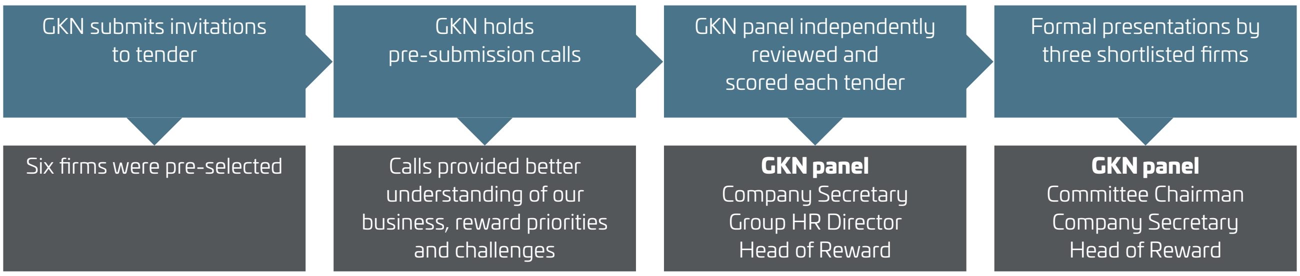
All members of the Committee are independent non-executive Directors.

Chairman	Richard Parry-Jones
Members	Angus Cockburn Tufan Erginbilgic Shonaid Jemmett-Page Anne Stevens
Secretary	Kerry Watson (Company Secretary)
External advisers	Kepler (appointed 22 April 2016)
Internal advisers	Mike Turner (Group Chairman), Nigel Stein (Chief Executive) and Monique Carter (Group HR Director) were consulted and invited to attend meetings as necessary. In addition, the Global Reward, Group Finance and Company Secretariat functions supported the Committee as appropriate. Care was taken to ensure there were no conflicts of interest when consulting with senior management.
Meetings held	The Committee met ten times during the year (see page 66 for attendance at Committee meetings). Additional meetings held during the year related to the appointment of new independent advisers and reviewing our remuneration policy and framework.
Role	The Board has delegated responsibility to the Committee for: ◆ approving the Group's policy on executive Directors' remuneration and, within the terms of that policy, setting the remuneration and other terms of service of the executive Directors and the Company Secretary; ◆ approving the fees of the Chairman; and ◆ monitoring the level and structure of remuneration of senior executives below Board level. The Committee's terms of reference are available on our website at www.gkn.com.

Advisers to the Committee

As reported in last year's annual report on remuneration, we carried out a competitive tender process for the appointment of new independent advisers to the Committee. This was due to Deloitte LLP stepping down as independent advisers following their appointment as external auditors to the Company with effect from the 2016 financial year.

The diagram below sets out the tender process we followed:



Following this rigorous and competitive tender process, Kepler were appointed as independent advisers to the Committee with effect from April 2016. Their performance and role will be reviewed on a regular basis.

During the year, we received advice from the following advisers.

- Kepler on all aspects of remuneration arrangements for executive Directors and senior executives below Board level as well as market updates and practices. The fees for this, on a cost-incurred basis, were £107,200. The wider Mercer Group (which includes Kepler and Marsh & McLennan) provided other services to the Group. Mercer provided services in relation to actuarial services, pension advisory and salary benchmarking data, and Marsh & McLennan in relation to insurance broking and risk assessment and risk management consultancy. Taking into account the rigorous tender process and length of tenure, the Committee is satisfied that the advice it receives from Kepler is objective and independent. Kepler is a member of the UK's Remuneration Consultants Group and contributes to and abides by the Code of Conduct for executive remuneration consulting. This includes Kepler's absolute commitment to integrity, objectivity, confidentiality, quality and client service.
- Deloitte in relation to the 2015 remuneration report and aspects of our initial remuneration framework review undertaken while they were in post. The fees for this, on a cost-incurred basis, were £12,300. Deloitte also provided other services to the Group in relation to tax support to GKN employees on international assignments.

Committee performance evaluation

The annual evaluation of the Committee was carried out by Independent Board Evaluation which looked at the effectiveness of both the Committee and the Chairman of the Committee. Feedback from the evaluation concluded that the Committee is regarded as effective in covering its remit and is seen by Board members as independent-minded and rigorous in its decision-making. Notwithstanding the sensitive and independent nature of the Committee's activities, it was agreed that there were opportunities to engage further with executives so that they understood fully the Committee's aims.

External appointments

The Board recognises that executive Directors may be invited to become non-executive Directors of other companies and that the knowledge and experience from such appointments can benefit both the Director and the Company. Executive Directors may accept one non-executive directorship with another company (excluding that of chairman of a FTSE 100 company). Any such appointment requires Board approval and must not lead to any conflicts of interest.

Nigel Stein is a non-executive director of Inchcape plc and received fees of £60,000. Adam Walker is a non-executive director of Kier Group plc and also chairman of its risk management and audit committee for which he received total fees of £60,000. The Directors retained the fees they received for these appointments.

Service contracts and letters of appointment

Executive Directors are appointed under service contracts and non-executive Directors by letters of appointment. Further details of these are set out in the tables below. All Directors will offer themselves for election or re-election at the 2017 AGM.

Executive Directors' service contracts

	Date of contract	Notice from Company	Notice from Director
Nigel Stein	22.08.01	12 months	6 months
Kevin Cummings[1]	08.01.16	12 months	6 months
Phil Swash[1]	08.01.16	12 months	6 months
Adam Walker	09.10.13	12 months	6 months

1 Appointed to the Board on 8 January 2016.

Non-executive Directors' letters of appointment

	Date of original letter of appointment	Expiry of current term	Years' service at 31.12.16
Mike Turner	31.07.09[1]	03.05.18	7 years
Angus Cockburn	19.11.12	01.01.19	4 years
Tufan Erginbilgic	04.04.11	08.05.17	5 years
Shonaid Jemmett-Page	28.04.10	31.05.19	6 years
Richard Parry-Jones	26.02.08	28.02.20	8 years
Anne Stevens[2]	24.06.16	30.06.19	6 months

1 Relates to date appointed as non-executive Director. His subsequent letter of appointment as Chairman was dated 24 November 2011.
2 Appointed to the Board on 1 July 2016.

Payments for loss of office (audited)

No payments for loss of office were made to any past Director during the year.

Payments to past Directors (audited)

Marcus Bryson
Marcus Bryson stepped down from the Board on 31 December 2014 and retired from the Company on 1 January 2015.

The 2014 SEP core award did not vest as EPS performance was below threshold. Therefore, the award lapsed in full on 21 February 2017. The sustainability award associated with the core award lapsed on his date of leaving. There are no further awards outstanding.

William Seeger
William Seeger stepped down from the Board on 25 February 2014 and subsequently retired from the Group on 31 August 2014.

In the 2013 annual report on remuneration we disclosed estimated values of certain expatriate benefits that William Seeger was entitled to receive. Details of the actual payments made to him during the year are set out below:

- US healthcare benefits of £2,922 (2015: £14,155). Value estimated at £15,000 for 18 months following his retirement from the Company. No further payment due.
- Tax return support of £7,172 (2015: £2,783). Value estimated at £25,000 until the vesting of all outstanding awards. Payments ongoing until March 2018.
- Tax and social security equalisation continued to be applied to payments made during the year so he was not disadvantaged by his global tax position. This treatment resulted in GKN making a payment of £80,273 (2015: £45,172) to the UK and US tax authorities with William Seeger subsequently refunding an overpayment of taxes to the Company of £187,675. For 2015, the Company held an estimated credit balance of £80,175 due to the timing of hypothetical taxes being withheld on the release of the 2012 SEP core award and the amount actually being paid over to the local authorities. Tax equalisation will continue to be applied to any relevant payments made up to 2018 when the balancing credits and payments will be reconciled.

On 28 February 2017, the remaining 50% of shares vested under his 2012 core award (90,797 shares and 10,192 dividend equivalent shares) will be released to him. The 2012 sustainability award vested at 50%. The vested sustainability shares (10,893 shares and 1,220 dividend equivalent shares) will also be released on the same day. In both cases, the shares have been pro-rated to reflect time served during the respective core and sustainability performance periods. There are no further awards outstanding.

No awards were released to Marcus Bryson and William Seeger during the year.

Dilution limits

The rules of the discretionary share plans (SEP and ESOS) set certain limits on the amount of newly issued shares or treasury shares that can be used. We monitor these limits carefully to ensure that in any rolling ten-year period, no more than 5% of the issued share capital is used for executive plans and no more than 10% of the issued share capital is used for all-employee plans. Against these limits, the percentage of shares issued under our executive plans in the previous ten-year rolling period was 2.8%. We do not currently operate an all-employee plan.

There is also a limit that the number of shares held in the employee share ownership plan trust (Trust) does not exceed 5% of the issued share capital at any time. Details of this limit and movements in Trust shares are set out in the table below. A dividend waiver operates for Trust shares.

Balance at 31 December 2015	Shares acquired	Shares transferred to participants	Balance of shares at 31 December 2016	Percentage of shares held at 31 December 2016
2,518,624	Nil	505,157	2,013,467	0.12%

Our normal policy is to satisfy awards under the SEP and ESOS by treasury shares; however we have flexibility to use newly issued shares or shares held in the Trust if necessary. Awards under the DBP and the SIRP are satisfied by Trust shares. During the year, awards under the SEP and ESOS were satisfied through treasury shares and those under the DBP by Trust shares.

Statement of voting at AGM

The table below sets out the votes cast at the 2016 AGM for the annual report on remuneration and those cast at the 2014 AGM when the remuneration policy was last approved. The remuneration policy is due to be renewed at the 2017 AGM as part of the normal three-year cycle. Shareholders raised no issues at the 2016 AGM.

	Votes for		Votes against		Total votes	Votes withheld[1]
	No. of shares	% of shares	No. of shares	% of shares	No. of shares	No. of shares
Annual report on remuneration (2016 AGM)	1,194,389,719	97.4	31,943,921	2.6	1,226,333,640	4,603,048
Remuneration policy (2014 AGM)	1,134,343,544	97.8	25,705,162	2.2	1,160,048,706	1,513,445

1 Votes withheld are not counted in the total votes.

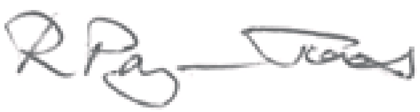
During the year, we consulted with major shareholders on our new remuneration policy and remuneration arrangements generally, and are committed to doing so in the future. Further details of the consultation with shareholders on the 2017 remuneration policy can be found in the Committee Chairman's letter.

Compliance statement

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the requirements of the Listing Rules. The Board has also complied with the remuneration principles in the UK Corporate Governance Code.

The Directors' remuneration report, including the Chairman's letter, remuneration policy and annual report on remuneration, has been approved by the Board.

Signed on behalf of the Board



Professor Richard Parry-Jones CBE
Chairman of the Remuneration Committee
27 February 2017

Note: changes to Directors' interests on 28 February 2017:

2012 SEP core award	50% of vested core award shares that were deferred until 2017 and dividend equivalent shares were released as follows:	
	Nigel Stein	174,978 core shares and 19,646 dividend equivalent shares
	Kevin Cummings	33,809 core shares and 3,791 dividend equivalent shares
	Phil Swash	24,686 core shares and 2,768 dividend equivalent shares
2012 SEP sustainability award	Vested sustainability shares and dividend equivalent shares were released as follows:	
	Nigel Stein	34,995 sustainability shares and 3,926 dividend equivalent shares
	Kevin Cummings	6,761 sustainability shares and 755 dividend equivalent shares
	Phil Swash	4,937 sustainability shares and 551 dividend equivalent shares

As at 1 March 2017, there were no other changes in the interests of Directors.

ADDITIONAL INFORMATION

Annual general meeting

The annual general meeting (AGM) of the Company will be held at 2.00pm on Thursday 4 May 2017 at 195 Piccadilly, London W1J 9LN. The notice of meeting, which includes the business to be transacted at the meeting, is included within the AGM circular. The circular also contains an explanation of all the resolutions to be considered at the AGM.

Dividend

The Directors recommend a final dividend of 5.9 pence per ordinary share in respect of the year ended 31 December 2016, payable to shareholders on the register at the close of business on 7 April 2017. This, together with the interim dividend of 2.95 pence paid in September 2016, brings the total dividend for the year to 8.85 pence.

Issued share capital

At 31 December 2016, the issued share capital of the Company consisted of 1,726,103,630 ordinary shares of 10 pence each (2015: 1,726,103,630 shares), of which 11,629,654 shares (0.7%) were held in treasury (2015: 12,168,928 shares; 0.7%). During the year, a total of 539,274 ordinary shares were transferred out of treasury in connection with the exercise of awards by participants under the Company's share incentive schemes (2015: 5,628,988 shares).

The ordinary shares are listed on the London Stock Exchange. In addition, GKN has a sponsored Level 1 American Depositary Receipt (ADR) programme for which the Bank of New York Mellon acts as Depositary. The ADRs trade in the US over-the-counter market where each ADR represents one GKN ordinary share.

Rights and obligations attaching to shares

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's annual report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

On a show of hands at a meeting of GKN, every member present holding ordinary shares has one vote. On a poll taken at a meeting, every member present and entitled to vote has one vote in respect of each ordinary share held by him or her. In the case of joint shareholders, only the vote of the senior joint holder who votes (and any proxy duly authorised by him or her) may be counted. Shares held in treasury carry no voting rights.

GKN operates an employee share option plan trust (the Trust) to satisfy the vesting and exercise of awards of ordinary shares made under the Group's share-based incentive arrangements. The trustee of the Trust does not exercise any voting rights in respect of shares held by the Trust. Once the shares are transferred from the Trust to share scheme participants, the participants are entitled to exercise the voting rights attaching to those shares. A dividend waiver operates in respect of shares held by the Trust pursuant to the provisions of the Trust deed.

Full details of the rights and obligations attaching to the Company's shares are contained in the articles of association.

Restrictions on the transfer of securities

While the Board has the power under the articles of association to refuse to register a transfer of shares, there are no restrictions on the transfer of shares.

Under the Company's articles, the Directors have power to suspend voting rights and the right to receive dividends in respect of shares in circumstances where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Substantial shareholders

As at 31 December 2016[1], the Company had been notified of the following holdings of voting rights in its shares under Rule 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority:

Shareholder	Nature of interest	% of voting rights
BlackRock, Inc.	Indirect	5.07
	Qualifying financial instruments	0.07
	Contracts for difference	0.66
	Total	**5.80**
Vulcan Value Partners, LLC[2]	Indirect	5.20
	Total	**5.20**

1 See footnote on page 109.
2 The Company was notified that Vulcan exercises voting rights over 3.57% of the shares in issue. The remaining 1.63% of voting rights held by Vulcan are not exercised by them but are held on behalf of their managed accounts.

Relations with other capital providers

The Board recognises the contribution made by other providers of capital to the Group and welcomes the views of such providers in relation to the Group's approach to corporate governance.

Directors

The Directors who served during the financial year were as follows:

Name	Position as at 31 December 2016	Service in the year ended 31 December 2016
Mike Turner	Chairman	Served throughout the year
Nigel Stein	Chief Executive	Served throughout the year
Kevin Cummings	Chief Executive GKN Aerospace	Appointed 8 January 2016
Angus Cockburn	Independent non-executive Director	Served throughout the year
Tufan Erginbilgic	Independent non-executive Director	Served throughout the year
Shonaid Jemmett-Page	Independent non-executive Director	Served throughout the year
Richard Parry-Jones	Senior Independent Director	Served throughout the year
Phil Swash	Chief Executive GKN Driveline	Appointed 8 January 2016
Anne Stevens	Independent non-executive Director	Appointed 1 July 2016
Adam Walker	Group Finance Director	Served throughout the year

Membership of the Board and biographical details of the Directors in office at the date of this report are shown on pages 60 and 61. Further details relating to Board and Committee composition are disclosed in the corporate governance statement.

Following her appointment to the Board in July 2016 and in accordance with the Company's articles of association, Anne Stevens will retire and offer herself for election at the 2017 AGM. All other Directors in office will retire and offer themselves for re-election at the 2017 AGM in accordance with the UK Corporate Governance Code.

The articles of association provide that a Director may be appointed by an ordinary resolution of shareholders or by the existing Directors, either to fill a vacancy or as an additional Director. Further information on GKN's internal procedures for the appointment of Directors is given in the corporate governance statement.

The executive Directors serve under contracts that are terminable with 12 months' notice from the Company and six months' notice from the executive Director. The non-executive Directors serve under letters of appointment and do not have service contracts with the Company.

Copies of the service contracts of the executive Directors and the letters of appointment of the non-executive Directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

The Directors' remuneration report, which includes the Directors' interests in GKN shares, is set out on pages 81 to 106.

Directors' powers

The Board of Directors may exercise all the powers of the Company subject to the provisions of relevant legislation, the Company's articles of association and any directions given by the Company in general meeting. The powers of the Directors include those in relation to the issue and buyback of shares.

At the 2016 AGM, the Directors were authorised to exercise the powers of the Company to purchase up to 171,402,286 of its ordinary shares. No shares were purchased under this authority in 2016. The Directors were also authorised to allot shares in the Company up to an aggregate nominal amount of £57,134,095. These authorities will remain valid until the 2017 AGM or 5 August 2017, if earlier. Resolutions to renew these authorities will be proposed at the 2017 AGM.

Directors' indemnities

Pursuant to the articles of association, the Company has executed a deed poll of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Companies Act 2006, were in force during the year ended 31 December 2016 and remain in force. The indemnity provision in the Company's articles of association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

A copy of the deed poll of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

The Company has also arranged appropriate insurance cover for legal action taken against its Directors and officers.

Conflicts of interest

Under the Companies Act 2006, Directors must avoid situations where they have, or could have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. As permitted by the Act, the Company's articles of association enable Directors to authorise actual and potential conflicts of interest.

Formal procedures for the notification and authorisation of such conflicts are in place. These procedures enable non-conflicted Directors to impose limits or conditions when giving or reviewing authorisation and require the Board to review the register of Directors' conflicts annually and on an ad hoc basis when necessary. Any potential conflicts of interest are considered by the Board prior to the appointments of new Directors.

Articles of association

The Company's articles of association can only be amended by special resolution of the shareholders. GKN's current articles are available on our website at www.gkn.com.

Change of control

As at 31 December 2016, the Company's subsidiary, GKN Holdings plc, had agreements with 14 banks for 15 bilateral banking facilities totalling £800 million, and a £48 million loan facility with the European Investment Bank. Each of these agreements provides that, on a change of control of GKN plc, the respective bank can give notice to GKN Holdings plc to repay all outstanding amounts under the relevant facility.

The Company has in issue £450 million fixed rate notes paying 5.375% semi-annual interest and maturing on 19 September 2022 under a euro medium-term note programme established by GKN Holdings plc (the Notes). Pursuant to the terms attaching to the Notes, a holder of the Notes has the option to require GKN Holdings plc to redeem or (at GKN Holdings plc's option) purchase the holder's Notes at their principal amount if there is a change of control of the Company and either (i) the Notes are unrated or do not carry an investment grade credit rating from at least two ratings agencies; or (ii) if the Notes carry an investment grade credit rating from at least two ratings agencies, the Notes are downgraded to a non-investment grade rating or that rating is withdrawn within 90 days of the change of control and such downgrade or withdrawal is cited by the ratings agencies as being the result of the change of control.

Companies in GKN Aerospace are party to long-term supply contracts with customers which are original equipment manufacturers of aircraft and aero engines. Certain of these contracts contain provisions which would entitle the customer to terminate the contract in the event of a change of control of the Company, where such change of control conflicts with the interests of the customer.

Companies in GKN Driveline are party to supply contracts with customers which are original equipment manufacturers of motor vehicles. Certain of these contracts contain provisions which would entitle the customer to terminate the contract in the event of a change of control of the Company.

All the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards normally vest and become exercisable on a change of control subject to the satisfaction of any performance conditions at that time.

Payments to suppliers

It is Group policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract.

Branches

GKN, through various subsidiaries, has established branches in a number of different countries in which the business operates.

Donations

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2016.

During 2016, the Group's US aerospace business operated a political action committee (PAC) which was funded entirely by employees and their spouses. No funds were provided to the PAC by GKN and any administrative services provided to the PAC by the US aerospace business were fully charged to and paid for by the PAC. The Company does not therefore consider these to be political donations. Employee contributions were entirely voluntary and no pressure was placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company. The PAC was terminated in June 2016 due to its low level of activity.

Research and development

Group subsidiaries undertake research and development work in support of their principal manufacturing activities. Further details of the Group's research and development activities can be found throughout the strategic report.

Financial instruments

Details of the Group's use of financial instruments can be found in Note 19 to the financial statements.

Strategic report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' report has been included in the strategic report. Specifically, this relates to information on the likely future developments of the business of the Group, the Company's business model and strategy, risk management and the disclosure of greenhouse gas emissions for which the Company is responsible.

Disclosures required by Listing Rule 9.8.4R

Information relating to the waiver of dividends can be found on page 107. There are no other disclosures to be made under the above Listing Rule.

Auditors and disclosure of information

Each of the Directors who held office at the date of approval of this Directors' report confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The strategic report comprising the inside front cover and pages 1 to 59, and this Directors' report comprising pages 60 to 110, which together form the management report as required under the Disclosure Rules and Transparency Rules 4.1.8R, have been approved by the Board and are signed on its behalf by

K A Watson

Kerry Watson
Company Secretary
27 February 2017

1 As at 1 March 2017, the Company had not been advised of any further changes or additions to the interests notified under Rule 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority as set out on page 107.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation, and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors as at the date of the annual report, whose names and functions are set out on pages 60 and 61, confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approved by the Board of GKN plc and signed on its behalf by

Mike Turner CBE
Chairman
27 February 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC

Opinion on financial statements of GKN plc

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's and the parent company's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

The financial statements that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated Cash Flow Statement;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the related notes to the consolidated financial statements 1 to 30; and
- the related notes to the Company financial statements 1 to 5.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules, we have reviewed the Directors' statement on going concern and the longer-term viability of the Group contained within the strategic report on page 38.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 40-49 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statements on page 38 and in note 1 to the Company financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 38 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described overleaf are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Carrying value of assets including goodwill, intangible and tangible asset recoverability

Risk description
Refer to page 76 (Audit & Risk Committee report), note 1 (Accounting policies and presentation), note 11a and note 11c (Goodwill and other intangible assets) and note 12 (Property, plant and equipment).

The Group holds goodwill of £0.6 billion, other intangible assets of £1.3 billion and tangible assets of £2.7 billion at 31 December 2016. The Group recognised impairment charges of £52 million in 2016.

There are significant judgements attached to management's impairment review including forecast cash flows, pre-tax risk adjusted discount rates and long-term growth rates which together give rise to a risk that assets subject to impairment testing are not valued correctly. We identified four key risks as follows:

- Assumptions used within the forecast cash flows for those cash generating units (CGUs) which have been identified in our risk assessment as having material asset balances, low headroom and potential indicators of impairment, being St. Louis, Engine Products West, Engine Products East and Wheels China.
- Value-in-use calculations are sensitive to assumptions derived by management including discount rates and long-term growth rates. We have identified the use of an appropriate and consistent methodology to determine discount rates to represent a key risk. Long-term growth rates are calculated from external sources using an established methodology.
- The appropriate application of IAS 36 in the identification of cash generating units.
- Presentation in accordance with IAS 36 where the outcome of the impairment model is that a reasonably possible change in assumptions may give rise to an impairment.

How the scope of our audit responded to the risk
We have obtained and understood the Directors' impairment models for those CGUs including assets where the carrying value is subject to significant management judgement. We have challenged management's key assumptions around the business drivers of the cash flow forecasts, discount rates and long-term growth rates.

In evaluating the forecast cash flows presented we have:

- obtained external support for proposed sales growth;
- verified cost savings to detailed management plans and savings already achieved;
- considered future margins relative to historical performance for each CGU;
- compared the position set out by management to our understanding of industry factors relevant to that CGU;
- directed our internal valuation specialists to calculate an independent expectation of the discount rates for material CGUs where there is a risk of impairment, considering the risks specific to the assets and markets being tested for impairment; and
- recalculated growth rates including a comparison of the inputs to macroeconomic forecasts.

We have directed our internal valuation specialists to derive an independent expectation of the discount rates specific to the assets and markets being tested for impairment. We also compared the long-term growth rates applied by the Directors to economic forecasts for regional productivity.

In determining the identification of CGUs we have made enquiries of management and challenged the fact pattern, including considering the independence of cash inflows and the current level of interaction between plants.

We have audited the disclosures within note 11 to determine whether material disclosures have been made in accordance with IAS 36.

Key observations
From our work performed, we are satisfied with the carrying value of assets recognised.

Recoverability of material contract related assets

Risk description
Refer to page 77 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 11b (Goodwill and other intangible assets).

There are material assets, including operating and non-operating intangible assets, recorded related to key aerospace contracts that require management judgement to assess recoverability. We have identified a key risk in relation to the recoverability (and therefore existence and valuation) of non-recurring cost (NRC) associated with significant Aerospace programmes. We have focussed on this risk because the Directors' assessment of the recoverability of these assets involves complex and subjective judgements and assumptions about the future results of these programmes, including future production rates and cost reductions.

How the scope of our audit responded to the risk
In response to the risk identified, we have challenged the underlying assumptions within management's impairment assessment on material programmes including:

- assessment of programme volume forecasts against external analyst and industry expectations including specific consideration of the increase in production on the A350 programme;
- challenge of labour and overhead cost forecasts based on historical performance and assumptions regarding increases in production rates;
- agreement of forecast pricing to contractual agreements;
- engagement of specialists to assess the appropriateness of discount rate assumptions through validating inputs and independently recalculating the rates being used; and
- calculation of value in use under sensitised scenarios, where successful production increases are not achieved, compared to the carrying value of assets.

We have assessed the appropriateness of the methodology applied by management in line with IAS 36.

Key observations
From our work performed, we are satisfied with the carrying value of assets recognised.

Revenue recognition

Risk description
Refer to note 1 (Accounting policies and presentation) and note 2 (Segmental analysis).

Sales are made worldwide on a number of different terms. Each division has some areas of complexity. However those that represent a key risk to the Group relate to the judgements taken within material risk and revenue sharing partnerships (RRSP) in the Aerospace division. These complexities and judgements arise where GKN is entitled to a set percentage of revenue per engine as contractually agreed with the programme partner. The Directors exercise judgement as to how much revenue to recognise, reflecting the quantum of products despatched by the engine manufacturer and the difference in pricing of original engine manufacturer parts and spare parts. This risk specifically arises in Engine Systems, focussing on the timing at which risks and rewards are transferred and revenue recognised.

We have also identified a key risk in the accuracy and occurrence of other material contract variations on existing contracts that have arisen in the year and material new contracts in the year. We note that contracts with customers sometimes contain multiple performance obligations and require the Directors to exercise judgement over the appropriateness of the accounting treatment for each individual part of the contract or arrangement.

How the scope of our audit responded to the risk
For each material RRSP contract, we have verified the amount of revenue recognised to check that it has been calculated in accordance with IAS 18 'Revenue', the contractual agreement and the latest correspondence with the customer. In particular, we have:

- agreed the percentage of revenue entitlement to the customer contract;
- reviewed correspondence with the customer in the period;
- challenged estimations made by the Directors at the year end by taking account of historical settlements and reviewing previous estimation accuracy; and
- performed an assessment of the timing at which risks and rewards are transferred and revenue is recognised by identifying the performance obligations from the contract and verifying the recognition triggers.

In order to identify material new contracts or contract variations, we have performed enquiries with the Directors and others in the Group and a review of Board meeting minutes and contracts subject to senior approval under the delegation of authority.

For material contracts identified, we have reviewed the contract terms and verified assumptions made in determining the revenue recognition in accordance with IAS 18, including consideration of discounts, performance penalties and other cost implications of the contract.

Key observations
We are satisfied that the key assumptions made in determining the fair value of revenue recognised on RRSP contracts and new contracts in the year is appropriate.

Presentation and disclosure of non-trading items

Risk description
Refer to page 77 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 3 (Adjusted performance measures).

Trading profit, a non-statutory measure, is used by the Group to report the business performance to investors and wider stakeholders. We have identified a key audit risk in the presentation of the financial performance of the Group, including the separate identification of 'non-trading' items in arriving at the 'trading profit' measure, and the completeness of items separately identified.

Non-trading items of £349 million were disclosed in 2016, which consisted of changes in value of derivatives and other financial instruments, losses related to changes in Group structure, amortisation of non-operating intangible assets, acquisition related restructuring charges and impairment charges.

How the scope of our audit responded to the risk
We challenged and understood management's rationale for including certain items outside trading profit to ensure appropriate disclosure in the financial statements. This was performed in the context of recent regulatory guidance, ensuring the purpose of using alternative performance measures was set out and that they were clearly defined, consistent over time and included appropriate reconciliations to statutory financial information.

We assessed the completeness of items separately identified as non-trading items through an examination of costs recorded to determine whether they only related to those non-trading items defined above. We agreed the amounts recorded through to underlying financial records and other audit support to verify the amounts disclosed were complete and accurate.

We focussed our review of the Group financial statements on the financial statement and narrative presentation of items which may be considered to be non-recurring in nature to determine whether principles are being consistently applied and the resulting financial presentation is true and fair. We have checked that the narrative within the financial statements is balanced and that there are no items in trading profit which are outside of the ordinary course of business and materially distort the result.

We tested, on a sample basis, restructuring costs recorded within trading profit and confirmed the validity of these costs by agreeing amounts to supporting contracts and payments. We performed a detailed assessment of the completeness and calculation of the restructuring provision held at 31 December 2016 to determine whether the provision recorded was consistent with the requirements of IAS 37 'Provisions, contingent liabilities and contingent assets'.

Key observations
We are satisfied that the items excluded from trading profit and the related disclosure of these items in the financial statements is appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC CONTINUED

Assumptions made in determining pension liabilities

Risk description
Refer to page 48 (Principal risks and uncertainties), page 77 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 24 (Post-employment obligations).

The Group has a number of defined benefit obligation schemes with a gross liability of £4.6 billion, the majority of which relates to schemes in the UK, US and Germany. We have identified a key audit risk on the valuation of the pension scheme liabilities in the UK, US and Germany with specific focus on management judgements exercised in selecting the discount rates used to determine the pension liability in accordance with IAS 19. A relatively small change in assumptions could cause a material impact on the liability.

How the scope of our audit responded to the risk
We used our internal actuarial experts to assess the key assumptions for the UK, US and German schemes. Our assessment included reviewing available yield curves to recalculate a reasonable range for the key assumptions.

We challenged management to understand the sensitivity of changes in key assumptions and quantify a range of reasonable rates that could be used in their calculation. Additionally, we benchmarked key assumptions against other listed companies to identify any outliers in the data used.

Key observations
From the work performed, we are satisfied that the significant assumptions applied in respect of the valuation of the scheme liabilities are appropriate.

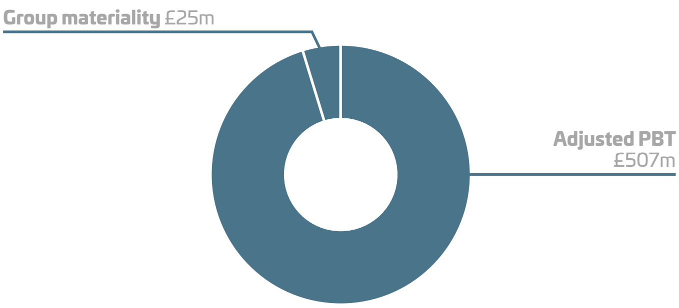
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	We determined materiality for the Group to be £25 million.
Basis for determining materiality	Materiality was determined as approximately 5% of adjusted pre-tax profit which was determined on the basis of profit before tax adjusted to exclude the impact of changes in valuation of derivatives and other financial instruments, impairment charges and losses arising as a result of changes in group structure.
Rationale for the benchmark applied	We determine materiality using profit before tax adjusted to exclude the impact of changes in valuation of derivatives and other financial instruments, impairment charges and losses arising as a result of changes in Group structure ('Adjusted PBT') as it provides us with a consistent year-on-year basis for determining materiality.



We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £1 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Component materiality was set based on quantitative and qualitative factors on a reporting unit basis between £5.3 million and £12.7 million. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

During the year the Group was structured along four segments:

- GKN Aerospace, mainly located in the UK, Sweden and the Netherlands.
- GKN Driveline, mainly located in Europe and North America as well as a joint venture in China.
- GKN Powder Metallurgy, mainly located in North America as well as sites in Europe and Asia Pacific.
- GKN Land Systems mainly located in Europe and North America.

Each division consists of a number of reporting units and manages operations on a geographical and functional basis. There are 235 reporting units in total, each of which is responsible for maintaining its own accounting records and controls and using an integrated consolidation system to report to UK head office.

Our audit was scoped by obtaining a detailed understanding of the nature of the Group including both the markets and geographies it operates in. We also considered the controls exercised by management at a business, divisional and Group level. We have specifically considered the quantitative and qualitative risk factors identified through this analysis when performing the scoping of our Group audit.

As this was the first year of our audit engagement, during the first half of the year we directed local Deloitte audit teams to perform preliminary visits to 18 of the most material businesses, and senior members of the Group audit team visited each of these locations. We also performed a review of controls in place in the central finance team including the consolidation and treasury functions.

Based on our understanding of the Group and the preliminary visits performed above, we selected 71 reporting units where we requested components' auditors to perform a full scope audit of the components' financial information. Together these businesses represented 68% of the Group's revenue. A full audit was also performed at the SDS joint venture in China, which represented 86% of the share of post-tax earnings of equity accounted investments.

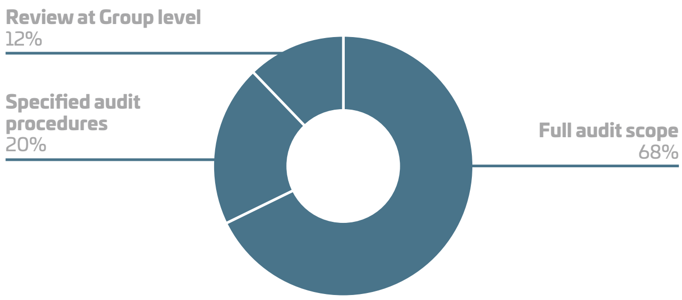
We also requested component auditors to perform specified audit procedures on certain account balances and transactions at a further 47 reporting units. These units represented 20% of the Group's revenue.

In order to support our opinion that there were no significant risks of material misstatement in the remaining components not subject to detailed audit procedures, we tested the consolidation process and carried out analytical review procedures at a divisional level. The Group engagement team based at the head office also performed central procedures on post-employment obligations, derivative financial instruments, UK and corporate taxation and goodwill and intangible asset impairment assessments. The Company was also subject to a full scope audit.

In addition to those sites visited during the first half of the year, the Group engagement team visited a further 14 locations based on significance and/or risk characteristics, as well as on a rotational basis to ensure coverage across the Group. Going forward, we will follow a programme of planned visits that has been designed so that senior members of the audit team will continue to visit new sites as well as returning to the largest and most complex sites on a rotational basis or when our ongoing risk assessment identifies such a need.

The Group engagement team had ongoing communication with component audit teams throughout the year. Senior members of the Group audit team were in contact, at each stage of the audit, with all component teams including holding global planning calls on a Group, divisional and reporting unit basis which provided an opportunity for component teams to discuss the detailed instructions issued by the Group audit team and escalate any findings during the year. For a number of the component teams, the Group team was in physical attendance at either the local audit planning or close meetings. The Group audit team participated in every audit close meeting of full scope entities and discussed the detailed findings of the audit with the component team.

Revenue



Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' remuneration report to be audited has been properly prepard in accordance with the Companies Act 2006;
- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the Directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC CONTINUED

Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: ◆ we have not received all the information and explanations we require for our audit; or ◆ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or ◆ the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report arising from these matters.**
Corporate governance statement Under the Listing Rules we are also required to review part of the corporate governance statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.	**We have nothing to report arising from our review.**
Our duty to read other information in the annual report Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: ◆ materially inconsistent with the information in the audited financial statements; or ◆ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or ◆ otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit & Risk Committee which we consider should have been disclosed.	**We confirm that we have not identified any such inconsistencies or misleading statements.**

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ian Waller

Ian Waller *(Senior statutory auditor)*
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

27 February 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	**2016 £m**	2015 £m
Sales	2	**8,822**	7,231
Trading profit	2	**684**	609
Change in value of derivative and other financial instruments	4	**(154)**	(122)
Amortisation of non-operating intangible assets arising on business combinations	4	**(103)**	(80)
Gains and losses on changes in Group structure	4	**(9)**	(1)
Acquisition-related restructuring charges	4	**(31)**	–
Impairment charges	11	**(52)**	(71)
Reversal of inventory fair value adjustment arising on business combinations		**–**	(12)
Operating profit		**335**	323
Share of post-tax earnings of equity accounted investments	13	**73**	59
Interest payable		**(86)**	(72)
Interest receivable		**7**	7
Other net financing charges		**(37)**	(72)
Net financing costs	5	**(116)**	(137)
Profit before taxation		**292**	245
Taxation	6	**(48)**	(43)
Profit after taxation for the year		**244**	202
Profit attributable to non-controlling interests		**2**	5
Profit attributable to owners of the parent		**242**	197
		244	202
Earnings per share – pence	7		
Continuing operations – basic		**14.1**	11.8
Continuing operations – diluted		**14.0**	11.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Profit after taxation for the year		**244**	202
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency variations – subsidiaries			
Arising in year		**671**	74
Reclassified in year	4	**2**	4
Currency variations – equity accounted investments			
Arising in year	13	**22**	1
Derivative financial instruments – transactional hedging			
Arising in year	20	**–**	5
Reclassified in year	20	**–**	(5)
Net investment hedge changes in fair value			
Arising in year	20	**(177)**	(37)
Taxation	6	**(14)**	(5)
		504	37
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plans			
Subsidiaries	24	**(396)**	139
Taxation	6	**63**	(42)
		(333)	97
Other comprehensive income for the year		**171**	134
Total comprehensive income for the year		**415**	336
Total comprehensive income attributable to non-controlling interests		**6**	4
Total comprehensive income attributable to owners of the parent		**409**	332
		415	336

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Notes	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Other reserves: Exchange reserve £m	Other reserves: Hedging reserve £m	Other reserves: Other reserves £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2016		**173**	**298**	**330**	**1,217**	**243**	**(264)**	**(134)**	**1,863**	**23**	**1,886**
Profit for the year		**–**	**–**	**–**	**242**	**–**	**–**	**–**	**242**	**2**	**244**
Other comprehensive income/(expense)		**–**	**–**	**–**	**(333)**	**638**	**(138)**	**–**	**167**	**4**	**171**
Total comprehensive income		**–**	**–**	**–**	**(91)**	**638**	**(138)**	**–**	**409**	**6**	**415**
Share-based payments	10	**–**	**–**	**–**	**5**	**–**	**–**	**–**	**5**	**–**	**5**
Share options exercised	22	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Addition of non-controlling interest	30	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9**	**9**
Purchase of non-controlling interest	30	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**	**(1)**	**(2)**
Dividends paid to equity shareholders	8	**–**	**–**	**–**	**(150)**	**–**	**–**	**–**	**(150)**	**–**	**(150)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
At 31 December 2016		**173**	**298**	**330**	**981**	**881**	**(402)**	**(134)**	**2,127**	**35**	**2,162**
At 1 January 2015		166	298	139	1,069	168	(227)	(134)	1,479	22	1,501
Profit for the year		–	–	–	197	–	–	–	197	5	202
Other comprehensive income/(expense)		–	–	–	97	75	(37)	–	135	(1)	134
Total comprehensive income		–	–	–	294	75	(37)	–	332	4	336
Share-based payments	10	–	–	–	1	–	–	–	1	–	1
Share options exercised	22	–	–	–	2	–	–	–	2	–	2
Proceeds from share issue	22	7	–	191	–	–	–	–	198	–	198
Purchase of own shares by Employee Share Ownership Plan Trust	22	–	–	–	(7)	–	–	–	(7)	–	(7)
Dividends paid to equity shareholders	8	–	–	–	(142)	–	–	–	(142)	–	(142)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(3)	(3)
At 31 December 2015		173	298	330	1,217	243	(264)	(134)	1,863	23	1,886

Other reserves include accumulated reserves where distribution has been restricted due to legal or fiscal requirements and accumulated adjustments in respect of piecemeal acquisitions.

CONSOLIDATED BALANCE SHEET

At 31 December 2016

	Notes	2016 £m	2015 £m
Assets			
Non-current assets			
Goodwill	11	**588**	591
Other intangible assets	11	**1,320**	1,265
Property, plant and equipment	12	**2,670**	2,200
Equity accounted investments	13	**233**	195
Other receivables and investments	14	**49**	42
Derivative financial instruments	20	**25**	21
Deferred tax assets	6	**557**	388
		5,442	4,702
Current assets			
Inventories	15	**1,431**	1,170
Trade and other receivables	16	**1,648**	1,311
Current tax assets	6	**7**	9
Derivative financial instruments	20	**19**	13
Other financial assets	18	**5**	5
Cash and cash equivalents	18	**411**	299
		3,521	2,807
Total assets		**8,963**	7,509
Liabilities			
Current liabilities			
Borrowings	18	**(64)**	(137)
Derivative financial instruments	20	**(206)**	(151)
Trade and other payables	17	**(2,186)**	(1,757)
Current tax liabilities	6	**(142)**	(121)
Provisions	21	**(71)**	(78)
		(2,669)	(2,244)
Non-current liabilities			
Borrowings	18	**(842)**	(867)
Derivative financial instruments	20	**(521)**	(294)
Deferred tax liabilities	6	**(227)**	(157)
Trade and other payables	17	**(427)**	(425)
Provisions	21	**(82)**	(78)
Post-employment obligations	24	**(2,033)**	(1,558)
		(4,132)	(3,379)
Total liabilities		**(6,801)**	(5,623)
Net assets		**2,162**	1,886
Shareholders' equity			
Share capital	22	**173**	173
Capital redemption reserve		**298**	298
Share premium account		**330**	330
Retained earnings		**981**	1,217
Other reserves		**345**	(155)
Equity attributable to equity holders of the parent		**2,127**	1,863
Non-controlling interests		**35**	23
Total equity		**2,162**	1,886

The financial statements on pages 118 to 166 were approved by the Board of Directors and authorised for issue on 27 February 2017. They were signed on its behalf by:

Nigel Stein, Adam Walker, Directors

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	23	**778**	885
Interest received		**7**	15
Interest paid		**(83)**	(69)
Tax paid		**(93)**	(111)
Dividends received from equity accounted investments	13	**57**	55
		666	775
Cash flows from investing activities			
Purchase of property, plant and equipment		**(416)**	(332)
Receipt of government capital grants		**6**	2
Purchase of intangible assets		**(84)**	(81)
Repayment of government refundable advance		**(6)**	–
Proceeds from sale and realisation of fixed assets		**37**	9
Payment of deferred and contingent consideration		**(1)**	(7)
Acquisition of subsidiaries (net of cash acquired)	30	**(17)**	(117)
Repayment of debt acquired in business combinations		**–**	(371)
Purchase of investment	14	**(5)**	–
Proceeds from disposal of subsidiary, net of cash	4	**151**	–
Equity accounted investments loan settlement		**4**	3
		(331)	(894)
Cash flows from financing activities			
Purchase of own shares by Employee Share Ownership Plan Trust	22	**–**	(7)
Purchase of non-controlling interests	30	**(2)**	–
Proceeds from exercise of share options	22	**1**	2
Gross proceeds from issuance of ordinary shares	22	**–**	200
Costs associated with issuance of ordinary shares	22	**–**	(2)
Amounts placed on deposit		**–**	(2)
Proceeds from borrowing facilities		**102**	485
Repayment of other borrowings		**(243)**	(423)
Dividends paid to shareholders	8	**(150)**	(142)
Dividends paid to non-controlling interests		**(2)**	(3)
		(294)	108
Movement in cash and cash equivalents		**41**	(11)
Cash and cash equivalents at 1 January		**291**	317
Currency variations on cash and cash equivalents		**53**	(15)
Cash and cash equivalents at 31 December	23	**385**	291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1 Accounting policies and presentation

The Group's significant accounting policies are summarised below.

Basis of preparation
The consolidated financial statements (the 'statements') have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union. These statements have been prepared under the historical cost method except where other measurement bases are required to be applied under IFRS as set out below.

These statements have been prepared using all standards and interpretations required for financial periods beginning 1 January 2016. No standards or interpretations have been adopted before the required implementation date.

Standards, revisions and amendments to standards and interpretations
The Group adopted all applicable amendments to standards with an effective date in 2016 with no material impact on its results, assets and liabilities. All other accounting policies have been applied consistently.

Basis of consolidation
The statements incorporate the financial statements of the Company and its subsidiaries (together 'the Group') and the Group's share of the results and equity of its joint ventures and associates (together 'equity accounted investments').

Subsidiaries are entities over which, either directly or indirectly, the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries acquired or sold during the year are included in the Group's results from the date of acquisition or up to the date of disposal. All business combinations are accounted for by the purchase method. Assets, liabilities and contingent liabilities acquired in a business combination are measured at fair value.

Intra-group balances, transactions, income and expenses are eliminated.

Non-controlling interests represent the portion of shareholders' earnings and equity attributable to third-party shareholders.

Equity accounted investments
Joint ventures are entities in which the Group has a long-term interest and exercises joint control with its partners over their financial and operating policies. In all cases, voting rights are 50% or lower. Associated undertakings are entities, being neither a subsidiary nor a joint venture, where the Group has a significant influence. Equity accounted investments are accounted for by the equity method. The Group's share of equity includes goodwill arising on acquisition.

Foreign currencies
Subsidiaries and equity accounted investments account in the currency of their primary economic environment of operation, determined having regard to the currency which mainly influences sales and input costs. Transactions are translated at exchange rates approximating to the rate ruling on the date of the transaction except in the case of material transactions when actual spot rate may be used where it more accurately reflects the underlying substance of the transaction. Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Such transactional exchange differences are taken into account in determining profit before tax.

Material foreign currency movements arising on the translation of intra-group balances where there is no intention of repayment are treated as part of the net investment in a subsidiary and are recognised through equity. Movements on other intra-group balances are recognised through the income statement.

The Group's presentational currency is sterling. On consolidation, results and cash flows of foreign subsidiaries and equity accounted investments are translated to sterling at average exchange rates except in the case of material transactions when the actual spot rate is used where it more accurately reflects the underlying substance of the transaction. Assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Such translational exchange differences are taken to equity.

Profits and losses on the realisation of foreign currency net investments include the accumulated net exchange differences that have arisen on the retranslation of the foreign currency net investments since 1 January 2004 up to the date of realisation.

Presentation of the income statement
IFRS is not fully prescriptive as to the format of the income statement. Line items and subtotals have been presented on the face of the income statement in addition to those required under IFRS.

Sales shown in the income statement are those of subsidiaries.

Operating profit is profit before taxation, finance costs and the share of post-tax earnings of equity accounted investments. In order to achieve consistency and comparability between reporting periods, operating profit is analysed to show separately the results of normal trading performance and individually significant charges and credits. Such items arise because of their size or nature and comprise:

- the impact of the annual goodwill impairment review;
- asset impairment and restructuring charges which arise from events that are significant to any reportable segment;
- amortisation of the fair value of non-operating intangible assets arising on business combinations;
- changes in the fair value of derivative financial instruments and material currency translation movements arising on intra-group funding;
- gains or losses on changes in Group structure which do not meet the definition of discontinued operations or which the Group views as capital rather than revenue in nature;
- profits or losses arising from business combinations including fair value adjustments to pre-combination shareholdings, changes in estimates of contingent consideration made after the provisional fair value period and material expenses and charges incurred on a business combination; and
- significant pension scheme curtailments and settlements.

1 Accounting policies and presentation continued

Presentation of the income statement continued

The Group's post-tax share of equity accounted investment earnings is shown as a separate component of profit before tax. The Group's share of material restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations and other net financing charges and their related taxation are separately identified in the related note.

Net financing costs are analysed to show separately interest payable, interest receivable and other net financing charges. Other net financing charges include the interest charge on net defined benefit plans, specific changes in fair value on net investment hedges and unwind of discounts on fair value amounts established on business combinations.

Revenue recognition

Sales

Revenue from the sale of goods is measured at the fair value of the consideration receivable which generally equates to the invoiced amount, excluding sales taxes and net of allowances for returns, early settlement discounts and rebates. The Group has three principal revenue streams:

Sales of product

This revenue stream accounts for the overwhelming majority of Group sales. Contracts in the Automotive and Land Systems segments operate almost exclusively on this basis, and it also covers a high proportion of the Aerospace segment revenues.

Invoices for goods are raised when the risks and rewards of ownership have passed which, dependent upon contractual terms, may be at the point of despatch, acceptance by the customer or, in Aerospace, certification by the customer.

Many businesses in Automotive and Land Systems recognise an element of revenue via a surcharge or similar raw material cost recovery mechanism. The surcharge invoiced or credited is generally based on prior period movement in raw material price indices applied to current period deliveries. Other cost recoveries are recorded according to the customer agreement. In those instances where recovery of such increases is guaranteed, irrespective of the level of future deliveries, revenue is recognised, or due allowance made, in the same period as the cost movement takes place.

Risk and revenue sharing partnerships (RRSPs)

This revenue stream affects a small number of businesses, exclusively in the Aerospace segment. Revenue is recognised under RRSPs for both the sale of product as detailed above and sales of services, which are recognised by reference to the stage of completion based on services performed to date. The assessment of the stage of completion is dependent on the nature of the contract, but will generally be based on: costs incurred to the extent these relate to services performed up to the reporting date; achievement of contractual milestones where appropriate; or flying hours or equivalent for long-term aftermarket arrangements.

In most RRSP contracts there are two separate phases where the Group earns revenue; sale of products principally to engine manufacturers and aftermarket support. Due to the nature of the industry, the sale of products to engine manufacturers can be deeply discounted with more favourable pricing in the aftermarket phase. The Group accounts for the sale of product in early phases of contracts distinct from the sale of product/service in the aftermarket phase. This generally has the effect of lower margins recognised during the early phase of contracts with higher margins earned during the aftermarket phase. The Group does not believe that margin should be spread evenly over the two distinct phases of RRSP contracts or that accounting losses should be deferred, because it does not consider there is sufficient contractual certainty over the future revenue, should programme volumes not materialise.

Design and build

This revenue stream affects a discrete number of businesses, primarily in the Aerospace segment but also on a smaller scale in the Automotive segment. Generally revenue is only recognised on the sale of product as detailed above, however, on occasions cash is received in advance of work performed to compensate the Group for costs incurred in design and development activities. Where such amounts are received and the risk and rewards of ownership over the development assets are not deemed to have been transferred, amounts are deferred on the balance sheet (in 'customer advances and deferred income') and taken to revenue as the Group performs its contractual obligations either on delivery of product or milestones.

Due to the nature of the design and build contracts there can be significant 'learning curves' while the Group optimises its production processes. During this early phase of these contracts, all costs including any start-up losses are taken directly to the income statement.

Other income

Interest income is recognised using the effective interest rate method.

Sales and other income is recognised in the income statement when it can be reliably measured and its collectability is reasonably assured.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges.

Cost

Cost comprises the purchase price plus costs directly incurred in bringing the asset into use and borrowing costs on qualifying assets, defined as an asset or programme where the period of capitalisation is more than 12 months and the capital value is more than £25 million. Where freehold and long leasehold properties were carried at valuation on 23 March 2000, these values have been retained as book values and therefore deemed cost at the date of the IFRS transition.

Where assets are in the course of construction at the balance sheet date they are classified as capital work in progress. Transfers are made to other asset categories when they are available for use.

Depreciation

Depreciation is not provided on freehold land or capital work in progress. In the case of all other categories of property, plant and equipment, depreciation is provided on a straight-line basis over the course of the financial year from the date the asset is available for use.

Depreciation is applied to specific classes of asset so as to reduce them to their residual values over their estimated useful lives, which are reviewed annually.

The range of depreciation lives are:

	Years
Freehold buildings	Up to 50
Steel powder production plant	18
General plant, machinery, fixtures and fittings	6 to 15
Computers	3 to 5
Commercial vehicles and cars	4 to 5

Property, plant and equipment is reviewed at least annually for indications of impairment. Where an impairment charge arises in the ordinary course of business it is recorded in trading profit. If an impairment charge arises as a part of a wider review of a cash generating unit it is presented separately within operating profit.

Financial assets and liabilities

Financial liabilities are recorded for arrangements where payments, or similar transfers of financial resources, are unavoidable or guaranteed. Interest payable on these balances is recognised using the effective interest rate method.

Borrowings are measured initially at fair value which usually equates to proceeds received and includes transaction costs. Borrowings are subsequently measured at amortised cost.

Cash and cash equivalents comprise cash on hand and demand deposits, and overdrafts together with highly liquid investments of less than 90 days maturity. Other financial assets comprise investments with more than 90 days until maturity. Unless an enforceable right of set-off exists and there is an intention to net settle, the components of cash and cash equivalents are reflected on a gross basis in the balance sheet.

Other financial assets and liabilities, including short-term receivables and payables, are initially recognised at fair value and subsequently measured at amortised cost less any impairment provision unless the impact of the time value of money is considered to be material.

Derivative financial instruments

The Group does not trade in derivative financial instruments. Derivative financial instruments including forward foreign currency contracts and cross-currency interest rate swaps are used by the Group to manage its exposure to risk associated with the variability in cash flows in relation to both recognised assets or liabilities or forecast transactions. All derivative financial instruments are measured at fair value at the balance sheet date.

Where derivative financial instruments are not designated as or not determined to be effective hedges, any gain or loss on remeasurement is taken to the income statement. Where derivative financial instruments are designated as and are effective as cash flow hedges, any gain or loss on remeasurement is held in equity and recycled through the income statement when the designated item is transacted, unless related to the purchase of a business, when recycled against consideration. Where derivative financial instruments are designated as and are effective as net investment hedges, any gain or loss on remeasurement is held in equity and only recycled when the underlying investment is sold or disposed.

If there is a small amount of ineffectiveness but the overall effectiveness is still in the range 80% to 125%, this ineffectiveness is taken to the income statement. Gains or losses on derivative financial instruments no longer designated as effective hedges are also taken directly to the income statement.

Derivatives embedded in non-derivative host contracts are recognised at their fair value when the nature, characteristics and risks of the derivative are not closely related to the host contract. Gains and losses arising on the remeasurement of these embedded derivatives at each balance sheet date are taken to the income statement.

Goodwill

Goodwill consists of the excess of the fair value of the consideration over the fair value of the identifiable intangible and tangible assets net of the fair value of the liabilities including contingencies of businesses acquired at the date of acquisition. Acquisition-related expenses are charged to the income statement as incurred.

Goodwill in respect of business combinations of subsidiaries is recognised as an intangible asset. Goodwill arising on the acquisition of an equity accounted investment is included in the carrying value of the investment.

Goodwill is not amortised but tested at least annually for impairment. Goodwill is carried at cost less any recognised impairment losses that arise from the annual assessment of its carrying value. To the extent that the carrying value exceeds the recoverable amount, determined as the higher of estimated discounted future net cash flows or recoverable amount on a fair value less cost of disposal basis, goodwill is written down to the recoverable amount and an impairment charge is recognised in the income statement.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment charges.

Development costs and participation fees

Where development expenditure results in a new or substantially improved product or process and it is probable that this expenditure will be recovered, it is capitalised. Cost comprises development expenditure and borrowing costs on qualifying assets or fair value on initial recognition when as a result of a business combination. In addition, payments made to engine manufacturers and original equipment manufacturers for participation fees relating to risk and revenue sharing partnerships and long-term agreements, are carried forward in intangible assets to the extent that they can be recovered from future sales.

Amortisation is charged from the date the asset is available for use. In Aerospace, amortisation is charged over the asset's life up to a maximum of 15 years for all programmes other than risk and revenue sharing partnerships where a maximum life of 25 years is assumed, either on a straight-line basis or, where sufficient contractual terms exist providing clarity over volumes that do not reflect a linear progression, a unit of production method is applied. In Automotive, amortisation is charged on a straight-line basis over the asset's life up to a maximum of seven years.

Capitalised development costs, including participation fees, are subject to annual impairment reviews with any resulting impairments charged to the income statement.

Research expenditure and development expenditure not qualifying for capitalisation is written off as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

1 Accounting policies and presentation continued

Other intangible assets continued

Computer software

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised and categorised as intangible assets. Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. Amortisation is provided on a straight-line basis over its useful economic life which is in the range of three to five years.

Assets acquired on business combinations – non-operating intangible assets

Non-operating intangible assets are intangible assets that are acquired as a result of a business combination, which arise from contractual or other legal rights and are not transferable or separable. On initial recognition they are measured at fair value. Amortisation is charged on a straight-line basis to the income statement over their expected useful lives which are:

	Years
Marketing-related assets	
– brands and trademarks	20 to 50
– agreements not to compete	Life of agreement
Customer-related assets	
– order backlog	Length of backlog
– other customer contracts and relationships	2 to 25
Technology-based assets	5 to 25

Inventories

Inventories are valued at the lower of cost and estimated net realisable value with due allowance being made for obsolete or slow-moving items. Cost is determined on a first in, first out or weighted average cost basis. Cost includes raw materials, direct labour, other direct costs and the relevant proportion of works overheads assuming normal levels of activity. Net realisable value is the estimated selling price less estimated selling costs and costs to complete.

Taxation

Current tax and deferred tax are recognised in the income statement unless they relate to items recognised directly in other comprehensive income when the related tax is also recognised in other comprehensive income.

Full provision is made for deferred tax on all temporary differences resulting from the difference between the carrying value of an asset or liability in the consolidated financial statements and its tax base. The amount of deferred tax reflects the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are reviewed at each balance sheet date and are only recognised to the extent that it is probable that they will be recovered against future taxable profits.

Deferred tax is recognised on the unremitted profits of joint ventures. No deferred tax is recognised on the unremitted profits of overseas branches and subsidiaries except to the extent that it is probable that such earnings will be remitted to the parent in the foreseeable future.

Pensions and post-employment benefits

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world. In the UK and in certain overseas companies, pension arrangements are made through externally funded defined benefit schemes, the contributions to which are based on the advice of independent actuaries or in accordance with the rules of the schemes. In other overseas companies, funds are retained within the business to provide for retirement obligations.

The Group also operates a number of defined contribution and defined benefit arrangements which provide certain employees with defined post-employment healthcare benefits.

The Group accounts for all post-employment defined benefit schemes through recognition of the schemes' surpluses or deficits on the balance sheet at the end of each year. Remeasurement of defined benefit plans is included in other comprehensive income. Current and past service costs, curtailments and settlements are recognised within operating profit. Interest charges on net defined benefit plans are recognised in other net financing charges.

For defined contribution arrangements, the cost charged to the income statement represents the Group's contributions to the relevant schemes in the year in which they fall due.

Government refundable advances

Government refundable advances are reported in 'Trade and other payables' in the balance sheet. Refundable advances include amounts advanced by government, accrued interest and directly attributable costs. Refundable advances are provided to the Group to part-finance expenditures on specific development programmes. The advances are provided on a risk sharing basis, i.e. repayment levels are determined subject to the success of the related programme. Balances are held at amortised cost and interest is calculated using the effective interest rate method.

Share-based payments

Share options granted to employees and share-based arrangements put in place since 7 November 2002 are valued at the date of grant or award using an appropriate option pricing model and are charged to operating profit over the performance or vesting period of the scheme. The annual charge is modified to take account of shares forfeited by employees who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely the option will vest.

Provisions

Provisions for onerous or loss-making contracts, warranty exposures, environmental matters, restructuring, employee obligations and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in provisions due to discounting, only recorded where material, is recognised as interest expense within other net financing charges.

Standards, revisions and amendments to standards and interpretations issued but not yet adopted
The Group does not intend to adopt any standard, revision or amendment before the required implementation date. At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 'Financial Instruments' (effective from 1 January 2018).
- IFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018).
- IFRS 16 'Leases' (effective from 1 January 2019).

These standards and other revisions to standards and interpretations which have an implementation date in 2017 or thereafter are being assessed. Further details on the potential implications of IFRS 9 and IFRS 16 will be provided when conclusions have been drawn from assessment work.

IFRS 15
Background
The Group will adopt IFRS 15 'Revenue from Contracts with Customers' for the year ending 31 December 2018 which will change the way that revenue is recognised and expand disclosure for revenue arrangements. This new standard may be adopted using the full retrospective method, where changes would be applied to the comparative information and the cumulative effect recorded at 1 January 2017 or the modified retrospective method, where the cumulative effect of applying the standard would be recorded at 1 January 2018. The implications of this choice are still being assessed.

As IFRS 15 will supersede all existing revenue guidance, it could impact revenue and cost recognition on a significant number of contracts across all our business segments, as well as business processes and information technology systems. With the breadth of this assessment across our multinational group and complexity of judgements involved, particularly in the Aerospace business, evaluation of the effect of IFRS 15 will continue through 2017.

While the timing of revenue could be changed, there will be no impact on either timing or quantum of cash flows.

Progress towards adoption
We have monitored the standard setting process, including amendments to the standard following its issuance and participated in aerospace and defence forums to understand the impact on this division.

We commenced our evaluation of the implications of IFRS 15 during 2016, by evaluating its impact on a select number of contracts across our divisions. With this baseline understanding, we have now developed a draft project plan in order to adopt the new standard on 1 January 2018. We have briefed executive management, the senior finance community and the Group's Audit Committee on our progress towards adoption and anticipate being able to estimate the impacts of adopting IFRS 15 in the second half of 2017.

Implications for the Group
As noted in the revenue recognition accounting policy, the Group currently has three principal revenue streams:

- Sales of product.
- Risk and revenue sharing partnerships (RRSPs).
- Design and build.

Sale of product
The overwhelming majority of Group revenue is earned from the sale of product, with a majority of the contracts in the Automotive businesses and a high proportion of the Aerospace business deriving sales on this basis.

Under IFRS 15 sales will be recognised as the customer obtains control of the goods and services promised in contracts (i.e. performance obligations) and this is likely to be similar to the point when risks and rewards of ownership are passed to the customer, either at the point of despatch or acceptance by the customer. Accordingly there is expected to be little impact on this revenue stream from adoption of the new standard.

However, as part of the impact assessment phase, contractual price downs have been identified in some contracts and under IFRS 15 the value of this 'material right' for the customer would need to be recognised on all relevant product sold. Effectively the new standard takes a view that where products sold are substantially the same, a relatively consistent price should apply to all sales. This would have the impact of deferring some early invoiced revenue to later units sold.

RRSP contracts
While RRSP contracts only affect a small number of businesses in the Group, exclusively in the Aerospace division, the implications of the new accounting standard could be most significant on these revenues during both the sale of product phase and sales of services aftermarket phase.

Due to the nature of RRSP contracts, OE products sold to engine manufacturers are deeply discounted with more favourable pricing in the aftermarket phase. It is likely that IFRS 15 will spread revenues more evenly over the performance obligations identified in the arrangement. Interpretation is evolving in this area as the implication of increasing margins during the early phase of contracts through recognition of contract assets (i.e. unbilled receivables) on the balance sheet, without contractual certainty over future volumes, needs to be fully considered and understood. In addition, IFRS 15 could also significantly impact contracts where the Group has already delivered most of its performance obligations during the OE phase and has little or no further work to perform in the aftermarket phase. In this scenario, revenue that is currently recognised during the aftermarket phase would be recorded earlier, on completion of performance obligations, based on the best estimate of total expected variable consideration.

1 Accounting policies and presentation continued

IFRS 15 continued

Implications for the Group continued

Design and build

This revenue stream affects a discrete number of businesses, primarily in the Aerospace division but also on a smaller scale in the Automotive division. Where cash is received from customers in advance of work performed to compensate the Group for costs incurred in design and development activities, such amounts are considered in the context of risk and rewards of ownership over the development assets. This can lead to deferred income on the balance sheet, which is subsequently taken to revenue as the Group performs its contractual obligations either on delivery of product or on meeting certain performance milestones.

Often the 'non-recurring' price is collected over a specific number of products, based on the expected volume of orders at the time of negotiating the framework agreement. However, similar to the price down example noted earlier, IFRS 15 considers there to be a 'material right' for the customer where they are able to buy future units at a reduced price for expected volumes exceeding the recovery period of incremental pricing. This is also the case in contracts where customers contract to explicitly fund capital expenditure.

In both of these examples a proportion of revenue invoiced could be deferred under IFRS 15 from earlier products sold to units sold later in the arrangement. However, further assessment needs to be undertaken to take account of any changes in pricing that reflect the impact of potential transfer of intellectual property rights.

Other matters

- Participation fees, which are currently amortised through cost of sales will likely be taken as a reduction of revenue.
- In a limited number of arrangements, the Group receives free issue raw materials and is deemed to be the 'principal not agent' in a transaction, taking control of these materials before integrating them with other goods and selling the combined outputs back to the customer. In this scenario there will be a requirement to recognise the cost of materials at fair value and gross up revenues for an equivalent amount.

Significant judgements, key assumptions and estimates

The Group's significant accounting policies are set out above. The preparation of financial statements, in conformity with IFRS, requires the use of estimates, subjective judgement and assumptions that may affect the amounts of assets and liabilities at the balance sheet date and reported profit and earnings for the year. The Directors base these estimates, judgements and assumptions on a combination of past experience, professional expert advice and other evidence that is relevant to the particular circumstance.

Accounting policies where the Directors consider the more complex estimates, judgements and assumptions have to be made are those in respect of post-employment obligations (note 24), derivative and other financial instruments (notes 4b and 20), provisions (note 21) and impairment of non-current assets (note 11c). Details of the principal judgements, assumptions and estimates made are set out in the related notes as identified.

2 Segmental analysis

The Group's reportable segments have been determined based on reports reviewed by the Executive Committee led by the Chief Executive. The operating activities of the Group are largely structured according to the markets served; aerospace, automotive and the land systems markets. Automotive is managed according to product groups; driveline and powder metallurgy. Further to disposal of the Stromag business on 30 December 2016 (see note 4(d) for further details) the Group will change its segments to remove GKN Land Systems for reporting in 2017. The two businesses remaining in the Group that were part of GKN Land Systems will be reported as follows: Wheels and Structures in Other Businesses and Driveshafts and Aftermarket Services in GKN Driveline. Reportable segments derive their sales from the manufacture of products and sale of service. Revenue from royalties is not significant.

(a) Sales

		Automotive			
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2016					
Subsidiaries	**3,352**	**3,716**	**1,032**	**683**	
Equity accounted investments	**71**	**500**	**–**	**21**	
	3,423	**4,216**	**1,032**	**704**	**9,375**
Other businesses					**39**
Management sales					**9,414**
Less: equity accounted investments					**(592)**
Income statement – sales					**8,822**
2015					
Subsidiaries	2,387	3,124	906	670	
Equity accounted investments	–	424	–	23	
	2,387	3,548	906	693	7,534
Acquisitions					
Subsidiaries	102	–	–	–	
Equity accounted investments	11	–	–	–	
	113	–	–	–	113
Other businesses					42
Management sales					7,689
Less: equity accounted investments					(458)
Income statement – sales					7,231

Subsidiary sales comprise £8,281 million (2015: £6,895 million) from the manufacture of product and £541 million (2015: £336 million) from the sale of service.

2 Segmental analysis continued

(b) Trading profit

	GKN Aerospace £m	Automotive GKN Driveline £m	Automotive GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2016					
Trading profit before depreciation and amortisation	**464**	**374**	**164**	**32**	
Depreciation of property, plant and equipment	**(78)**	**(122)**	**(44)**	**(16)**	
Amortisation of operating intangible assets	**(51)**	**(11)**	**(2)**	**(1)**	
Trading profit – subsidiaries	**335**	**241**	**118**	**15**	
Trading profit – equity accounted investments	**4**	**82**	**–**	**3**	
	339	**323**	**118**	**18**	**798**
Other businesses					**(4)**
Corporate and unallocated costs					**(21)**
Management trading profit					**773**
Less: equity accounted investments trading profit					**(89)**
Income statement – trading profit					**684**
2015					
Trading profit before depreciation and amortisation	383	329	148	39	
Depreciation of property, plant and equipment	(59)	(101)	(38)	(15)	
Amortisation of operating intangible assets	(33)	(7)	(1)	(1)	
Trading profit – subsidiaries	291	221	109	23	
Trading profit – equity accounted investments	–	69	–	1	
	291	290	109	24	714
Acquisitions					
Subsidiaries	(5)	–	–	–	
Acquisition-related charges	(13)	–	–	–	
	(18)				(18)
Other businesses					1
Corporate and unallocated costs					(18)
Management trading profit					679
Less: equity accounted investments trading profit					(70)
Income statement – trading profit					609

Acquisition-related charges in 2015 comprise integration costs of £3 million and transaction professional fees of £10 million. There was also a £5 million restructuring charge within the trading profit of Fokker.

No income statement items between trading profit and profit before tax are allocated to management trading profit, which is the Group's segmental measure of profit or loss (see note 3).

During the year ended 31 December 2016, the Group recorded a charge of £39 million in trading profit in respect of a Group-wide restructuring programme. The charge arises in; GKN Aerospace £10 million, GKN Driveline £10 million, GKN Powder Metallurgy £3 million, GKN Land Systems £14 million and Corporate costs £2 million.

(c) Goodwill, fixed assets and working capital – subsidiaries only

		Automotive			
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2016					
Property, plant and equipment and operating intangible assets	**1,373**	**1,350**	**475**	**125**	**3,323**
Working capital	**319**	**15**	**131**	**55**	**520**
Net operating assets	**1,692**	**1,365**	**606**	**180**	
Goodwill and non-operating intangible assets	**868**	**289**	**39**	**25**	
Net investment	**2,560**	**1,654**	**645**	**205**	
2015					
Property, plant and equipment and operating intangible assets	1,208	1,049	375	128	2,760
Working capital	159	22	97	64	342
Net operating assets	1,367	1,071	472	192	
Goodwill and non-operating intangible assets	841	258	29	134	
Net investment	2,208	1,329	501	326	

(d) Fixed asset additions, equity accounted investments and other non-cash items

		Automotive				
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	GKN Land Systems £m	Other £m	Total £m
2016						
Fixed asset additions						
– property, plant and equipment	**126**	**206**	**63**	**19**	**4**	**418**
– intangible assets	**56**	**31**	**2**	**–**	**–**	**89**
Equity accounted investments	**21**	**205**	**–**	**7**	**–**	**233**
Other non-cash items						
– share-based payments	**1**	**1**	**1**	**–**	**2**	**5**
– impairment charges	**47**	**–**	**–**	**5**	**–**	**52**
2015						
Fixed asset additions						
– property, plant and equipment	99	157	59	14	5	334
– intangible assets	62	18	2	1	1	84
Equity accounted investments	16	171	–	8	–	195
Other non-cash items						
– share-based payments	–	1	–	–	–	1
– impairment charges	63	–	6	–	2	71

2 Segmental analysis continued

(e) Country analysis

	UK £m	US £m	Germany £m	Other countries £m	Total non-UK £m	Total £m
2016						
Management sales by origin	**1,047**	**2,840**	**984**	**4,543**	**8,367**	**9,414**
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	**447**	**1,193**	**369**	**2,802**	**4,364**	**4,811**
2015						
Management sales by origin	956	2,517	863	3,353	6,733	7,689
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	472	999	428	2,352	3,779	4,251

(f) Other sales information

Subsidiary segmental sales gross of inter segment sales are: GKN Aerospace £3,352 million (2015: £2,489 million), GKN Driveline £3,775 million (2015: £3,176 million), GKN Powder Metallurgy £1,036 million (2015: £908 million) and GKN Land Systems £684 million (2015: £672 million). Inter segment transactions take place on an arm's-length basis using normal terms of business.

In 2016 and 2015, no customer accounted for 10% or more of subsidiary sales or management sales.

Management sales by product line are: GKN Aerospace – aerostructures 50% (2015: 48%), engine components and sub-systems 36% (2015: 44%), wiring and special products 9% (2015: 7%) and services 5% (2015: 1%). GKN Driveline – CVJ systems 61% (2015: 60%), all-wheel drive and e-drive systems 38% (2015: 39%) and other goods 1% (2015: 1%). GKN Powder Metallurgy – sintered components 85% (2015: 84%) and metal powders 15% (2015: 16%). GKN Land Systems – power management devices 43% (2015: 40%), wheels and structures 29% (2015: 33%) and aftermarket 28% (2015: 27%).

(g) Reconciliation of segmental property, plant and equipment and operating intangible assets to the balance sheet

	2016 £m	2015 £m
Segmental analysis – property, plant and equipment and operating intangible assets	**3,323**	2,760
Segmental analysis – goodwill and non-operating intangible assets	**1,221**	1,262
Goodwill	**(588)**	(591)
Other businesses	**25**	25
Corporate assets	**9**	9
Balance sheet – property, plant and equipment and other intangible assets	**3,990**	3,465

(h) Reconciliation of segmental working capital to the balance sheet

	2016 £m	2015 £m
Segmental analysis – working capital	**520**	342
Other businesses	**11**	13
Corporate items	**(22)**	(45)
Accrued interest	**(25)**	(25)
Restructuring provisions	**(10)**	(1)
Equity accounted investment funding	**(10)**	(10)
Deferred and contingent consideration	**(6)**	(3)
Government refundable advances	**(96)**	(86)
Balance sheet – inventories, trade and other receivables, trade and other payables and provisions	**362**	185

3 Adjusted performance measures

(a) Reconciliation of reported and management performance measures

	2016			
	As reported £m	**Equity accounted investments £m**	**Adjusting and non-trading items £m**	**Management basis £m**
Sales	**8,822**	**592**	**–**	**9,414**
Trading profit	**684**	**89**	**–**	**773**
Change in value of derivative and other financial instruments	**(154)**	**–**	**154**	**–**
Amortisation of non-operating intangible assets arising on business combinations	**(103)**	**–**	**103**	**–**
Gains and losses on changes in Group structure	**(9)**	**–**	**9**	**–**
Acquisition-related restructuring charges	**(31)**	**–**	**31**	**–**
Impairment charges	**(52)**	**–**	**52**	**–**
Operating profit	**335**	**89**	**349**	**773**
Share of post-tax earnings of equity accounted investments	**73**	**(89)**	**–**	**(16)**
Interest payable	**(86)**	**–**	**–**	**(86)**
Interest receivable	**7**	**–**	**–**	**7**
Other net financing charges	**(37)**	**–**	**37**	**–**
Net financing costs	**(116)**	**–**	**37**	**(79)**
Profit before taxation	**292**	**–**	**386**	**678**
Taxation	**(48)**	**–**	**(96)**	**(144)**
Profit after tax for the year	**244**	**–**	**290**	**534**
Profit attributable to non-controlling interests	**(2)**	**–**	**(2)**	**(4)**
Profit attributable to owners of the parent	**242**	**–**	**288**	**530**
Earnings per share – pence	**14.1**	**–**	**16.9**	**31.0**

	2015			
Sales	7,231	458	–	7,689
Trading profit	609	70	–	679
Change in value of derivative and other financial instruments	(122)	–	122	–
Amortisation of non-operating intangible assets arising on business combinations	(80)	–	80	–
Gains and losses on changes in Group structure	(1)	–	1	–
Impairment charges	(71)	–	71	–
Reversal of inventory fair value adjustment arising on business combinations	(12)	–	12	–
Operating profit	323	70	286	679
Share of post-tax earnings of equity accounted investments	59	(70)	–	(11)
Interest payable	(72)	–	–	(72)
Interest receivable	7	–	–	7
Other net financing charges	(72)	–	72	–
Net financing costs	(137)	–	72	(65)
Profit before taxation	245	–	358	603
Taxation	(43)	–	(90)	(133)
Profit after tax for the year	202	–	268	470
Profit attributable to non-controlling interests	(5)	–	–	(5)
Profit attributable to owners of the parent	197	–	268	465
Earnings per share – pence	11.8	–	16.0	27.8

Basic and management earnings per share use a weighted average number of shares of 1,712.1 million (2015: 1,674.1 million). Also see note 7.

3 Adjusted performance measures continued

(b) Summary of management performance measures by segment

	2016			2015		
	Sales £m	**Trading profit £m**	**Margin**	Sales £m	Trading profit £m	Margin
GKN Aerospace	**3,423**	**339**	**9.9%**	2,387	291	12.2%
GKN Driveline	**4,216**	**323**	**7.7%**	3,548	290	8.2%
GKN Powder Metallurgy	**1,032**	**118**	**11.4%**	906	109	12.0%
GKN Land Systems	**704**	**18**	**2.6%**	693	24	3.5%
Other businesses	**39**	**(4)**		42	1	
Corporate and unallocated costs	**–**	**(21)**		–	(18)	
Acquisition – Fokker (GKN Aerospace)	**–**	**–**		113	(18)	
	9,414	**773**	**8.2%**	7,689	679	8.8%

4 Operating profit

The analysis of the additional components of operating profit is shown below:

(a) Trading profit

	2016 £m	2015 £m
Sales by subsidiaries	**8,822**	7,231
Operating costs		
Change in stocks of finished goods and work in progress	**68**	16
Raw materials and consumables	**(3,850)**	(3,177)
Staff costs (note 9)	**(2,309)**	(1,887)
Redundancy and other employee-related amounts (ii)	**(43)**	(22)
Depreciation of property, plant and equipment (iii)	**(263)**	(218)
Amortisation of operating intangible assets	**(67)**	(43)
Operating lease rentals payable:		
Plant and equipment	**(25)**	(18)
Property	**(43)**	(33)
Impairment of trade receivables	**(5)**	(4)
Amortisation of government capital grants	**2**	2
Net exchange differences on foreign currency transactions	**(25)**	2
Acquisition-related charges	**–**	(13)
Other costs	**(1,578)**	(1,227)
	(8,138)	(6,622)
Trading profit	**684**	609

(i) EBITDA is subsidiary trading profit before depreciation and amortisation charges included in trading profit. EBITDA was £1,014 million (2015: £870 million).
(ii) Reorganisation costs reflect actions in the ordinary course of business to reduce costs, improve productivity and rationalise facilities in continuing operations. This cost is included in trading profit, and includes a charge of £39 million in respect of a Group-wide restructuring programme, see note 2b for further details.
(iii) Including depreciation charged on assets held under finance leases of less than £1 million (2015: less than £1 million).
(iv) Research and development expenditure in subsidiaries was £186 million (2015: £157 million), net of customer and government funding.

Auditors' remuneration
The analysis of auditors' remuneration is as follows:

	2016 £m	2015 £m
Fees payable to the Group's auditors for the audit of the parent company	**(0.4)**	(0.5)
Fees payable to the Group's auditors and their associates for other services to the Group:		
– Audit of the financial statements of subsidiaries	**(4.5)**	(4.6)
Total audit fees payable to the Group's auditors	**(4.9)**	(5.1)
– Audit-related assurance services	**(0.2)**	(0.1)
– Tax advisory services	**–**	(0.3)
– Tax compliance services	**–**	(0.5)
– Other services	**–**	(0.2)
Total fees for other services	**(0.2)**	(1.1)
Fees payable to the Group's auditors and their associates in respect of associated pension schemes:		
– Audit	**–**	(0.1)
	–	(0.1)
Total fees payable to the Group's auditors and their associates	**(5.1)**	(6.3)

£0.1 million of audit fees in relation to the audit of subsidiaries' financial statements was payable to other audit firms in addition to the amounts above.

All fees payable to the Group's auditors include amounts in respect of expenses. All fees payable to the Group's auditors have been charged to the income statement. Deloitte LLP replaced PricewaterhouseCoopers LLP as the Group's auditors for 2016.

(b) Change in value of derivative and other financial instruments

	2016 £m	2015 £m
Forward currency contracts (not hedge accounted)	**(135)**	(103)
Embedded derivatives	**4**	1
	(131)	(102)
Net gains and losses on intra-group funding		
Arising in year	**(23)**	(20)
	(154)	(122)

IAS 39 requires derivative financial instruments to be valued at the balance sheet date and reflected in the balance sheet as an asset or liability. Any subsequent change in value is reflected in the income statement unless hedge accounting is achieved. Such movements do not affect cash flow or the economic substance of the underlying transaction.

(c) Amortisation of non-operating intangible assets arising on business combinations

	2016 £m	2015 £m
Marketing-related	**(4)**	(4)
Customer-related	**(67)**	(57)
Technology-based	**(32)**	(19)
	(103)	(80)

4 Operating profit continued

(d) Gains and losses on changes in Group structure

	2016 £m	2015 £m
Businesses disposed	**9**	(5)
Business closures	**(18)**	–
Gain on contingent consideration	**–**	4
	(9)	(1)

On 30 December 2016, the Group sold its Stromag business (part of the GKN Land Systems division) to Altra Industrial Motion Corp. for cash consideration of £159 million excluding an overdraft disposed of £7 million and before professional and completion fees. The profit on sale of £9 million comprises an £11 million profit on disposal of net assets and £2 million loss from reclassification of previous currency variations from other reserves.

On 17 November 2016, the Group confirmed the closure of its GKN Aerospace business in Yeovil. The company previously had a contract to make airframes for the Royal Navy AW159 Wild Cat helicopters but its main customer which assembles the helicopters, announced that it was taking this contract in-house. The site closure, which is expected to conclude by the end of 2017, has necessitated a reorganisation charge of £12 million comprising: redundancy of £4 million; impairment of property, plant and equipment of £4 million; write down of inventories of £2 million; and other associated costs of £2 million. There has also been a further decision to curtail operations of a GKN Driveline business with an associated reorganisation charge of £6 million comprising redundancy of £4 million and impairment of goodwill of £2 million.

On 30 January 2015, the Group sold GKN Sinter Metals Argentina SA for a cash consideration of £1 million before professional fees. The loss on sale of £5 million comprises a £1 million loss on disposal of net assets and £4 million loss from reclassification of previous currency variations from other reserves.

During 2015, following reassessment of fair value, £4 million of contingent consideration was released to the income statement.

(e) Acquisition-related restructuring charges

	2016 £m	2015 £m
Redundancy and other employee-related amounts	**(27)**	–
Integration and other expenses	**(4)**	–
Restructuring charges	**(31)**	–

Restructuring charges, separately identified, relate to the recently acquired Fokker Technologies Group B.V. business within GKN Aerospace.

5 Net financing costs

	2016 £m	2015 £m
(a) Interest payable and fee expense		
Short-term bank and other borrowings	**(12)**	(10)
Repayable within five years	**(41)**	(34)
Repayable after five years	**(27)**	(25)
Government refundable advances	**(6)**	(3)
	(86)	(72)
Interest receivable		
Short-term investments, loans and deposits	**7**	3
Tax case net interest recovery (see note 6)	**–**	4
	7	7
Net interest payable and receivable	**(79)**	(65)

	2016 £m	2015 £m
(b) Other net financing charges		
Interest charge on net defined benefit plans	**(53)**	(49)
Fair value changes on cross-currency interest rate swaps	**18**	(17)
Unwind of discounts	**(2)**	(6)
	(37)	(72)

6 Taxation

(a) Tax expense

Analysis of charge in year	2016 £m	2015 £m
Current tax (charge)/credit		
Current year charge	**(67)**	(121)
Utilisation of previously unrecognised tax losses and other assets	**1**	38
Net movement on provisions for uncertain tax positions	**9**	(23)
Adjustments in respect of prior years	**9**	–
	(48)	(106)
Deferred tax (charge)/credit		
Origination and reversal of temporary differences	**–**	30
Tax on change in value of derivative financial instruments	**14**	31
Other changes in unrecognised deferred tax assets	**(3)**	1
Adjustments in respect of prior years	**(11)**	1
	–	63
Total tax charge for the year	**(48)**	(43)

Analysed as:

	2016 £m	2015 £m
Tax in respect of management profit		
Current tax	**(40)**	(107)
Deferred tax	**(104)**	(26)
	(144)	(133)
Tax in respect of items excluded from management profit		
Current tax	**(8)**	1
Deferred tax	**104**	89
	96	90
Total for tax charge for the year	**(48)**	(43)

Book tax rate

The net movement on provisions of £9 million principally follows resolution of disputes in Turkey, France and Italy.

In 2015, the Group used £38 million of previously unrecognised tax losses against taxable profits reducing the prior year current tax charge. The uncertainties preventing recognition of these losses will not be resolved until 2017 at the earliest and a corresponding provision was created against their use.

Management tax rate

The tax charge arising on management profits of subsidiaries of £605 million (2015: £544 million) was £144 million (2015: £133 million) giving an effective tax rate of 24% (2015: 24%).

6 Taxation continued

(a) Tax expense continued

Judgements and estimates

The Group operates in many jurisdictions and is subject to tax audits which are often complex and can take several years to conclude. Therefore, the accrual for current tax includes provisions for uncertain tax positions which require estimates for each matter and the exercise of judgement in respect of the interpretation of tax laws and the likelihood of challenge to historical tax positions. Management uses in-house tax experts, professional advisers and previous experience when assessing tax risks. Where appropriate, estimates of interest and penalties are included in these provisions. As amounts provided for in any year could differ from eventual tax liabilities, subsequent adjustments which have a material impact on the Group's tax rate and/or cash tax payments may arise. Tax payments comprise payments on account and payments on the final resolution of open items and, as a result, there can be substantial differences between the charge in the income statement and cash tax payments. Where companies utilise brought forward tax losses such that little or no tax is paid, this also results in differences between the tax charge and cash tax payments. With regard to deferred tax, judgement is required for the recognition of deferred tax assets, which is based on expectations of future financial performance in particular legal entities or tax groups.

	2016		2015	
Tax reconciliation	**£m**	**%**	£m	%
Profit before taxation	**292**		245	
Less share of post-tax earnings of equity accounted investments	**(73)**		(59)	
Profit before taxation excluding equity accounted investments	**219**		186	
Tax charge calculated at 20% (2015: 20.25%) standard UK corporate tax rate	**(44)**	**(20)**	(38)	(20)
Differences between UK and overseas corporate tax rates	**(30)**	**(13)**	(34)	(18)
Non-deductible and non-taxable items	**36**	**16**	19	10
Recognition of previously unrecognised tax losses	**–**	**–**	1	1
Utilisation of previously unrecognised tax losses and other assets	**1**	**–**	38	20
Changes in tax rates	**(17)**	**(8)**	(2)	(1)
Other changes in deferred tax assets	**(1)**	**–**	(5)	(3)
Tax charge on ordinary activities	**(55)**	**(25)**	(21)	(11)
Net movement on provision for uncertain tax positions	**9**	**4**	(23)	(12)
Adjustments in respect of prior years	**(2)**	**(1)**	1	–
Total tax charge for the year	**(48)**	**(22)**	(43)	(23)

Non-deductible and non-taxable items include foreign exchange movements that are not taxable (£45 million), impairment of assets which are not deductible for tax purposes (£11 million) and other items including tax incentives (£2 million). Foreign exchange movements in 2016 were unusually high. The rate change primarily relates to the change of rate in the UK discussed below.

(b) Tax included in other comprehensive income

Analysis of credit/(charge) in year	**2016 £m**	2015 £m
Deferred tax on post-employment obligations	**60**	(46)
Deferred tax on hedged foreign currency gains and losses	**39**	–
Deferred tax on other foreign currency gains and losses on intra-group funding	**(3)**	1
Current tax on post-employment obligations	**3**	4
Current tax on foreign currency gains and losses on intra-group funding	**(50)**	(6)
	49	(47)

(c) Current tax

	2016 £m	2015 £m
Assets	**7**	9
Liabilities	**(142)**	(121)
	(135)	(112)

(d) Recognised deferred tax

	2016 £m	2015 £m
Assets	**557**	388
Liabilities	**(227)**	(157)
	330	231

There is no deferred tax charge in the income statement in the year (2015: £63 million credit) and a deferred tax credit of £96 million recorded directly in other comprehensive income (2015: £45 million charge). These movements are impacted by the recognition and use of deferred tax assets (primarily in respect of actuarial losses).

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below:

	Assets			Liabilities		
	Post-employment obligations £m	Tax losses £m	Other £m	Fixed assets £m	Other £m	Total £m
At 1 January 2016	**245**	**176**	**157**	**(339)**	**(8)**	**231**
Businesses disposed	**(1)**	**1**	**(1)**	**15**	**–**	**14**
Included in the income statement	**(2)**	**(19)**	**18**	**5**	**(2)**	**–**
Included in other comprehensive income	**60**	**–**	**36**	**–**	**–**	**96**
Currency variations	**23**	**19**	**19**	**(72)**	**–**	**(11)**
At 31 December 2016	**325**	**177**	**229**	**(391)**	**(10)**	**330**
At 1 January 2015	285	93	95	(283)	(6)	184
Included in the income statement	6	(10)	42	28	(3)	63
Included in other comprehensive income	(46)	–	1	–	–	(45)
Businesses acquired	2	92	17	(74)	–	37
Currency variations	(2)	1	2	(10)	1	(8)
At 31 December 2015	245	176	157	(339)	(8)	231

The primary territories which have tax losses and other temporary differences are the UK and the Netherlands. These territories have both recognised and unrecognised deferred tax assets. Deferred tax assets are recognised where, based on management projections, the future availability of taxable profits to absorb the deductions before any applicable time limits expire is probable. Deferred tax assets (including tax losses) are not recognised where the Group's ability to utilise them is not probable, for example where management projections indicate there will be insufficient future profits before losses expire, or in cases where the quantum of losses is uncertain (i.e. subject to cases such as the FII GLO).

'Other' deferred tax arises mainly in relation to items that are taxable or tax deductible in a different period than the income or expense is accrued in the financial statements. Other deferred tax assets include £139 million relating to derivatives (2015: £85 million).

(e) Unrecognised deferred tax assets

Deferred tax assets that have not been recognised are shown below.

	2016			2015		
	Tax value £m	Gross £m	Expiry period	Tax value £m	Gross £m	Expiry period
Tax losses – with expiry: national	**120**	**474**	**2017-2026**	106	421	2016-2034
Tax losses – with expiry: local	**8**	**277**	**2017-2036**	6	190	2016-2034
Tax losses – without expiry	**50**	**258**		49	287	
Total tax losses	**178**	**1,009**		161	898	
Other temporary differences	**15**	**46**		6	32	
Unrecognised deferred tax assets	**193**	**1,055**		167	930	

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries except where the distribution of such profits is planned. If these earnings were remitted in full, tax of £41 million (2015: £18 million) would be payable.

6 Taxation continued

(f) Changes in UK tax rate

The effective tax rate for the year was 20% following a reduction to the rate on 1 April 2015. A further reduction to 19% from 1 April 2017 and 17% from 1 April 2020 have been substantively enacted. UK temporary differences are measured at the rate at which they are expected to reverse.

New legislation will become effective in April 2017 which will restrict the use of brought forward losses in the UK. This legislation is not substantively enacted. It is anticipated this will not affect the ability to use recognised deferred tax assets but may affect the period over which the losses can be utilised.

(g) Franked investment income – litigation

Since 2003, the Group has been involved in litigation with HMRC in respect of various advance corporate tax payments and corporate tax paid on certain foreign dividends which, in its view, were levied by HMRC in breach of the Group's EU community law rights. The most recent Court of Appeal judgment in the case was published in November 2016. This judgment was broadly positive, but HMRC has sought leave to appeal.

The continuing complexity of the remaining case and uncertainty over the issues raised (and in particular which points HMRC may seek to appeal) means that it is not possible to predict the final outcome of the litigation with any reasonable degree of certainty. A successful outcome could result in the Group being able to recognise additional deferred tax assets in the UK and receiving cash payments from HMRC.

GKN has previously received payments from HMRC in respect of the case, principally interest, which have been recognised as received. In August 2015, the Group agreed a settlement of £12 million with HMRC in respect of the Foreign Income Dividends element of the claim. This resulted in an interest receipt, net of restitutional and other charges, of £4 million.

7 Earnings per share

	2016			2015		
	Earnings £m	**Weighted average number of shares million**	**Earnings per share pence**	Earnings £m	Weighted average number of shares million	Earnings per share pence
Basic	**242**	**1,712.1**	**14.1**	197	1,674.1	11.8
Dilutive securities	**–**	**13.9**	**(0.1)**	–	7.7	(0.1)
Diluted	**242**	**1,726.0**	**14.0**	197	1,681.8	11.7

Management basis earnings per share of 31.0p (2015: 27.8p) is presented in note 3 and uses the weighted average number of shares consistent with basic earnings per share calculations.

8 Dividends

	Paid or proposed in respect of		Recognised		
	2016 pence	2015 pence	2017 £m	**2016 £m**	2015 £m
2014 final dividend paid	**–**	–	–	**–**	92
2015 interim dividend paid	**–**	2.9	–	**–**	50
2015 final dividend paid	**–**	5.8	–	**99**	–
2016 interim dividend paid	**2.95**	–	–	**51**	–
2016 final dividend proposed	**5.9**	–	101	**–**	–
	8.85	8.7	101	**150**	142

The 2016 final proposed dividend will be paid on 17 May 2017 to shareholders who are on the register of members at close of business on 7 April 2017.

9 Employees including Directors

Employee benefit expense	2016 £m	2015 £m
Wages and salaries	**(1,849)**	(1,513)
Social security costs	**(350)**	(285)
Post-employment costs	**(105)**	(88)
Share-based payments	**(5)**	(1)
	(2,309)	(1,887)

Redundancy costs are not included in the above table, see note 4(a) for further details.

Average monthly number of employees (including Executive Directors)	2016 Number	2015 Number
By business		
GKN Aerospace	**16,729**	13,046
GKN Driveline	**21,874**	20,986
GKN Powder Metallurgy	**6,739**	6,669
GKN Land Systems	**4,615**	4,933
Other businesses	**1,204**	1,215
Corporate	**220**	214
Total	**51,381**	47,063

Key management

The key management of the Group comprises GKN plc Board Directors and members of the Group's Executive Committee during the year and their aggregate compensation is shown below. More detailed disclosure on Directors' remuneration is set out in the Directors' remuneration report.

Key management compensation	2016 £m	2015 £m
Salaries and short-term employee benefits	**7.7**	7.3
Post-employment benefits	**1.1**	0.4
Share-based and medium-term incentives and benefits	**0.6**	0.3
	9.4	8.0

The amount outstanding at 31 December 2016 in respect of annual short-term variable remuneration payable in cash was £2.2 million (2015: £2.0 million). Key management participate in certain incentive arrangements where the key performance metric is management earnings per share using the cash tax rate which is discussed in the Strategic Report. Management EPS using the cash tax rate is 33.8p (2015: 30.4p). A total of £250,493 in dividends was received by key management in 2016 (2015: £331,136).

10 Share-based payments

The total charge for the year relating to share-based payment plans was £5 million (2015: £1 million) all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £5 million (2015: £1 million). The current year's charge includes amounts for the Share Incentive and Retention Plan awards granted in 2015 (£4 million) and various awards under the Sustainable Earnings Plan (£1 million), including the 2016 grant (see below for further details).

The Group has granted options over shares to employees for a number of years under different schemes. Where grants were made after 7 November 2002 they have been accounted for as required by IFRS 2 'Share-based payment'. Details of awards made in the year that impact the 2016 accounting charge relate to the Sustainable Earnings Plan (SEP):

Sustainable Earnings Plan (SEP)

Awards comprising Core and Sustainability Awards were made to Directors and certain senior employees in August 2012, March 2013, March 2014, March 2015 and March 2016. Core and Sustainability Awards are subject to performance targets with Core Awards subject to achievement of EPS growth targets over an initial three-year performance period, and Sustainability Awards subject to the highest level of EPS attained in any year during the core performance period being achieved or exceeded in years four and five. Sustainability Awards will be reduced to the extent that the target in the core performance period has not been met. Sustainability Awards are measured independently in years four and five. 50% of Core Awards will be released at the end of year three; the balance of Core Awards and any Sustainability Awards will be released at the end of year five. There is no provision for retesting performance for either the Core or Sustainability Awards. On vesting, dividends are treated as having accrued on the shares from the date of grant to the date of release with the value delivered in either shares or cash.

Details of SEP (Core Award and Sustainability Awards) granted during the year are set out below:

	Shares granted during year	Weighted average fair value at measurement date
2016 SEP awards	9,611,028	£2.72

The fair value of shares awarded under the SEP is calculated as the share price on the grant date.

Executive Share Option Scheme (ESOS)

The only outstanding share options are under the ESOS and movements over the year to 31 December 2016 are shown below:

	2016		2015	
	Number 000s	**Weighted average exercise price pence**	Number 000s	Weighted average exercise price pence
Outstanding at 1 January	**2,419**	**140.99**	3,997	139.31
Forfeited	**(10)**	**134.60**	–	–
Exercised	**(422)**	**142.84**	(1,578)	136.74
Outstanding at 31 December	**1,987**	**140.63**	2,419	140.99
Exercisable at 31 December	**1,987**	**140.63**	2,419	140.99

For options outstanding at 31 December, the range of exercise prices and weighted average contractual life is shown in the following table:

	2016		2015	
Range of exercise price	**Number of shares 000s**	**Contractual weighted average remaining life years**	Number of shares 000s	Contractual weighted average remaining life years
110p to 145p	**1,588**	**3.08**	1,901	4.06
195p to 220p	**399**	**4.25**	518	5.25

The weighted average share price during the year for options exercised over the year was 295.1p (2015: 327.6p).

Liabilities in respect of share-based payments were not material at either 31 December 2016 or 31 December 2015. There were no vested rights to cash or other assets at either 31 December 2016 or 31 December 2015.

11 Goodwill and other intangible assets

(a) Goodwill

	2016 £m	2015 £m
Cost		
At 1 January	**840**	714
Businesses acquired	**4**	104
Businesses disposed	**(74)**	–
Currency variations	**154**	22
At 31 December	**924**	840
Accumulated impairment		
At 1 January	**249**	216
Charge for the year	**40**	23
Currency variations	**47**	10
At 31 December	**336**	249
Net book amount at 31 December	**588**	591

There has been no change to the provisional goodwill arising on the Group's acquisition of Fokker Technologies Group B.V. in 2015.

The carrying value of goodwill at 31 December comprised:

Reportable segment	Business	Geographical location	2016 £m	2015 £m
GKN Aerospace	Aerostructures	North America	**41**	34
	Engine Systems	North America and Europe	**50**	42
	Engine Products – West	North America	**79**	91
	Fokker	Europe	**121**	103
GKN Driveline	Driveline	Americas	**145**	119
	Driveline	Europe	**61**	55
GKN Powder Metallurgy	Hoeganaes	North America	**28**	24
GKN Land Systems	Power Management Devices	Europe	**–**	64
			525	532
Other businesses not individually significant to the carrying value of goodwill			**63**	59
			588	591

Impairment charges of £38 million (2015: £23 million) have been recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges', see note 11c for further details. There is a further £2 million impairment charge following a decision to curtail operations of a business in GKN Driveline, which has been recorded in the Income Statement as an adjusting and non-trading item within the line 'gains and losses on changes in group structure', see note 4d for further details.

11 Goodwill and other intangible assets continued

(b) Other intangible assets

	2016						
				Assets arising on business combinations			
	Development costs £m	Participation fees £m	Computer software £m	Marketing-related £m	Customer-related £m	Technology-based £m	Total £m
Cost							
At 1 January 2016	**562**	**158**	**105**	**66**	**673**	**303**	**1,867**
Additions	**68**	**11**	**10**	**–**	**–**	**–**	**89**
Disposals	**(4)**	**–**	**(2)**	**–**	**–**	**–**	**(6)**
Businesses disposed	**–**	**–**	**(1)**	**(5)**	**(50)**	**(23)**	**(79)**
Currency variations	**59**	**32**	**15**	**11**	**106**	**55**	**278**
At 31 December 2016	**685**	**201**	**127**	**72**	**729**	**335**	**2,149**
Accumulated amortisation							
At 1 January 2016	**124**	**27**	**82**	**8**	**276**	**85**	**602**
Charge for the year							
Charged to trading profit	**46**	**10**	**11**	**–**	**–**	**–**	**67**
Non-operating intangible assets	**–**	**–**	**–**	**4**	**67**	**32**	**103**
Disposals	**–**	**–**	**(2)**	**–**	**–**	**–**	**(2)**
Businesses disposed	**–**	**–**	**(1)**	**(1)**	**(18)**	**(12)**	**(32)**
Currency variations	**10**	**7**	**12**	**1**	**45**	**16**	**91**
At 31 December 2016	**180**	**44**	**102**	**12**	**370**	**121**	**829**
Net book amount at 31 December 2016	**505**	**157**	**25**	**60**	**359**	**214**	**1,320**

	2015						
Cost							
At 1 January 2015	436	141	107	14	475	248	1,421
Businesses acquired	52	–	–	51	177	43	323
Additions	66	9	9	–	–	–	84
Disposals	(3)	–	(13)	–	–	–	(16)
Currency variations	11	8	2	1	21	12	55
At 31 December 2015	562	158	105	66	673	303	1,867
Accumulated amortisation							
At 1 January 2015	97	18	86	4	210	62	477
Charge for the year							
Charged to trading profit	27	8	8	–	–	–	43
Non-operating intangible assets	–	–	–	4	57	19	80
Impairment charges	1	–	–	–	–	–	1
Disposals	(2)	–	(13)	–	–	–	(15)
Currency variations	1	1	1	–	9	4	16
At 31 December 2015	124	27	82	8	276	85	602
Net book amount at 31 December 2015	438	131	23	58	397	218	1,265

Impairment charges in 2015 were recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges', see note 11c for further details.

Development costs of £148 million (2015: £130 million), £12 million (2015: £6 million) and £12 million (2015: £12 million) in respect of three aerospace programmes are being amortised on a units of production basis. There is £9 million (2015: £17 million) in respect of a customer relationship asset arising from one previous business combination with a remaining amortisation period of one year (2015: two years). There are other intangible assets of £296 million (2015: £262 million) in respect of four programmes with a remaining amortisation period of up to 21 years (2015: 22 years).

(c) Impairment testing

An impairment test is a comparison of the carrying value of the assets of a business or cash generating unit (CGU) to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment results. For the purposes of carrying out impairment tests, the Group's total goodwill has been allocated to a number of CGUs and each of these CGUs has been separately assessed and tested. The size of a CGU varies but is never larger than a primary or secondary reportable segment. In some cases, a CGU is an individual subsidiary or operation.

Consistent with previous years, all goodwill, together with CGUs where there were indicators of impairment, was tested for impairment. An impairment charge of £52 million (2015: £71 million) has been recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges' in respect of three CGUs; two in GKN Aerospace and one in GKN Land Systems.

An impairment charge in Engine Products – West, North America (GKN Aerospace) of £29 million follows loss of key business during the year. The charge comprises goodwill only. The remaining recoverable amount of £161 million represents its value in use, using a discount rate of 13% (2015: 12%). The impairment charge is most sensitive to operating cash flows and a 5% change in this assumption would have impacted the impairment charge by £9 million.

An impairment charge in Engine Products – East, North America (GKN Aerospace) of £18 million follows a market change in demand for the electrochemical machining technology offered by this business. The charge comprises goodwill of £7 million and property, plant and equipment of £11 million. The remaining recoverable amount of £51 million represents its value in use, using a discount rate of 13% (2015: 12%). The impairment charge is most sensitive to operating cash flows and a 5% change in this assumption would have impacted the impairment charge by £3 million.

An impairment charge in Wheels China (GKN Land Systems) of £5 million following a significant period of market decline and loss of future orders. The charge comprises goodwill of £2 million and property, plant and equipment of £3 million. The remaining recoverable amount of £19 million represents its value in use, using a discount rate of 14% (2015: 13%). The impairment charge is most sensitive to operating cash flows and a 1% change in this assumption would have impacted the impairment charge by £3 million.

Significant judgements, assumptions and estimates

All CGUs' recoverable amounts were measured using value in use. Detailed forecasts for the next five years in Automotive and GKN Land Systems CGUs, and ten years in GKN Aerospace have been used which are based on approved annual budgets and strategic projections representing the best estimate of future performance. Operating cash flow projections covering the next ten years are used in GKN Aerospace as they incorporate the anticipated timing of volumes on current programmes. Management consider forecasting over this period to more appropriately reflect the length of business cycle of those CGUs' programmes.

Assumptions and estimates

In determining the value in use of CGUs it is necessary to make a series of assumptions to estimate the present value of future cash flows. In each case, these key assumptions have been made by management reflecting past experience and are consistent with relevant external sources of information.

Operating cash flows

The main assumptions within forecast operating cash flow include the achievement of future sales prices and volumes (including reference to specific customer relationships, product lines and the use of industry-relevant external forecasts of global vehicle production within Automotive businesses and consideration of specific volumes on certain military and commercial programmes within GKN Aerospace), raw material input costs, the cost structure of each CGU and the ability to realise benefits from annual productivity improvements, the impact of foreign currency rates upon selling price and cost relationships and the levels of maintaining capital expenditure required to support forecast production.

Pre-tax risk adjusted discount rates

Pre-tax risk adjusted discount rates are derived from risk-free rates based on long-term government bonds in the territory, or territories, within which each CGU operates or is exposed. A relative risk adjustment (or 'beta') has been applied to risk-free rates to reflect the risk inherent in each CGU relative to all other sectors on average, determined using an average of the betas of comparable listed companies.

The range of pre-tax risk adjusted discount rates set out below have been used for impairment testing. The range of rates reflects the mix of geographical territories within CGUs within the reportable segments.

GKN Aerospace:	UK 9% (2015: 9%), Europe 9% (2015: 8%) and North America 13% (2015: 12%).
GKN Driveline:	North and South America 16%-26% (2015: 14%-25%), Europe 10%-13% (2015: 9%-12%) and Japan and Asia Pacific region countries 12%-21% (2015: 10%-20%).
GKN Powder Metallurgy:	Europe 11% (2015: 10%), North America 16% (2015: 14%) and South America 26% (2015: 25%).
GKN Land Systems:	Europe 10%-13% (2015: 9%-12%), North America 16% (2015: 14%) and Asia Pacific 14% (2015: 13%).

Long-term growth rates

To forecast beyond the detailed cash flows into perpetuity, a long-term average growth rate has been used. In each case, this is not greater than the published International Monetary Fund average growth rate in gross domestic product for the next five-year period in the territory or territories where the CGU is primarily based or has exposure. This results in a range of nominal growth rates:

GKN Aerospace:	UK 3% (2015: 3%), Europe 3% (2015: 2%) and North America 3% (2015: 3%).
GKN Driveline:	North and South America 3%-5% (2015: 3%-6%), Europe 2%-4% (2015: 2%-4%) and Japan and Asia Pacific region countries 2%-9% (2015: 2%-10%).
GKN Powder Metallurgy:	Europe 3% (2015: 2%) and North America 3% (2015: 3%).
GKN Land Systems:	Europe 2%-3% (2015: 2%-4%) and North America 3% (2015: 3%).

12 Property, plant and equipment

	2016				
	Land and buildings £m	Plant and machinery £m	Other tangible assets £m	Capital work in progress £m	Total £m
Cost					
At 1 January 2016	**820**	**4,141**	**156**	**285**	**5,402**
Businesses acquired	**–**	**15**	**–**	**–**	**15**
Additions	**33**	**168**	**8**	**209**	**418**
Disposals	**(5)**	**(124)**	**(8)**	**–**	**(137)**
Businesses disposed	**(11)**	**(16)**	**(8)**	**(1)**	**(36)**
Transfers	**13**	**211**	**9**	**(233)**	**–**
Currency variations	**143**	**715**	**27**	**47**	**932**
At 31 December 2016	**993**	**5,110**	**184**	**307**	**6,594**
Accumulated depreciation and impairment					
At 1 January 2016	**280**	**2,805**	**117**	**–**	**3,202**
Charge for the year					
Charged to trading profit					
Depreciation	**26**	**226**	**11**	**–**	**263**
Impairment charges	**3**	**15**	**–**	**–**	**18**
Disposals	**(1)**	**(99)**	**(7)**	**–**	**(107)**
Businesses disposed	**(2)**	**(10)**	**(5)**	**–**	**(17)**
Currency variations	**50**	**497**	**18**	**–**	**565**
At 31 December 2016	**356**	**3,434**	**134**	**–**	**3,924**
Net book amount at 31 December 2016	**637**	**1,676**	**50**	**307**	**2,670**
	2015				
Cost					
At 1 January 2015	780	3,923	149	245	5,097
Businesses acquired	25	34	3	5	67
Additions	22	122	5	185	334
Disposals	(16)	(65)	(8)	–	(89)
Businesses disposed	(1)	(3)	–	–	(4)
Transfers	8	143	7	(158)	–
Currency variations	2	(13)	–	8	(3)
At 31 December 2015	820	4,141	156	285	5,402
Accumulated depreciation and impairment					
At 1 January 2015	251	2,670	116	–	3,037
Charge for the year					
Charged to trading profit					
Depreciation	21	188	9	–	218
Impairment charges	22	25	–	–	47
Disposals	(14)	(62)	(8)	–	(84)
Businesses disposed	(1)	(3)	–	–	(4)
Currency variations	1	(13)	–	–	(12)
At 31 December 2015	280	2,805	117	–	3,202
Net book amount at 31 December 2015	540	1,336	39	285	2,200

Included within other tangible assets at net book amount are fixtures, fittings and computers £47 million (2015: £37 million) and commercial vehicles and cars £3 million (2015: £2 million). The net book amount of assets under finance leases is £3 million (2015: £3 million) representing land and buildings only.

Impairment charges of £14 million (2015: £47 million) have been recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges', see note 11c for further details. There is a further £4 million impairment charge following the announced closure of the Yeovil, UK (GKN Aerospace) business, which has been recorded in the Income Statement as an adjusting and non-trading item within the line 'gains and losses on changes in group structure', see note 4d for further details.

13 Equity accounted investments

Group share of results

	2016 £m	2015 £m
Sales	**592**	458
Operating costs	**(503)**	(388)
Trading profit	**89**	70
Net financing costs	**(1)**	(1)
Profit before taxation	**88**	69
Taxation	**(15)**	(10)
Share of post-tax earnings	**73**	59

Group share of net book amount

	2016 £m	2015 £m
At 1 January	**195**	174
Share of post-tax earnings	**73**	59
Dividends paid	**(57)**	(55)
Businesses acquired	**–**	16
Currency variations	**22**	1
At 31 December	**233**	195

	2016 £m	2015 £m
Non-current assets	**171**	153
Current assets	**326**	256
Current liabilities	**(259)**	(202)
Non-current liabilities	**(5)**	(12)
	233	195

Equity accounted investments have no significant contingent liabilities to which the Group is exposed, nor has the Group any significant contingent liabilities in relation to its interest in the equity accounted investments. The share of capital commitments of the equity accounted investments is shown in note 27.

The Group has one significant joint venture within GKN Driveline, Shanghai GKN HUAYU Driveline Systems Co Limited (SDS), with 100% of sales of £870 million (2015: £746 million), trading profit of £153 million (2015: £134 million), an interest charge of £1 million (2015: nil) and a tax charge of £26 million (2015: £20 million) leaving retained profit of £126 million (2015: £114 million). Net assets of £341 million (2015: £286 million) comprise non-current assets of £236 million (2015: £206 million), current assets of £384 million (2015: £290 million), current liabilities of £279 million (2015: £210 million) and non-current liabilities of nil (2015: nil). During 2016, SDS paid a dividend to the Group of £54 million (2015: £52 million). Further information about SDS can be found in note 5 to the GKN plc company financial statements.

14 Other receivables and investments

	2016 £m	2015 £m
Investments	**7**	2
Indirect taxes and amounts recoverable under employee benefit plans	**18**	17
Other receivables	**24**	23
	49	42

Included in other receivables in 2015 was an indemnity asset of £7 million, which was sold with the disposal of Stromag, see note 4(d).

During the year, the Group acquired a 19.8% share in Nanjing FAYN Piston Ring Co. Ltd., a business based in China, for £5 million.

15 Inventories

	2016 £m	2015 £m
Raw materials	**535**	448
Work in progress	**566**	467
Finished goods	**330**	255
	1,431	1,170

Inventories of £58 million (2015: £49 million) are carried at fair value less costs of disposal. The amount of any write-down of inventory recognised as an expense in the year was £2 million (2015: nil).

16 Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**1,360**	1,094
Amounts owed by equity accounted investments	**11**	12
Other receivables	**187**	131
Prepayments	**36**	34
Indirect taxes recoverable	**54**	40
	1,648	1,311
Provisions for doubtful debts against trade receivables		
At 1 January	**(11)**	(10)
Charge for the year		
Additions	**(5)**	(4)
Unused amounts reversed	**5**	4
Amounts used	**2**	1
Currency variations	**(2)**	(2)
At 31 December	**(11)**	(11)
Trade receivables subject to provisions for doubtful debts	**13**	13
Ageing analysis of trade receivables and amounts owed by equity accounted investments past due but not impaired		
Up to 30 days overdue	**80**	64
31 to 60 days overdue	**16**	16
61 to 90 days overdue	**7**	4
More than 90 days overdue	**19**	31

There is no provision against other receivable categories.

17 Trade and other payables

	2016		2015	
	Current £m	Non-current £m	Current £m	Non-current £m
Amounts owed to suppliers and customers	**(1,586)**	**(38)**	(1,242)	(29)
Amounts owed to equity accounted investments	**(13)**	**–**	(12)	–
Accrued interest	**(25)**	**–**	(25)	–
Government refundable advances	**(13)**	**(83)**	(8)	(78)
Deferred and contingent consideration	**(6)**	**–**	–	(2)
Payroll taxes, indirect taxes and audit fees	**(113)**	**–**	(98)	(31)
Amounts due to employees and employee benefit plans	**(274)**	**(57)**	(216)	(36)
Government grants	**(2)**	**(14)**	(1)	(8)
Customer advances and deferred income	**(154)**	**(235)**	(155)	(241)
	(2,186)	**(427)**	(1,757)	(425)

Non-current amounts owed to suppliers and customers fall due within two years. Government refundable advances are forecast to fall due for repayment between 2017 and 2055. During 2016, £1 million of deferred and contingent consideration was paid in relation to milestone payments following the acquisition of Sheets Manufacturing Inc during 2015.

Included within amounts owed to suppliers and customers is £86 million (2015: £61 million) payable to banks in respect of supply chain finance arrangements.

Customer advances and deferred income comprises cash receipts from customers in advance of the Group completing its performance obligations. Non-current amounts in respect of customer advances and deferred income fall due as follows: one to two years £76 million (2015: £44 million), two to five years £83 million (2015: £108 million) and over five years £76 million (2015: £89 million).

18 Net borrowings

(a) Analysis of net borrowings

		Current	Non-current				Total
	Notes	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m	£m
2016							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	i	**–**	**–**	**–**	**(446)**	**(446)**	**(446)**
£350 million 6¾% 2019 unsecured bond	i	**–**	**–**	**(349)**	**–**	**(349)**	**(349)**
Unsecured committed bank borrowings							
European Investment Bank	i	**(16)**	**(16)**	**(16)**	**–**	**(32)**	**(48)**
2019 Committed Revolving Credit Facility		**–**	**–**	**–**	**–**	**–**	**–**
Other (net of unamortised issue costs)		**–**	**(2)**	**(7)**	**(4)**	**(13)**	**(13)**
Finance lease obligations	iii	**(1)**	**–**	**–**	**(2)**	**(2)**	**(3)**
Bank overdrafts		**(26)**	**–**	**–**	**–**	**–**	**(26)**
Other short-term bank borrowings		**(21)**	**–**	**–**	**–**	**–**	**(21)**
Borrowings		**(64)**	**(18)**	**(372)**	**(452)**	**(842)**	**(906)**
Bank balances and cash		**236**	**–**	**–**	**–**	**–**	**236**
Short-term bank deposits	ii	**175**	**–**	**–**	**–**	**–**	**175**
Cash and cash equivalents	iv	**411**	**–**	**–**	**–**	**–**	**411**
Other financial assets – bank deposits		**5**	**–**	**–**	**–**	**–**	**5**
Net borrowings (excluding cross-currency interest rate swaps)		**352**	**(18)**	**(372)**	**(452)**	**(842)**	**(490)**
Cross-currency interest rate swaps		**–**	**–**	**(122)**	**(92)**	**(214)**	**(214)**
Net debt		**352**	**(18)**	**(494)**	**(544)**	**(1,056)**	**(704)**
2015							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	i	–	–	–	(445)	(445)	(445)
£350 million 6¾% 2019 unsecured bond	i	–	–	(349)	–	(349)	(349)
Unsecured committed bank borrowings							
European Investment Bank	i	(16)	(16)	(32)	–	(48)	(64)
2019 Committed Revolving Credit Facility		–	–	–	–	–	–
Other (net of unamortised issue costs)		(9)	(11)	(8)	(3)	(22)	(31)
Finance lease obligations	iii	–	–	(1)	(2)	(3)	(3)
Bank overdrafts		(8)	–	–	–	–	(8)
Other short-term bank borrowings		(104)	–	–	–	–	(104)
Borrowings		(137)	(27)	(390)	(450)	(867)	(1,004)
Bank balances and cash		227	–	–	–	–	227
Short-term bank deposits	ii	72	–	–	–	–	72
Cash and cash equivalents	iv	299	–	–	–	–	299
Other financial assets – bank deposits		5	–	–	–	–	5
Net borrowings (excluding cross-currency interest rate swaps)		167	(27)	(390)	(450)	(867)	(700)
Cross-currency interest rate swaps		–	–	–	(69)	(69)	(69)
Net debt		167	(27)	(390)	(519)	(936)	(769)

Unsecured capital market borrowings include: an unsecured £350 million (2015: £350 million) 6¾% bond maturing in 2019 less unamortised issue costs of £1 million (2015: £1 million) and an unsecured £450 million (2015: £450 million) 5⅜% bond maturing in 2022 less unamortised issue costs of £4 million (2015: £5 million).

Unsecured committed bank borrowings include £48 million (2015: £64 million) drawn under the Group's European Investment Bank (EIB) unsecured facility which attracts a fixed interest rate of 4.1% per annum payable annually in arrears and a borrowing of £15 million (2015: £15 million) drawn against a KfW amortising unsecured facility which attracts a fixed interest rate of 1.65%. On 22 June 2016, the Group repaid the second of five annual instalments of £16 million on the EIB facility. There were no drawings (2015: nil) at the year end against the Group's 2019 Committed Revolving Credit Facilities of £800 million (2015: £800 million). Unamortised issue costs on the 2019 Committed Revolving Credit Facilities were £3 million (2015: £4 million).

Notes

(i) Denotes borrowings at fixed rates of interest until maturity. All other borrowings and cash and cash equivalents are at variable interest rates unless otherwise stated.
(ii) The average interest rate on short-term bank deposits was 0.2% (2015: 0.4%). Deposits at both 31 December 2016 and 31 December 2015 had a maturity date of less than one month.
(iii) Finance lease obligations gross of finance charges fall due as follows: £1 million within one year (2015: £1 million), £1 million in one to five years (2015: £1 million) and £5 million in more than five years (2015: £5 million).
(iv) £13 million (2015: £9 million) of the Group's cash and cash equivalents and bank deposits are held by the Group's captive insurance company to maintain solvency requirements and as collateral for Letters of Credit issued to the Group's principal external insurance providers. These funds cannot be circulated within the Group on demand.

(b) Fair values

	2016		2015	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings, other financial assets and cash and cash equivalents				
Other borrowings	**(856)**	**(970)**	(889)	(971)
Finance lease obligations	**(3)**	**(3)**	(3)	(3)
Bank overdrafts and other short-term bank borrowings	**(47)**	**(47)**	(112)	(112)
Bank balances and cash	**236**	**236**	227	227
Short-term bank deposits and other financial assets	**180**	**180**	77	77
	(490)	**(604)**	(700)	(782)
Trade and other payables				
Government refundable advances	**(96)**	**(122)**	(86)	(104)
Deferred and contingent consideration	**(6)**	**(6)**	(2)	(2)
	(102)	**(128)**	(88)	(106)

The following methods and assumptions were used in estimating fair values for financial instruments.

Unsecured bank overdrafts, other short-term bank borrowings, bank balances and cash, short-term bank deposits and other financial assets approximate to book value due to their short maturities. For other amounts, the repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at 31 December 2016. Bonds included within other borrowings have been valued using quoted closing market values.

19 Financial risk management

The Group's activities give rise to a number of financial risks: market risk, credit risk and liquidity risk. Market risk includes foreign currency risk and cash flow and fair value interest rate risk. The Group has in place risk management policies that seek to limit the effects of financial risk on financial performance. Derivative financial instruments include: forward foreign currency contracts, which are used to hedge risk exposures that arise in the ordinary course of business; and cross-currency interest rate swaps which hedge cash flows on the Group's debt. Further information is provided in the treasury management section of the Strategic Report.

Risk management policies have been set by the Board and are implemented by a central Treasury Department that receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The Treasury Department has a policy and procedures manual that sets out specific guidelines to manage foreign currency risks, interest rate risk, financial credit risk and liquidity risk and the use of financial instruments to manage these.

19 Financial risk management continued

(a) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases by operating subsidiaries in currencies other than the subsidiaries' functional currency. These exposures are forecast on a monthly basis by operating companies and are reported to the central Treasury Department. Under the Group's foreign currency policy, such exposures are hedged on a reducing percentage basis over a number of forecast time horizons using forward foreign currency contracts.

During the year, the Group designated US dollar and Swedish SEK loans as part of a net investment hedge of US dollar and SEK net assets. The Group also has a series of cross-currency interest rate swap instruments which in substance convert the 2019 and 2022 sterling bonds into US dollars ($951 million) and Euros (€284 million). These derivative instruments were also designated as net investment hedges, of US dollar and Euro net assets. Foreign exchange movements arising from net investment hedging are shown in note 20.

The Group's reporting currency for its consolidated financial statements is sterling. Changes in exchange rates will affect the translation of results and net assets of operations outside the UK. The Group's largest exposures are the Euro and the US dollar where a 1% movement in the average rate impacts trading profit of subsidiaries and equity accounted investments by £2 million and £4 million respectively.

Regarding financial instruments, a 1% strengthening of sterling against the currency rates indicated below would have the following impact on operating profit:

	Trading profit		
	Payables and receivables £m	Derivative financial instruments £m	Intra-group funding £m
Euro	1	(6)	1
US dollar	(1)	28	(10)

The derivative sensitivity analysis has been prepared by reperforming the calculations used to determine the balance sheet values adjusted for the changes in the individual currency rates indicated with all other cross-currency rates remaining constant. The sensitivity is a fair value change relating to derivatives for which the underlying transaction has not occurred at 31 December 2016. The Group intends to hold all such derivatives to maturity. The calculation for other items has been prepared based on an analysis of a currency balance sheet.

Analysis of net borrowings (excluding cross-currency interest rate swaps) by currency:

	2016			2015		
	Borrowings £m	**Cash and bank deposits £m**	**Total £m**	Borrowings £m	Cash and bank deposits £m	Total £m
Sterling	**(841)**	**190**	**(651)**	(856)	74	(782)
US dollar	**(4)**	**63**	**59**	(30)	61	31
Euro	**(26)**	**21**	**(5)**	(81)	70	(11)
Others	**(35)**	**142**	**107**	(37)	99	62
	(906)	**416**	**(490)**	(1,004)	304	(700)

(b) Interest rate risk

The Group is exposed to fair value interest rate risk on fixed rate borrowings and cash flow interest rate risk on variable rate net borrowings/funds. The Group's policy is to optimise the interest cost in reported earnings and reduce volatility in the debt related element of the Group's cost of capital. This policy is achieved by maintaining a target range of fixed and floating rate debt for discrete annual periods, over a defined time horizon. The Group's normal policy is to require interest rates to be fixed for 50% to 80% of the level of underlying borrowings forecast to arise over a 12-month horizon. At 31 December 2016, 96% (2015: 93%) of the Group's gross borrowings were subject to fixed interest rates.

As at 31 December 2016, £175 million (2015: £72 million) was in bank deposits and £5 million was on deposit with banks on the Isle of Man (2015: £5 million).

(c) Credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. In terms of substance, and consistent with the related balance sheet presentation, the Group considers it has two types of credit risk: operational and financial. Operational credit risk relates to non-performance by customers in respect of trade receivables and by suppliers in respect of other receivables. Financial credit risk relates to non-performance by banks and similar institutions in respect of cash and deposits, facilities and financial contracts, including forward foreign currency contracts and cross-currency interest rate swaps. Where the Group has an obligation to banks in respect of derivative contracts, its credit risk is taken into account with valuations recorded.

Operational

As tier one suppliers to aerospace, automotive and land systems original equipment manufacturers, the Group may have substantial amounts outstanding with a single customer at any one time. The credit profiles of such original equipment manufacturers are available from credit-rating agencies. The failure of any such customer to honour its debts could materially affect the Group's results. However, there are many advantages in these relationships. In Land Systems, there is a greater proportion of amounts receivable from small and medium-sized customers.

Credit risk and customer relationships are managed at a number of levels within the Group. At a subsidiary level, documented credit control reviews are required to be held at least every month. The scope of these reviews includes amounts overdue and credit limits. At a divisional level, debtor ratios, overdue accounts and overall performance are reviewed regularly. Provisions for doubtful debts are determined at these levels based upon the customer's ability to pay and other factors in the Group's relationship with the customer.

At 31 December, the largest five trade receivables as a proportion of total trade receivables analysed by major segment is as follows:

	2016 **%**	2015 %
GKN Aerospace	**65**	58
GKN Driveline	**60**	58
GKN Powder Metallurgy	**28**	24
GKN Land Systems	**24**	24

The amount of trade receivables outstanding at the year end does not represent the maximum exposure to operational credit risk due to the normal patterns of supply and payment over the course of a year. Based on management information collected as at month ends the maximum level of trade receivables at any one point during the year was £1,557 million (2015: £1,240 million).

Financial

Credit risk is mitigated by the Group's policy of only selecting counterparties with a strong investment grade long-term credit rating, normally at least A- or equivalent, and assigning financial limits to individual counterparties.

The maximum exposure with a single bank for deposits is £53 million (2015: £30 million), however, the Group is not exposed to mark-to-market risk for forward foreign currency contracts at 31 December 2016 as all counterparties were in a liability position (2015: nil).

(d) Capital risk management

The Group defines capital as total equity. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure which optimises the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

19 Financial risk management continued

(d) Capital risk management continued

The Group's two external banking covenants require an EBITDA of subsidiaries to net interest payable and receivable ratio of 3.5 times or more and net debt to EBITDA of subsidiaries ratio of 3 times or less measured at 30 June and 31 December. For the purpose of testing net debt to EBITDA, there is also a requirement to recalculate reported net debt using the Group's average exchange rates, as quoted in the Business Review, over the relevant financial year. The ratios at 31 December 2016 and 2015 were as follows:

	2016 £m	2015 £m
EBITDA	**1,014**	870
Net interest payable and receivable	**(79)**	(65)
EBITDA to net interest payable and receivable ratio	**12.8 times**	13.4 times

	2016 £m	2015 £m
Net debt	**704**	769
EBITDA	**1,014**	870
Net debt to EBITDA ratio	**0.7 times**	0.9 times

Net debt for the year ended 31 December 2016 using average exchange rates was £626 million (2015: £732 million) which results in a net debt to EBITDA ratio of 0.6 times (2015: 0.8 times).

The Group monitors these ratios on a rolling basis and they are part of the budgeting and forecasting processes.

(e) Liquidity risk

The Group is exposed to liquidity risk as part of its normal financing and trading cycle at times when peak borrowings are required. Borrowings normally peak in May and September following dividend and bond coupon payments. The Group's policies are to ensure that sufficient liquidity is available to meet obligations when they fall due and to maintain sufficient flexibility in order to fund investment and acquisition objectives. Liquidity needs are assessed through short- and long-term forecasts, and committed bank facilities under a revolving credit facility total £800 million which expires in 2019. There were no drawings on these facilities at 31 December 2016. In addition, the Group's European Investment Bank unsecured facility (£48 million) is repayable in three remaining equal annual instalments of £16 million in June 2017 to 2019. Committed facilities are provided through 14 banks.

The Group also maintains £121 million of uncommitted facilities, provided by five banks. There were no drawings against these facilities at 31 December 2016.

Maturity analysis of borrowings, derivatives and other financial liabilities

	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
2016					
Borrowings (note 18)	**(64)**	**(18)**	**(372)**	**(452)**	**(906)**
Contractual interest payments and finance lease charges	**(50)**	**(49)**	**(97)**	**(27)**	**(223)**
Government refundable advances	**(13)**	**(11)**	**(28)**	**(125)**	**(177)**
Deferred and contingent consideration	**(6)**	**–**	**–**	**–**	**(6)**
Derivative financial instruments liabilities – receipts	**1,333**	**719**	**1,409**	**634**	**4,095**
Derivative financial instruments liabilities – payments	**(1,538)**	**(866)**	**(1,779)**	**(765)**	**(4,948)**
2015					
Borrowings (note 18)	(137)	(27)	(390)	(450)	(1,004)
Contractual interest payments and finance lease charges	(63)	(51)	(123)	(51)	(288)
Government refundable advances	(8)	(13)	(21)	(122)	(164)
Deferred and contingent consideration	–	(2)	–	–	(2)
Derivative financial instruments liabilities – receipts	1,266	730	1,411	657	4,064
Derivative financial instruments liabilities – payments	(1,410)	(829)	(1,595)	(685)	(4,519)

There is no significant difference in the contractual undiscounted value of other financial assets and liabilities from the amounts stated in the balance sheet and balance sheet notes.

(f) Categories of financial assets and financial liabilities

	Loans and receivables £m	Amortised cost £m	Held for trading: Financial assets £m	Held for trading: Financial liabilities £m	Total £m
2016					
Other receivables	**24**	**–**	**–**	**–**	**24**
Trade and other receivables	**1,558**	**–**	**–**	**–**	**1,558**
Derivative financial instruments	**–**	**–**	**44**	**(727)**	**(683)**
Cash and cash equivalents	**411**	**–**	**–**	**–**	**411**
Other financial assets – bank deposits	**5**	**–**	**–**	**–**	**5**
Borrowings	**–**	**(906)**	**–**	**–**	**(906)**
Trade and other payables	**–**	**(1,764)**	**–**	**–**	**(1,764)**
Provisions	**–**	**(26)**	**–**	**–**	**(26)**
	1,998	**(2,696)**	**44**	**(727)**	**(1,381)**
2015					
Other receivables	23	–	–	–	23
Trade and other receivables	1,237	–	–	–	1,237
Derivative financial instruments	–	–	34	(445)	(411)
Cash and cash equivalents	299	–	–	–	299
Other financial assets – bank deposits	5	–	–	–	5
Borrowings	–	(1,004)	–	–	(1,004)
Trade and other payables	–	(1,396)	–	–	(1,396)
Provisions	–	(33)	–	–	(33)
	1,564	(2,433)	34	(445)	(1,280)

IFRS 13

The financial instruments that are measured subsequent to initial recognition at fair value are forward currency contracts, cross-currency interest rate swaps and embedded derivatives. All of these financial instruments are classified as Level 2 fair value measurements, as defined by IFRS 7, being those derived from inputs other than quoted prices that are observable.

The fair values of financial assets and financial liabilities have been determined with reference to available market information at the balance sheet date, using the methodologies described in their relevant notes:

- Forward foreign currency contracts, cross-currency interest rate swaps and embedded derivatives, see note 20.
- Unsecured bank overdrafts, other short-term bank borrowings, bank balances and cash, short-term bank deposits and other financial assets, see note 18.
- Bonds included within other borrowings, see note 18.
- Fair values of trade and other receivables and payables, short-term investments and cash and cash equivalents are assumed to approximate to cost due to the short-term maturity of the instruments and as the impact of discounting is not significant.

The discounted contingent element of deferred and contingent consideration of £1 million (2015: £2 million) is categorised as a Level 3 fair value measurement. All other financial assets and liabilities together with calculations for fair value less costs of disposal were categorised as Level 2.

20 Derivative financial instruments

(a) The balances at 31 December 2016 comprise:

	2016					2015				
	Assets		Liabilities			Assets		Liabilities		
	Non-current £m	Current £m	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Non-current £m	Current £m	Total £m
Forward currency contracts										
Not hedge accounted	**2**	**11**	**(293)**	**(202)**	**(482)**	3	10	(214)	(150)	(351)
Embedded derivatives	**23**	**8**	**(14)**	**(4)**	**13**	18	3	(11)	(1)	9
Cross-currency interest rate swaps	**–**	**–**	**(214)**	**–**	**(214)**	–	–	(69)	–	(69)
	25	**19**	**(521)**	**(206)**	**(683)**	21	13	(294)	(151)	(411)

(b) The movement in derivative financial instruments during the year was:

	Forward currency contracts £m	Embedded derivatives £m	Cross-currency interest rate swaps £m	Total £m
At 1 January 2016	**(351)**	**9**	**(69)**	**(411)**
Charge to 'change in value of derivative and other financial instruments'	**(135)**	**4**	**–**	**(131)**
Credit to 'other net financing charges'	**–**	**–**	**18**	**18**
Cash paid	**–**	**–**	**9**	**9**
Acquisition-related unwind	**4**	**–**	**–**	**4**
Charge to 'interest payable'	**–**	**–**	**(12)**	**(12)**
Charge to equity	**–**	**–**	**(160)**	**(160)**
At 31 December 2016	**(482)**	**13**	**(214)**	**(683)**

Net investment hedging

In addition to the £160 million charge (2015: £26 million charge) from a spot rate foreign exchange movement on cross-currency interest rate swaps, designated as a net investment hedge, there is a further £17 million charge (2015: £11 million charge) from foreign exchange movements on loans designated as net investment hedges. This £177 million charge (2015: £37 million charge) is recorded in other comprehensive income.

Cash flow hedging

In order to mitigate exposure to foreign currency risk on the consideration paid to acquire Fokker Technologies during 2015, the Group entered into a number of forward currency contracts to fix the sterling value of the Euro denominated consideration. Cash flow hedge accounting was applied as the purchase was deemed a highly probable transaction, which resulted in a 'gain' of £5 million being taken to the hedging reserve. On settlement of the consideration on 28 October 2015, the £5 million gain was recycled into the purchase price used for calculating goodwill.

Significant judgement and estimates

Forward foreign currency contracts, cross-currency interest rate swaps and embedded derivatives are marked to market using market observable rates and published prices together with forecast cash flow information where applicable. The assumptions used include currency yield curves and estimates of interest applicable to the contractual timeframes.

The amounts in respect of embedded derivatives represent commercial contracts denominated in US dollars between European Aerospace subsidiaries and customers outside the US.

21 Provisions

	Contract provisions £m	Warranty £m	Claims and litigation £m	Employee obligations £m	Other £m	Total £m
At 1 January 2016	(33)	(56)	(37)	(21)	(9)	(156)
Businesses disposed	–	–	–	8	–	8
Net (charge)/credit for the year:						
Additions	–	(29)	(7)	(4)	(16)	(56)
Unused amounts reversed	2	10	6	5	5	28
Unwind of discounts	(2)	–	–	–	–	(2)
Amounts used	8	14	18	2	1	43
Currency variations	(1)	(7)	(5)	(3)	(2)	(18)
At 31 December 2016	(26)	(68)	(25)	(13)	(21)	(153)
Due within one year	(4)	(38)	(16)	(3)	(10)	(71)
Due in more than one year	(22)	(30)	(9)	(10)	(11)	(82)
	(26)	(68)	(25)	(13)	(21)	(153)

The warranty provision has been increased by £13 million from the amount carried forward at 1 January 2016 to £56 million with a corresponding decrease to the claims and litigation provision to £37 million. This follows finalisation of the acquisition accounting for Fokker Technologies Group B.V. acquired in 2015.

Significant judgements and estimates
While estimating provisions requires judgement, in the majority of cases the range of reasonably possible outcomes is narrow. In one instance management has taken a judgement over a material warranty matter, having assessed internal legal advice and given due consideration to an ongoing commercial relationship. When establishing the amount to record for a provision of this nature, estimates of product volume and likely cost of rectification, including the potential for penalties, are taken into account.

After consideration of sensitivity analysis, amounts stated represent management's best estimate of the likely outcome.

Contract provisions
The Group has a small number of onerous contracts and a non-beneficial lease arrangement, primarily arising on business combinations and contractual dispute matters. Onerous contracts relate to customer programmes where the unavoidable costs of delivering product are in excess of contracted sales prices. Utilisation of the provision due in more than one year is estimated as £3 million in 2018 and £19 million from 2019.

Warranty
Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations attaching to the supply of goods or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. In the event of a claim, settlement will be negotiated with the customer based on supply of replacement products and compensation for the customer's associated costs. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer. Utilisation of the provision due in more than one year is estimated as £13 million in 2018 and £17 million from 2019.

Claims and litigation
Claims provisions are held in the Group's captive insurance company and amount to £11 million (2015: £9 million). Claims provisions and charges are established in accordance with external insurance and actuarial advice.

Legal provisions amounting to £6 million (2015: £23 million) relate to management estimates of amounts required to settle or remove litigation actions that have arisen in the normal course of business or taken on as a result of a business combination. Further details of legal matters are not provided to avoid the potential of seriously prejudicing the Group's stance in law. Amounts unused and reversed only arise when the matter is formally settled or when a material change in the litigation action occurs where legal advice confirms lower amounts need to be retained to cover the exposure.

As a consequence of primarily legacy activities a small number of sites in the Group are subject to environmental remediation actions, which in all cases are either agreed formally with relevant local and national authorities and agencies or represent management's view of the likely outcome having taken appropriate expert advice and following consultation with appropriate authorities and agencies. Amounts of £8 million (2015: £5 million) are provided.

Utilisation of the claims and litigation provision due in more than one year is estimated as £5 million in 2018 and £4 million from 2019.

21 Provisions continued

Employee obligations

Long service non-pension and other employee-related obligations arising primarily in the Group's continental European subsidiaries amount to £13 million (2015: £21 million). Utilisation of the provision due in more than one year is estimated as £4 million in 2018 and £6 million from 2019.

Other

Other provisions include £10 million (2015: £1 million) in relation to reorganisation arising from the Group's strategic restructuring programmes and £11 million (2015: £8 million) relating to other customer and supplier exposures. Utilisation of the provision due in more than one year is estimated as £5 million in 2018 and £6 million from 2019.

22 Share capital

	Issued and Fully Paid	
	2016 £m	2015 £m
Ordinary shares of 10p each	**173**	173

	2016 Number 000s	2015 Number 000s
Ordinary shares of 10p each		
At 1 January	**1,726,104**	1,660,530
Shares issued	**–**	65,574
At 31 December	**1,726,104**	1,726,104

At 31 December 2016, there were 11,629,654 ordinary shares of 10p each, with a total nominal value of £1 million, held as treasury shares (2015: 12,168,928 ordinary shares of 10p each, with a total nominal value of £1 million). A total of 539,274 (2015: 5,628,988) shares were transferred out of treasury during 2016 to satisfy the exercise of awards by participants under the Company's share incentive schemes. The remaining treasury shares, which represented 0.7% (2015: 0.7%) of the called up share capital at the end of the year, have not been cancelled but are held as treasury shares and represent a deduction from shareholders' equity.

At 31 December 2016, the GKN Employee Share Ownership Plan Trust ('the Trust') held 2,013,467 ordinary shares (2015: 2,518,624). No shares were purchased by the Trust during 2016 (2015: 2,476,894 shares were purchased for cash consideration of £7 million). During the year a total of 505,157 (2015: 144,922) shares were transferred out of the Trust to satisfy the vesting and exercise of awards of ordinary shares made under the Company's share incentive schemes. The remaining Trust shares will be used to satisfy future awards. A dividend waiver operates in respect of shares held by the Trust.

During the year, shares issued from treasury under share incentive schemes generated a cash inflow of £1 million (2015: £2 million).

On 30 July 2015, the Company conducted an equity placing of 65,573,771 ordinary shares of 10p each with a total nominal value of £7 million, at a price of £3.05 per share, to raise a total of £200 million before transaction costs of £2 million, which were taken to the Share Premium Account, as a deduction from equity.

23 Cash flow reconciliations

Cash generated from operations	2016 £m	2015 £m
Operating profit	**335**	323
Adjustments for:		
Depreciation, impairment and amortisation of fixed assets		
Charged to trading profit		
Depreciation	**263**	218
Amortisation	**67**	43
Amortisation of non-operating intangible assets arising on business combinations	**103**	80
Impairment charges	**52**	71
Change in value of derivative and other financial instruments	**154**	122
Gains and losses on changes in Group structure	**9**	1
Amortisation of government capital grants	**(2)**	(2)
Net profits on sale and realisation of fixed assets	**(3)**	(3)
Charge for share-based payments	**5**	1
Movement in post-employment obligations	**(75)**	(51)
Change in inventories	**(78)**	(33)
Change in receivables	**(151)**	110
Change in payables and provisions	**99**	5
	778	885

Movement in net debt	2016 £m	2015 £m
Movement in cash and cash equivalents	**41**	(11)
Net movement in other borrowings and deposits	**141**	(60)
Movement on finance leases	**–**	(2)
Movement on cross-currency interest rate swaps	**(145)**	(43)
Movement on other net investment hedges	**(17)**	(11)
Amortisation of debt issue costs	**(2)**	(2)
Currency variations	**47**	(16)
Movement in year	**65**	(145)
Net debt at beginning of year	**(769)**	(624)
Net debt at end of year	**(704)**	(769)

Reconciliation of cash and cash equivalents	2016 £m	2015 £m
Cash and cash equivalents per balance sheet	**411**	299
Bank overdrafts included within ‘current liabilities – borrowings’	**(26)**	(8)
Cash and cash equivalents per cash flow	**385**	291

24 Post-employment obligations

Post-employment obligations as at the year end comprise:		2016 £m	2015 £m
Pensions	– funded	**(1,285)**	(977)
	– unfunded	**(662)**	(505)
Medical	– funded	**(37)**	(30)
	– unfunded	**(49)**	(46)
		(2,033)	(1,558)

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world. In addition, in the US and UK various plans operate which provide members with post-retirement medical benefits. The Group's post-employment plans in the UK, US and Germany together account for 98% of plan assets and 98% of plan liabilities.

The Group's post-employment plans include both funded and unfunded arrangements. The UK pension schemes are funded, albeit in deficit in common with many other UK pension schemes, with the scheme assets held in trustee-administered funds. The German and other European plans are generally unfunded, with pension payments made from company funds as they fall due, rather than from scheme assets. The US schemes include a combination of funded and unfunded pension and medical plans, while Japan also operates a funded pension plan.

The Group's defined benefit pension arrangements provide benefits to members in the form of an assured level of pension payable for life. The level of benefits provided typically depends on length of service and salary levels in the years leading up to retirement. In the UK and Germany, pensions in payment are generally updated in line with inflation, whereas in the US pensions generally do not receive inflationary increases once in payment. The UK and German schemes are closed to new entrants, while the US schemes are closed to future accrual.

Independent actuarial valuations of all major defined benefit scheme assets and liabilities were carried out at 31 December 2016. The present value of the defined benefit obligation and the related service cost elements were measured using the projected unit credit method.

(a) Defined benefit schemes – assumptions and estimates

Estimating the post-employment obligation involves a number of significant assumptions, which are detailed below.

Key assumptions and estimates:

	UK					
	GKN1 %	GKN2 %	GKN3 %	Americas %	Europe %	ROW %
2016						
Rate of increase in pensionable salaries (past/future service)	**n/a**	**4.30/4.25**	**n/a**	**n/a**	**2.50**	**–**
Rate of increase in payment and deferred pensions	**n/a**	**3.20**	**3.30**	**n/a**	**1.75**	**n/a**
Discount rate (past/future service)	**n/a**	**2.60/2.70**	**2.45**	**4.10**	**1.60**	**0.50**
Inflation assumption (past/future service)	**n/a**	**3.30/3.25**	**3.35**	**n/a**	**1.75**	**n/a**
Rate of increase in medical costs:						
Initial/long-term		**5.4/5.4**		**6.75/5.0**	**n/a**	**n/a**
2015						
Rate of increase in pensionable salaries (past/future service)	n/a	4.10/4.15	n/a	n/a	2.50	–
Rate of increase in payment and deferred pensions	3.05	3.10	n/a	n/a	1.75	n/a
Discount rate (past/future service)	3.55	3.85/4.05	n/a	4.30	2.40	0.80
Inflation assumption (past/future service)	3.05	3.10/3.15	n/a	n/a	1.75	n/a
Rate of increase in medical costs:						
Initial/long-term		5.4/5.4		7.0/5.0	n/a	n/a

The assumptions table above specifies separate assumptions for past and future service in relation to the UK pension scheme. This approach is consistent with that taken in 2015, whereby a different, 'future service' set of assumptions will be used to determine the service cost for the following year. This reflects market practice and is based on the premise that active members of the scheme are younger and have, on average, longer remaining life expectancy than an average scheme member. Given that yield curves typically rise over time, this longer duration implies a higher discount rate for the 'active' sub-set of members which has been set at 2.70%, as at 31 December 2016.

The GKN1 scheme is in the process of being wound up which commenced in December 2016. The residual liabilities have been transferred to the new GKN3 scheme.

The UK schemes each use a duration-specific discount rate derived from the Mercer pension discount yield curve, which is based on corporate bonds with two or more AA-ratings. The European discount rate was calculated with reference to Aon Hewitt's German discount rate yield curve. For the US, the discount rate referenced the Citigroup intermediate pension liability index, the Merrill Lynch US corporate AA 10+ years index and the Towers Watson Rate:LINK benchmark. The approach taken in each territory is consistent with the prior year.

The underlying mortality assumptions for the major schemes, are as follows:

UK

The key current year mortality assumptions for both GKN2 and GKN3 use S2PA year of birth mortality tables (adjusted for GKN experience) with CMI 2015 improvements and a 1.5% per annum long-term improvement trend. These assumptions give the following expectations for each scheme: for GKN3 a male aged 65 lives for a further 22.4 years and a female aged 65 lives for a further 25.0 years, while a male aged 45 is expected to live a further 24.5 years from age 65 and a female aged 45 is expected to live a further 27.4 years from age 65. For GKN2 a male aged 65 lives for a further 22.5 years and a female aged 65 lives for a further 25.6 years, while a male aged 45 is expected to live a further 24.9 years from age 65 and a female aged 45 is expected to live a further 28.0 years from age 65.

Overseas

In the US, RP-2014 tables have been used, while in Germany the RT2005-G tables have been used. In the US, the longevity assumption for a male aged 65 is that he lives a further 20.8 years (female 22.8 years), while in Germany a male aged 65 lives for a further 19.1 years (female 23.2 years). The longevity assumption for a US male currently aged 45 is that he also lives for a further 22.4 years once attaining 65 years (female 24.4 years), with the German equivalent assumption for a male being 21.8 years (female 25.7 years). These assumptions are based on the prescribed tables, rather than GKN experience.

Assumption sensitivity analysis

The impact of a one percentage point movement in the primary assumptions (longevity: 1 year) on the defined benefit obligations as at 31 December 2016 is set out below:

	UK	Americas	Europe	ROW
	Liabilities £m	Liabilities £m	Liabilities £m	Liabilities £m
Discount rate +1%	535	41	104	3
Discount rate -1%	(709)	(50)	(136)	(2)
Rate of inflation +1%	(556)	(1)	(89)	–
Rate of inflation -1%	463	–	74	–
Life expectancy +1 year	(126)	(9)	(26)	–
Life expectancy -1 year	126	10	23	–
Health cost trend +1%	(2)	(2)	–	–
Health cost trend -1%	2	2	–	–

The above sensitivity analyses are based on isolated changes in each assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and there is likely to be some level of correlation between movements in different assumptions. In addition, these sensitivities relate only to potential movement in the defined benefit obligations. The assets, including derivatives held by the schemes, have been designed to mitigate the impact of these movements to some extent, such that the movements in the defined benefit obligations shown above would, in practice, be partly offset by movements in asset valuations. However, the above sensitivities are shown to illustrate at a high level the scale of sensitivity of the defined benefit obligations to key actuarial assumptions.

The same actuarial methods have been used to calculate these sensitivities as are used to calculate the relevant balance sheet values, and have not changed compared to the previous period.

Pension partnership interest

During the year, the Group has paid £30 million (2015: £30 million) to the UK pension schemes through its pension partnership arrangement and this is included within the amount of contributions/benefits paid.

24 Post-employment obligations continued

(a) Defined benefit schemes – assumptions and estimates continued

Pensioner buy-out

In December 2016, the Company commenced the winding-up of the GKN Group Pension Scheme (GKN1). The benefits were settled through a combination of:

- a buy-out secured with Pension Insurance Corporation for a premium of £190 million;
- paying Winding-Up Lump Sums and trivial commutations to members with small-value benefits; and
- transfer of liabilities to a new GKN Group Pension Scheme 2016 (GKN3).

This transaction involved a specific contribution of £15 million from the Company to Scheme and resulted in the removal of £268 million of liabilities and £263 million of assets from the balance sheet. This has resulted in an overall settlement gain of £5 million (net of expenses) in the income statement.

(b) Defined benefit schemes – reporting

The amounts included in operating profit are:

	2016 £m	2015 £m
Current service cost and administrative expenses	**(51)**	(53)
Past service credit – net	**–**	4
Settlements/curtailments	**5**	–
	(46)	(49)

The amounts recognised in the balance sheet are:

	2016					
	UK £m	Americas £m	Europe £m	ROW £m	Total £m	2015 £m
Present value of unfunded obligations	**(17)**	**(43)**	**(648)**	**(3)**	**(711)**	(551)
Present value of funded obligations	**(3,497)**	**(332)**	**(40)**	**(33)**	**(3,902)**	(3,567)
Fair value of plan assets	**2,293**	**227**	**37**	**23**	**2,580**	2,560
Net obligations recognised in the balance sheet	**(1,221)**	**(148)**	**(651)**	**(13)**	**(2,033)**	(1,558)

The Group's UK defined benefit pension schemes are currently undergoing triennial funding valuations with an effective date of 5 April 2016 for GKN2 and 31 December 2016 for GKN3. Once the valuation process is complete, the funding deficit in each scheme will be confirmed and any incremental deficit contributions payable by the Group will be established. It is likely that some additional Group funding will be required, but given the stage of negotiations with the scheme trustees and the many variables involved in both establishing the valuation and agreeing any resulting recovery plan, the final outcome cannot currently be predicted with any reasonable degree of certainty. Following the previous triennial valuation in the UK, additional deficit funding payments of £10 million per year have continued and there is potential for further payments commencing in 2017, contingent upon asset performance. In addition, the Group agreed, during 2014, to pay £2 million per year for four years to the UK scheme, GKN1, to cover a funding requirement arising from a £123 million bulk annuity purchase and this payment will continue in 2017 to GKN3.

The combined contribution for deficit funding and future accrual expected to be paid by the Group during 2017 to the UK schemes is £43 million. In addition, a distribution of £30 million is expected to be made from the UK pension partnership to the UK schemes in the first half of 2017, which brings the total expected UK cash requirement for 2017 to £79 million. The expected 2017 contribution to overseas schemes is £30 million.

Cumulative remeasurement of defined benefit plan differences recognised in equity are as follows:

	2016 £m	2015 £m
At 1 January	**(1,073)**	(1,212)
Remeasurement of defined benefit plans	**(396)**	139
At 31 December	**(1,469)**	(1,073)

Movement in schemes' obligations (funded and unfunded) during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2016	**(3,234)**	**(319)**	**(531)**	**(34)**	**(4,118)**
Current service cost	**(35)**	**(1)**	**(9)**	**(3)**	**(48)**
Businesses disposed	**–**	**–**	**12**	**–**	**12**
Settlements and curtailments	**268**	**–**	**2**	**–**	**270**
Administrative expenses	**(3)**	**–**	**–**	**–**	**(3)**
Interest	**(119)**	**(15)**	**(13)**	**–**	**(147)**
Remeasurement of defined benefit plans	**(540)**	**5**	**(82)**	**5**	**(612)**
Benefits and administrative expenses paid	**149**	**17**	**22**	**3**	**191**
Currency variations	**–**	**(62)**	**(89)**	**(7)**	**(158)**
At 31 December 2016	**(3,514)**	**(375)**	**(688)**	**(36)**	**(4,613)**
At 1 January 2015	(3,382)	(331)	(593)	(32)	(4,338)
Current service cost	(40)	–	(8)	(2)	(50)
Past service credit/(cost)	6	–	(2)	–	4
Businesses acquired	–	–	(7)	–	(7)
Settlements and curtailments	–	–	1	–	1
Administrative expenses	(2)	(1)	–	–	(3)
Interest	(115)	(13)	(11)	–	(139)
Remeasurement of defined benefit plans	150	27	39	–	216
Benefits and administrative expenses paid	149	16	20	2	187
Currency variations	–	(17)	30	(2)	11
At 31 December 2015	(3,234)	(319)	(531)	(34)	(4,118)

Movement in schemes' assets during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2016	**2,322**	**186**	**33**	**19**	**2,560**
Interest	**85**	**8**	**1**	**–**	**94**
Settlements and curtailments	**(263)**	**–**	**(2)**	**–**	**(265)**
Businesses disposed	**–**	**–**	**(1)**	**–**	**(1)**
Remeasurement of defined benefit plans	**207**	**7**	**2**	**–**	**216**
Contributions by Group	**87**	**6**	**1**	**2**	**96**
Benefits paid	**(145)**	**(17)**	**(2)**	**(2)**	**(166)**
Currency variations	**–**	**37**	**5**	**4**	**46**
At 31 December 2016	**2,293**	**227**	**37**	**23**	**2,580**
At 1 January 2015	2,377	195	37	18	2,627
Interest	81	8	1	–	90
Settlements and curtailments	–	–	(1)	–	(1)
Remeasurement of defined benefit plans	(64)	(14)	1	–	(77)
Contributions by Group	75	4	–	2	81
Benefits paid	(147)	(16)	(3)	(2)	(168)
Currency variations	–	9	(2)	1	8
At 31 December 2015	2,322	186	33	19	2,560

24 Post-employment obligations continued

(b) Defined benefit schemes – reporting continued

Remeasurement gains and losses in relation to schemes' obligations are as follows:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
2016					
Experience gains and losses	**210**	**6**	**1**	**–**	**217**
Changes in financial assumptions	**(715)**	**(8)**	**(83)**	**5**	**(801)**
Change in demographic assumptions	**(35)**	**7**	**–**	**–**	**(28)**
	(540)	**5**	**(82)**	**5**	**(612)**
2015					
Experience gains and losses	2	5	(3)	–	4
Changes in financial assumptions	148	15	42	–	205
Change in demographic assumptions	–	7	–	–	7
	150	27	39	–	216

The fair values of the assets in the schemes were:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 31 December 2016					
Equities (including hedge funds)	**607**	**107**	**–**	**12**	**726**
Diversified growth funds	**558**	**–**	**–**	**–**	**558**
Bonds – government	**540**	**53**	**–**	**9**	**602**
Bonds – corporate	**245**	**63**	**–**	**–**	**308**
Property	**138**	**–**	**–**	**–**	**138**
Cash, derivatives and net current assets	**23**	**4**	**–**	**–**	**27**
Other assets	**182**	**–**	**37**	**2**	**221**
	2,293	**227**	**37**	**23**	**2,580**
At 31 December 2015					
Equities (including hedge funds)	855	82	–	10	947
Diversified growth funds	257	–	–	–	257
Bonds – government	361	41	–	6	408
Bonds – corporate	537	57	–	–	594
Property	135	–	–	–	135
Cash, derivatives and net current assets	1	6	–	1	8
Other assets	176	–	33	2	211
	2,322	186	33	19	2,560

As at 31 December 2016, the equities in the UK asset portfolio were split 27% domestic (2015: 26%); 73% foreign (2015: 74%), while bond holdings were 97% domestic (2015: 88%) and 3% foreign (2015: 12%). The equivalent proportions for the US plans were: equities 41%/59% (2015: 42%/58%); bonds 89%/11% (2015: 88%/12%).

(c) Defined benefit scheme – risk factors

Through its various post-employment pension and medical plans, the Group is exposed to a number of risks, the most significant of which are detailed below. The Group's focus is on managing the cash demands which the various pension plans place on the Group, rather than balance sheet volatility in its own right. For funded schemes, cash requirements are generally determined by funding valuations which are performed on a different basis from accounting valuations.

Asset volatility: plan liabilities are calculated using discount rates set with reference to bond yields (although the discount rate methodology differs for accounting and funding purposes). If plan assets deliver a return which is lower than the discount rate, this will create or increase a plan deficit. GKN's various pension plans hold a significant proportion of equities and similar 'growth assets', which are expected to out-perform bonds in the long term, albeit at the risk of short-term volatility.

As the plans mature, with a shorter time horizon to cope with volatility, the Group will gradually reduce holdings of growth assets in favour of increased matching assets (bonds and similar). In the meantime, the Group considers that equities and similar assets are an appropriate means of managing pension funding requirements, given the long-term nature of the liabilities and the strength of the Group to withstand volatility.

Changes in bond yields: a decrease in bond yields will typically increase plan liabilities (and vice versa), although this will be offset partially by an increase in the value of bonds held in the asset portfolios of the various plans. The effect of changes in bond yields is more pronounced in unfunded schemes where there is no potential for an offsetting movement in asset values.

Inflation risk: as UK and some European pension obligations are linked to inflation, higher inflation expectations will lead to higher liabilities, although caps are in place to protect against unusually high levels of inflation. The UK asset portfolio includes some inflation-linked bonds to provide an element of protection against this risk, while additional protection is provided by inflation derivatives.

Member longevity: as the Group's post-employment obligations are generally to provide benefits for the life of the member, increases in life expectancy will generally result in an increase in plan liabilities (and vice versa).

(d) Defined benefit schemes – demographic factors

Weighted average duration is a measurement technique designed to represent the estimated average time to payment of all cash flows arising as a result of defined benefit obligations (i.e. pension payments and similar). The weighted average duration (years) of the defined benefit obligations in the UK, US and Germany are as follows:

		2016 years	2015 years
UK	GKN1	**–**	11
	GKN2	**19**	17
	GKN3	**11**	–
US		**12**	13
Germany		**18**	14

Defined benefit obligations are classified into those representing 'active' members of a scheme or plan (i.e. those who are currently employed by the Group), 'deferred' members (i.e. those who have accrued benefit entitlements, but who are no longer employed by the Group and are not yet drawing a pension) and 'pensioner' members (ie. those who are currently in receipt of a pension). Additional information regarding the average age, number of members and value of the defined benefit obligation in each of these categories for the UK, US and Germany are given below:

		Active			Deferred			Pensioner		
		Age	Number	Value £m	Age	Number	Value £m	Age	Number	Value £m
UK	GKN1	–	–	–	–	–	–	–	–	–
	GKN2	48	3,922	782	53	6,556	862	72	7,545	1,244
	GKN3	–	–	–	56	3,156	73	80	9,779	536
US		54	2,367	111	57	1,216	43	75	4,413	206
Germany		55	2,386	293	57	843	53	72	3,068	280

Within the UK, there are two pension schemes referred to as GKN2 and GKN3 (GKN1 is in the process of being wound up, and there were no members in the scheme at the year end). GKN3 is a mature scheme, comprised primarily of pensioner members, which is already at peak annual cash outflow (benefit payments); while GKN2 is less mature, with a larger active and deferred population. Benefit payments from GKN2 are forecast to continue to rise until the mid 2030s, when they will peak, before beginning to decline.

(e) Defined contribution schemes

The Group operates a number of defined contribution schemes. The charge to the income statement in the year was £62 million (2015: £42 million).

25 Contingent assets and liabilities

Aside from an unrecognised contingent asset, referred to in note 6 in respect of Franked Investment Income, related to advance corporate tax payments and corporate tax paid on certain foreign dividends, there were no other material contingent assets at 31 December 2016 or 31 December 2015.

In the case of certain businesses, performance bonds and customer finance obligations have been entered into in the normal course of business.

26 Operating lease commitments – minimum lease payments

The minimum lease payments which the Group is committed to make at 31 December are:

	2016		2015	
	Property £m	**Vehicles, plant and equipment £m**	Property £m	Vehicles, plant and equipment £m
Payments under non-cancellable operating leases:				
Within one year	**46**	**21**	39	16
Later than one year and less than five years	**154**	**37**	132	27
After five years	**218**	**8**	200	2
	418	**66**	371	45

27 Capital expenditure

Contracts placed against capital expenditure sanctioned at 31 December 2016 which are not provided by subsidiaries amounted to £195 million property, plant and equipment, £24 million intangible assets (2015: £148 million property, plant and equipment, £20 million intangible assets), and the Group's share not provided by equity accounted investments amounted to £8 million property, plant and equipment, nil intangible assets (2015: £9 million property, plant and equipment, nil intangible assets).

28 Related party transactions

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and equity accounted investment companies priced on an arm's-length basis. Sales by subsidiaries to equity accounted investments in 2016 totalled £44 million (2015: £35 million). The amount due at the year end in respect of such sales was £11 million (2015: £12 million). Purchases by subsidiaries from equity accounted investments in 2016 totalled £10 million (2015: £7 million). The amount due at the year end in respect of such purchases was £3 million (2015: £2 million).

At 31 December 2016, a Group subsidiary had £10 million payable to equity accounted investments companies in respect of unsecured financing facilities bearing interest at one month LIBOR plus ⅛% (2015: £10 million).

During the prior year, a child of a member of key management was employed by a subsidiary company. The remuneration expense during the period of employment in 2015 on an arm's-length basis amounted to £2,336.

29 Subsidiaries and other undertakings

The subsidiary and other undertakings of the GKN Group at 31 December 2016 are shown in note 5 of the GKN plc company financial statements. Subsidiaries were included in the consolidation and are held indirectly by GKN plc through intermediate holding companies. The undertakings located overseas operate principally in the country of incorporation. The equity share capital of these undertakings is wholly owned by the GKN Group.

30 Business combinations

On 30 June 2016, the Group took control, through a 60% equity shareholding, of a newly formed company; GKN (Bazhou) Metal Powder Company Limited (Bazhou). Bazhou specialises in metal powder production in China.

The fair value of consideration for the 60% shareholding is £17 million and comprises an initial cash payment of £8 million and deferred consideration subsequently paid of £9 million. The fair value of net assets acquired, before non-controlling interests (£9 million), of £26 million comprises: property, plant and equipment of £15 million, inventory of £3 million, receivables of £4 million and provisional goodwill of £4 million. Bazhou has been included in Powder Metallurgy for segmental reporting.

During the year, the Group paid £2 million to purchase a non-controlling interest from the other investor in Lianyungang GKN Hua Ding Wheels Co Ltd. The Group now owns 100% of the share capital in this company.

BALANCE SHEET OF GKN PLC

Company number: 04191106
At 31 December 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investment in subsidiaries	3	**3,607**	3,602
Current assets			
Amounts owed by subsidiaries		**17**	6
Total assets		**3,624**	3,608
Current liabilities			
Amounts owed to subsidiaries		**(2,148)**	(1,994)
Net assets		**1,476**	1,614
Capital and reserves			
Share capital	4	**173**	173
Capital redemption reserve		**298**	298
Share premium account		**330**	330
At 1 January		**813**	949
Profit for the year attributable to the owners		**6**	3
Other changes in retained earnings		**(144)**	(139)
Retained earnings		**675**	813
Total equity		**1,476**	1,614

The financial statements on pages 167 to 175 were approved by the Board of Directors and authorised for issue on 27 February 2017. They were signed on its behalf by:

Nigel Stein, Adam Walker
Directors

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Total equity £m
At 1 January 2016	**173**	**298**	**330**	**813**	**1,614**
Profit for the year	**–**	**–**	**–**	**6**	**6**
Share-based payments	**–**	**–**	**–**	**5**	**5**
Dividends paid to equity shareholders	**–**	**–**	**–**	**(150)**	**(150)**
Proceeds from exercise of share options	**–**	**–**	**–**	**1**	**1**
At 31 December 2016	**173**	**298**	**330**	**675**	**1,476**
At 1 January 2015	166	298	139	949	1,552
Profit for the year	–	–	–	3	3
Share-based payments	–	–	–	1	1
Dividends paid to equity shareholders	–	–	–	(142)	(142)
Proceeds from exercise of share options	–	–	–	2	2
Net proceeds from share placement	7	–	191	–	198
At 31 December 2015	173	298	330	813	1,614

NOTES TO THE FINANCIAL STATEMENTS OF GKN PLC

1 Significant accounting policies and basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. GKN plc is a public company limited by shares, incorporated and domiciled in the UK, and registered in England and Wales with the registration number 04191106. Its registered office is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL. They have been prepared on a going concern basis under the historical cost convention except where other measurement bases are required to be applied and in accordance with IFRS under Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In accordance with FRS 101, the Company has taken advantage of the exemption not to disclose transactions with related parties. As the consolidated financial statements have been prepared in accordance with IFRS 7, the Company is exempt from further disclosure of financial instruments in accordance with FRS 101.

The principal accounting policies are summarised below. They have been applied consistently in both years presented.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Treasury shares

GKN shares which have been purchased and not cancelled are held as treasury shares and deducted from shareholders' equity.

Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest.

Income Statement

Interest income is recognised using the effective interest rate method. Dividend income is recognised when the right to receive payment is established. Current tax is recognised in the income statement unless items relate to equity.

Dividends

The annual final dividend is not provided for until approved at the Annual General Meeting while interim dividends are charged in the period they are paid.

2 Income Statement

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own Income Statement for the year. The profit for the year ended 31 December 2016 was £6 million (2015: £3 million).

Auditors' remuneration for audit services to the Company was £0.4 million (2015: £0.5 million).

3 Fixed asset investments

Cost and net book amount	£m
At 1 January 2016	**3,602**
Additions – share-based payments	5
At 31 December 2016	**3,607**

A full list of investments in subsidiaries and other undertakings is disclosed in note 5.

4 Share capital

Share capital disclosure is shown in note 22 of the consolidated financial statements.

5 Subsidiaries and other undertakings

Details of the Group's subsidiaries, joint ventures and associated undertakings as at 31 December 2016 are given below. With the exception of GKN Holdings plc, all undertakings are held indirectly through intermediate companies. All undertakings are wholly owned by the Group unless stated otherwise.

All subsidiaries were included in the consolidation. Joint venture and associated undertakings were included in the consolidation using the equity method of accounting. All joint ventures are managed pursuant to the terms set out in the applicable joint venture contract agreement.

Name	Class of shares held/interest
Transmisiones Homocineticas Argentinas SA (49%)[1]	Ordinary B[1]
Unidrive Pty Ltd (60%)[2]	Ordinary
GKN Service Austria GmbH[3]	Ordinary
Société Anonyme Belge de Constructions Aéronautiques (43.57%)[4]	Ordinary
GKN Aerospace Transparency Systems do Brasil Ltda[5]	Quota capital
GKN do Brasil Limitada[6]	Quota capital
GKN Sinter Metals Ltda[7]	Quota capital
GKN Stromag Brasil Equipamentos Ltda[8]	Quota capital
Fokker Elmo Canada Inc[9]	Common stock
GKN Sinter Metals St Thomas Ltd[10]	Common stock
Fokker Elmo (Langfang) Electrical Systems Co. Ltd[11]	Registered investment
GKN (Bazhou) Metal Powder Company Limited (60%)[12]	Registered investment
GKN China Holding Co Ltd[13]	Registered investment
GKN Danyang Industries Company Limited[14]	Registered investment
GKN HUAYU Driveline Systems (Chongqing) Co. Ltd (9%)[15]	Registered investment
GKN (Lianyungang) Company Limited[16]	Registered investment
GKN Power Solutions (Liuzhou) Company Limited[17]	Registered investment
GKN Sinter Metals Yizheng Co Ltd[18]	Registered investment
GKN (Taicang) Co Ltd[19]	Registered investment
GKN Zhongyuan Cylinder Liner Company Limited (59%)[20]	Registered investment
Nanjing FAYN Piston Ring Company Limited (19.79%)[21]	Registered investment
Shanghai GKN Driveline Sales Co Ltd (49%)[22]	Registered investment
Shanghai GKN HUAYU Driveline Systems Company Limited (50%)[23]	Registered investment
Transejes Transmisiones Homocineticas de Colombia SA (49%)[24]	Ordinary
GKN Brno s.r.o[25]	Ordinary
GKN Walterscheid Service & Distribution A/S[26]	Ordinary
GKN Wheels Nagbol A/S[27]	Ordinary
Automotive Group Services SARL[28]	Ordinary
GKN Automotive SAS[29]	Ordinary
GKN Driveline Ribemont SARL[30]	Ordinary
GKN Driveline SA (99.99%)[29]	Ordinary
GKN Freight Services EURL[29]	Ordinary
GKN Service France SAS[31]	Ordinary
NHIndustries SAS (5%)[32]	Ordinary
GKN Aerospace Deutschland GmbH[33]	Ordinary
GKN Driveline Deutschland GmbH[34]	Ordinary
GKN Driveline International GmbH[35]	Ordinary
GKN Driveline Trier GmbH[36]	Ordinary
GKN Freight Services GmbH[37]	Ordinary
GKN Gelenkwellenwerk Kaiserslautern GmbH[38]	Ordinary
GKN Holdings Deutschland GmbH[39]	Ordinary
GKN Powder Metallurgy Holding GmbH[40]	Ordinary
GKN Service International GmbH[41]	Ordinary
GKN Sinter Metals Components GmbH[42]	Ordinary
GKN Sinter Metals Engineering GmbH[40]	Ordinary
GKN Sinter Metals Filters GmbH Radevormwald[43]	Ordinary

Name	Class of shares held/interest
GKN Sinter Metals GmbH, Bad Bruckenau[44]	Ordinary
GKN Sinter Metals GmbH, Bad Langensalza[45]	Ordinary
GKN Walterscheid Getriebe GmbH[46]	Ordinary
GKN Walterscheid GmbH[39]	Ordinary
Hoeganaes Corporation Europe GmbH[47]	Ordinary
Drivetech Accessories Limited[48]	Ordinary
Fokker Elmo SASMOS Interconnection Systems Limited (49%)[49]	Ordinary
GKN Driveline (India) Limited (97.03%)[50]	Ordinary
GKN Sinter Metals Private Limited[51]	Ordinary
GKN Driveline Beshel Private Joint Stock Company (59.99%)[52]	Ordinary
Ipsley Insurance Limited[53]	Ordinary
GKN Driveline Brunico SpA[54]	Ordinary
GKN Driveline Firenze SpA[55]	Ordinary
GKN Italia SpA[54]	Ordinary
GKN Service Italia SpA[56]	Ordinary
GKN Sinter Metals SpA[57]	Ordinary
GKN Wheels Carpenedolo SpA[58]	Ordinary
GKN Driveline Japan Ltd[59]	Ordinary
GKN Driveline Tochigi Holdings KK[59]	Ordinary
Matsui-Walterscheid Ltd (40%)[60]	Common stock
GKN Finance Limited[61]	Ordinary
GKN Driveline Korea Limited[62]	Common stock
GKN Driveline Malaysia Sdn Bhd (68.42%)[63]	Ordinary
FAE Aerostructures SA de CV[64]	Ordinary
GKN Aerospace San Luis Potosi S. de R.L. de C.V.[65]	Fixed equity
GKN Driveline Celaya SA de CV (99.85%)[66]	Ordinary
GKN Driveline Mexico Services SA de CV (98%)[66]	Ordinary
GKN Driveline Mexico Trading SA de CV (98%)[66]	Ordinary
GKN Driveline Villagran SA de CV (98%)[67]	Ordinary
Business Park Aviolanda B.V. (20%)[68]	Ordinary
Cooperative Delivery of Retrokits (CDR) V.O.F.(50%)[69]	Registered investment
Fabriek Slobbengors Beheer B.V. (49%)[70]	Ordinary
Fabriek Slobbengors C.V. (49%)[70]	Registered investment
Fokker Aerospace B.V.[71]	Ordinary
Fokker Aerostructures B.V.[71]	Ordinary
Fokker Aircraft Services B.V.[72]	Ordinary
Fokker (CDR) B.V.[71]	Ordinary
Fokker Elmo B.V.[73]	Ordinary
Fokker Engineers & Contractors B.V.[71]	Ordinary
Fokker Landing Gear B.V.[74]	Ordinary
Fokker Procurement Combination B.V.[71]	Ordinary
Fokker Services B.V.[75]	Ordinary
Fokker Technologies Group B.V.[71]	Ordinary
Fokker Technologies Holding B.V.[71]	Ordinary
Fokker Technology B.V.[71]	Ordinary
GKN Aerospace Netherlands B.V.[76]	Ordinary
GKN Service Benelux BV[77]	Ordinary
GKN UK Holdings BV[78]	Ordinary
Hoofdkantoor Slobbengors Beheer B.V.(49%)[70]	Ordinary
Kantoor Industrieweg C.V. (49%)[70]	Registered investment
Structural Laminates Industries B.V.[71]	Ordinary
GKN Aerospace Norway AS[79]	Ordinary
Kongsberg Technology Training Centre AS (50%)[79]	Ordinary

5 Subsidiaries and other undertakings continued

Name	Class of shares held/interest
Kongsberg Terotech AS (33.33%)[79]	Ordinary
GKN Driveline Polska Sp. z o.o[80]	Ordinary
GKN Service Polska Sp. z o.o[81]	Ordinary
FOAR S.R.L. (49%)[82]	Ordinary
Fokker Engineering Romania S.R.L.[83]	Ordinary
Hoeganaes Corporation Europe SA[84]	Ordinary
Driveline Systems (RUS) LLC[85]	Ordinary
GKN Driveline Togliatti LLC[86]	Ordinary
GKN Engineering (RUS) LLC[87]	Ordinary
Fokker Services Asia Pte Ltd[88]	Ordinary
GKN Driveline Singapore Pte Ltd[89]	Ordinary
GKN Driveline Slovenija d o o[90]	Ordinary
GKN Sinter Metals Cape Town (Pty) Limited[91]	Ordinary
GKN Ayra Servicio, SA[92]	Ordinary
GKN Driveline Vigo, SA[93]	Ordinary
GKN Driveline Zumaia, SA[94]	Ordinary
Stork Prints Iberia SA[95]	Ordinary
GKN Aerospace Applied Composites AB[96]	Ordinary
GKN Aerospace Sweden AB[97]	Ordinary
GKN Driveline Köping AB[98]	Ordinary
GKN Driveline Service Scandinavia AB[99]	Ordinary
GKN Stromag Scandinavia AB[99]	Ordinary
GKN Sweden Holdings AB[97]	Ordinary
Industrigruppen JAS AB (20%)[100]	Ordinary
Taiway Limited (36.25%)[101]	Common stock
GKN Aerospace Transparency Systems (Thailand) Limited[102]	Ordinary
GKN Driveline (Thailand) Limited[103]	Ordinary
GKN Driveline Manufacturing Ltd[103]	Ordinary
Fokker Elmo Havacilik Sanayi Ve Ticaret Limited Sirketi[104]	Ordinary
GKN Eskisehir Automotive Products Manufacture and Sales A.S.[105]	Ordinary
Alder Miles Druce Limited[78]	Ordinary
A. P. Newall & Company Limited[106]	Ordinary
Ball Components Limited[78]	Ordinary
Birfield Limited[78]	Ordinary
British Hovercraft Corporation Limited[78]	Ordinary
Chassis Systems Limited (50%)[107]	Ordinary
F.P.T. Industries Limited[78]	Ordinary
FAD (UK) Limited[78]	Ordinary
Firth Cleveland Limited[78]	Ordinary
GKN Aerospace Services Limited[108]	Ordinary
GKN Aerospace Transparency Systems (Kings Norton) Limited[78]	Ordinary
GKN Aerospace Transparency Systems (Luton) Limited[78]	Ordinary
GKN Automotive Limited[109]	Ordinary and preference
GKN AutoStructures Limited[107]	Ordinary
GKN Birfield Extrusions Limited[78]	Ordinary
GKN Bound Brook Limited[78]	Ordinary
GKN Building Services Europe Limited[78]	Ordinary
GKN CEDU Limited[78]	Ordinary
GKN Composites Limited[78]	Ordinary
GKN Computer Services Limited[78]	Ordinary
GKN Countertrade Limited[78]	Ordinary
GKN Defence Holdings Limited[78]	Ordinary

Name	Class of shares held/interest
GKN Defence Limited[78]	Ordinary
GKN Driveline Birmingham Limited[110]	Ordinary
GKN Driveline Mexico (UK) Limited[109]	Ordinary
GKN Driveline Service Limited[111]	Ordinary
GKN Euro Investments Limited[78]	Ordinary
GKN EVO eDrive Systems Limited[78]	Ordinary
GKN Export Services Limited[78]	Ordinary
GKN Fasteners Limited[78]	Ordinary
GKN Finance (UK) Limited[78]	Ordinary
GKN Firth Cleveland Limited[78]	Ordinary
GKN Freight Services Limited[78]	Ordinary and cumulative preference
GKN Group Pension Trustee (No.2) Limited[78]	Ordinary
GKN Group Pension Trustee Limited[78]	Ordinary
GKN Group Services Limited[78]	Ordinary and redeemable preference
GKN Hardy Spicer Limited[78]	Ordinary
GKN Holdings plc (held directly by GKN plc)[78]	Ordinary and deferred
GKN Hybrid Power Limited[78]	Ordinary
GKN Industries Limited[78]	Ordinary
G.K.N. International Trading (Holdings) Limited[78]	Ordinary
GKN Investments LP[112]	Registered investment
GKN Land Systems Limited[78]	Ordinary
GKN Marks Limited[78]	Ordinary
GKN OffHighway Limited[78]	Ordinary
GKN Overseas Holdings Limited[78]	Ordinary
GKN Pistons Limited[78]	Ordinary
G.K.N. Powder Met. Limited[78]	Ordinary
GKN Quest Trustee Limited[78]	Ordinary
GKN Sankey Finance Limited[78]	Ordinary and deferred
GKN Sankey Limited[107]	Ordinary
GKN SEK Investments Limited[78]	Ordinary
GKN Service UK Limited[78]	Ordinary
GKN Sheepbridge Limited[78]	Ordinary
GKN Sheepbridge Stokes Limited[113]	Ordinary
GKN Sinter Metals Holdings Limited[78]	Ordinary
GKN Sinter Metals Limited[78]	Ordinary
GKN Technology Limited[78]	Ordinary
GKN Thompson Chassis Limited[114]	Ordinary
GKN Trading Limited[78]	Ordinary
GKN UK Investments Limited[78]	Ordinary
GKN (United Kingdom) public limited company[78]	Ordinary
GKN U.S. Investments Limited[78]	Ordinary
GKN USD Investments Limited[78]	Ordinary
GKN Ventures Limited[78]	Ordinary
GKN Westland Aerospace (Avonmouth) Limited[78]	Ordinary
GKN Westland Aerospace Advanced Materials Limited[78]	Ordinary and convertible preference
GKN Westland Aerospace Aviation Support Limited[78]	Ordinary
GKN Westland Aerospace Holdings Limited[78]	Ordinary
GKN Westland Design Services Limited[78]	Ordinary
GKN Westland Limited[78]	Ordinary
GKN Westland Overseas Holdings Limited[78]	Ordinary
GKN Westland Services Limited[78]	Ordinary
Guest, Keen and Nettlefolds, Limited[78]	Ordinary
Laycock Engineering Limited[78]	Ordinary

NOTES TO THE FINANCIAL STATEMENTS OF GKN PLC CONTINUED

For the year ended 31 December 2016

5 Subsidiaries and other undertakings continued

Name	Class of shares held/interest
P.F.D. Limited[78]	Ordinary
Raingear Limited[78]	Ordinary
Rigby Metal Components Limited[78]	Ordinary
Ryvoan Limited (32.3%)[115]	Ordinary
Rzeppa Limited[78]	Ordinary and redeemable preference
Sheepbridge Stokes Limited[78]	Ordinary
Westland Group plc[78]	Ordinary
Westland Group Services Limited[78]	Ordinary
Westland System Assessment Limited[78]	Ordinary
Aerotron AirPower Inc[116]	Common stock
Fokker Aerostructures Inc[117]	Common stock
Fokker Elmo Inc[118]	Common stock
GENIL, Inc[119]	Ordinary
GKN Aerospace Aerostructures, Inc[120]	Ordinary
GKN Aerospace Bandy Machining, Inc[119]	Ordinary
GKN Aerospace Camarillo, Inc[119]	Ordinary
GKN Aerospace Chem-tronics Inc[119]	Ordinary
GKN Aerospace Cincinnati, Inc[121]	Ordinary
GKN Aerospace Florida, Inc[120]	Ordinary
GKN Aerospace Monitor, Inc[122]	Ordinary
GKN Aerospace Muncie, Inc[123]	Ordinary
GKN Aerospace New England, Inc[120]	Ordinary
GKN Aerospace Newington LLC[124]	Ordinary
GKN Aerospace North America, Inc[120]	Common stock
GKN Aerospace Precision Machining, Inc[120]	Ordinary
GKN Aerospace Services Structures Corporation[120]	Common stock
GKN Aerospace South Carolina, Inc[120]	Common stock
GKN Aerospace Transparency Systems, Inc[119]	Common stock
GKN Aerospace US Holdings LLC[125]	Membership interest (no share capital)
GKN Aerospace, Inc[120]	Common stock
GKN America Corp[120]	Common stock
GKN Armstrong Wheels, Inc[126]	Ordinary
GKN Driveline Bowling Green, Inc[121]	Common stock
GKN Driveline Newton LLC[127]	Membership interest (no share capital)
GKN Driveline North America, Inc[120]	Common stock
GKN Freight Services, Inc[120]	Common stock
GKN North America Investments, Inc[120]	Ordinary
GKN North America Services, Inc[120]	Common stock
GKN Rockford, Inc[120]	Ordinary
GKN Sinter Metals, LLC[128]	Membership interest (no share capital)
GKN Stromag, Inc[121]	Common stock
GKN Walterscheid, Inc[129]	Ordinary
GKN Westland Aerospace, Inc[120]	Common stock
Hoeganaes Corporation[120]	Common stock
Hoeganaes Specialty Metal Powders LLC (70%)[130]	Membership interest (no share capital)
XIK LLC[131]	Membership interest (no share capital)
GKN Driveline Uruguay SA[132]	Ordinary
Hadfield Holdings Limited (37.5%)[133]	Ordinary

1 Avenida Del Libertador 602, 4' Piso, Buenos Aires, Argentina. The Group owns 100% of the Ordinary Class B shares with a total ownership of 49% in the company.
2 45-49 McNaughton Road, Clayton Victoria 3168, Australia
3 Slamastrasse 32, Postfach 36, 1232 Wien, Austria
4 Chaussée de Haecht 1470, B-1130 Brussels, Belgium
5 Av. Alfredo Ignácio Noqueira Penido, 335 – Sala 1103 – Edifício Madison Power, São José dos Campos, SP, 12246-000, Brazil
6 Rua Joaquim Silveira 557, Parque Sao Sebastiao, 91060-320 Porto Alegre, RS, Brazil
7 Av. da Emancipacao no. 4.500, CEP 13.184-542, Bairro Santa Esmeralda, Hortolandia, Sao Paulo, Brazil
8 Av. Sargento Geraldo Santana, 154, 04674-225, Sao Paulo, SP, Brazil
9 1635 rue Blueberry Forest, Saint-Lazare Québec, J7T2J9, Canada
10 199 Bay Street, Suite 2800, Commerce Court West, Toronto ON M5L1A9, Canada
11 No 71 Xiangyuan Road, Langfang Economic & Technical Development Zone, Langfang, China
12 On the north of 1500 meters, Wuping Dong Road, Shengfang Town, Bazhou City, Hebei Province, China
13 Suite 1105-1110 LJZ Plaza, 1600 Century Avenue, Pudong, Shanghai, 200122, China
14 18 North Shitan Road, North Industrial Park, Development Zone, Danyang, Jiangsu, China
15 No. 1 Cuigu, Northern New Zone, Chongqing, 401122, China. The Group owns 9% directly with a total effective ownership of 34.5%.
16 928 JingDu Road, Donghai Economic Development Zone, Jiangsu, 222300, China
17 No. 7 Liutai Road, Liuzhou, Guangxi, 545007, China
18 Room 101, Xiwu Building, Yangzhou (Yizheng) Automotive Industrial Park, Jiangsu, China
19 188 East Guanhzhou Road, Taicang Economic Development Area, Jiangsu Province, China
20 Xiguo Industrial Zone, Mengzhou City, Henan Province, 454750, China
21 17 Zhongshan Road, Yong Yang County, Lishui District, Nanjing, China
22 898 Kangshen Road, Pudong, Shanghai, China
23 950 KangQiao Road, Pudong New Area, Shanghai, China
24 Calle 32 No. 15 – 23 Barrio Rincon de Girón, Girón Santander, Colombia
25 Pekárenská 738/54, České Budějovice 4, 370 04 České Budějovice, Czech Republic
26 Baldershøj 11, 2635 Ishøj, Denmark
27 Nagbølvej 31, 6640 Lunderskov, Denmark
28 20 rue Lavoisier, 95300 Pontoise, France
29 100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy, France
30 7 rue de la Briqueterie, 02240 Ribemont, France
31 8 rue Panhard et Levassor, Ecoparc des Cettons, 78570, Chanteloup-les-Vignes, France
32 765 rue Albert Einstein, CS 70402, 13591 Aix-en-Provence Cedex 3, France
33 Brunhamstr. 21, 81249, Munich, Germany
34 Carl-Legien-Strasse 10, 63073 Offenbach am Main, Germany
35 Hauptstrasse 130, 53797 Lohmar, Germany
36 Hafenstrasse 41, 54293 Trier, Germany
37 Heinrich-Krumm Strasse 1-3, 63073 Offenbach am Main, Germany
38 Opelkreisel 1-9, 67663 Kaiserslautern, Germany
39 Hauptstrasse 150, 53797 Lohmar, Germany
40 Krebsoege 10, 42477 Radevormwald, Germany
41 Nussbaumweg 19-21, 51503 Roesrath, Germany
42 Pennefeldsweg 11-15, 53177, Bonn, Germany
43 Dahlienstrasse 43, 42477 Radevormwald, Germany
44 Industriestr. 1, 97769 Bad Brückenau, Germany
45 Am Fliegerhorst 9, 99947 Bad Langensalza, Germany
46 Alte Bautzener Strasse 1-3, 02689 Sohland/Spree, Germany
47 Peterstrasse 69, 42499 Hueckeswagen, Germany
48 E-249, Rama Market, Munirka, New Delhi, 110 067, India
49 Block 2A No. 311, NPR Complex. Survey No 197, Hoody Village, K R Puram Hobli, Whitefield Road, Bangalore – 560048, Karnataka, India. The company's last financial year ended 31 March 2016.
50 270, Sector-24, Faridabad 121 005, Haryana, India
51 146 Mumbai Pune Road, Pimpri, Pune 411 018, India
52 N° 9, Yas Alley Fath St, Sadr Express Way, 1939753151 Tehran, Islamic Republic of Iran
53 Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man
54 Via dei Campi della Rienza 8, 39031 Brunico, BZ, Italy
55 Via Fratelli Cervi 1, 50013 Campi Bisenzio, FI, Italy
56 Via Giosuè Carducci 133, Cologno Monzese 20093, MI, Italy
57 Via Delle Fabbriche 5, 39031 Brunico, BZ, Italy
58 Viale Santa Maria 76, 25013 Carpenedolo, BS, Italy
59 2388 Ohmiya-cho, Tochigi City, 328-8502 Tochigi, Japan
60 21-15 Azusawa 2-chome, Itabashi-ku, Tokyo 174, Japan. The company's last financial year ended 31 March 2016.
61 13 Castle Street, St Helier, JE4 5UT, Jersey
62 Foreign Investors Industrial Park, 2 Ro, 3 Kongdan, Subuk- gu, Choongnam-do, 330-220, Republic of Korea
63 2445 Lorong Perusahaan Enam B, Kawasan Perindustrian Prai 13600 Prai, Penang, Malaysia
64 Tabalaopa #8301, Parque Industrial, Chihuahua, Mexico
65 Av. CFE No. 709, Parque Industrial Millennium, San Luis Potosi S.L.P 78395, Mexico
66 Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110, Mexico
67 Carretera Alterna Celaya Villagrán Km 11, Col. El Pintor, Villagrán, Guanajuato, C.P. 38260, Mexico
68 Aviolandalaan 37, 4631 RP, Hoogerheide, Netherlands
69 A General Partnership with a registered office of Industrieweg 4, 3351 LB, Papendrecht, Netherlands
70 Markt 22, 3351 PB, Papendrecht, Netherlands
71 Industrieweg 4, 3351 LB, Papendrecht, Netherlands
72 Aviolandalaan 31, 4631 RP, Hoogerheide, Netherlands
73 Aviolandalaan 33, 4631 RP, Hoogerheide, Netherlands
74 Grasbeemd 28, 5705 DG, Helmond, Netherlands
75 Hoeksteen 40, 2132 MS, Hoofddorp, Netherlands
76 Amstelveenseweg 760, 1081JK Amsterdam, Netherlands
77 Haarlemmerstraatweg 153-157, 1165 MK Halfweg, Netherlands
78 PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
79 Kirkegårdsveien 45, 3616 Kongsberg, Norway
80 Ul. B. Krzywoustego 31 G, 56-400 Oleśnica, Poland
81 Al. Katowicka 33, 05-830, Nadarzyn, Poland
82 Str. Condorilor 9, 600302, Bacau, Romania
83 Sos Pipera Tunari 1/V11, Nord City Tower et. 4, Voluntari Ilfov, Romania
84 33 Urziceni Street, Buzau, 120226, Romania
85 str. Kozhykhovskaya 5-я, bl. 9, room VII, 115193, Moscow, Russian Federation
86 Sovetskaya Street, 1a, Office 3, Podstepki Village, 445143, Stavropol Region, Samara Oblast, Russian Federation
87 Office 21K, Building 19, Leninskaya Sloboda Street, 115280, Moscow, Russian Federation
88 1800 West Camp Road, Seletar Aerospace Park, Singapore
89 10 Eunos Road 8, #13-05, Singapore Post Centre, 408600, Singapore
90 Rudniska cesta 20, Zrece 3214, Slovenia
91 49 Afrikander Road, Murdock Valley, Simonstown, 7975, South Africa
92 Pol. Ind. Can Salvatella, Avenida Arrahona 54-56, 08210 Barbera del Valles, Barcelona, Spain
93 Avenida de Citroen s/n, 36210 Vigo, Spain
94 Sagarbidea 2, 20750 Zumaia, Spain
95 Polígono Industrial s/n, Maçanet de la Selva, 17412 Girona, Spain
96 Box 13070, SE- 580 13, Linköping, Sweden
97 SE- 461 81, Trollhättan, Sweden
98 SE – 731 36, Köping, Sweden
99 Alfred Nobels allé 110, 14621, Tullinge, Sweden
100 581 88 Linköping, Sweden
101 14 Kwang Fu Road, Hsin-Chu Industrial Park, Hukou, Hsin Chu 30351, Taiwan
102 9/21 Moo 5, Phaholyothin Road Klong 1, Klong Luang, Patumthanee, 12120, Thailand
103 Eastern Seaboard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng, Rayong 21140, Thailand
104 Ege Serbest Bölgesi, SADI Sok. No:10, 35410 Gaziemir, Izmir, Turkey
105 Organize Sanayi Bolgesi 20, Cadde No: 17, 26110, Eskisehir, Turkey
106 15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA, United Kingdom
107 Hadley Castle Works, Telford, Shropshire, TF1 6AA, England
108 Ferry Road, East Cowes, Isle of Wight, PO32 6RA, England
109 PO Box 4128, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0WR, England
110 Chester Road, Erdington, Birmingham, B24 0RB, England
111 Unit 5, Kingsbury Business Park, Kingsbury Road, Minworth, Sutton Coldfield, B76 9DL, England
112 Registered office and principal place of business is 15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA, United Kingdom. The partnership is controlled by and its results consolidated by the Group, as such advantage has been taken of the exemption set out in regulation 7 of the Partnerships (Accounts) Regulations 2008.
113 Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
114 PO Box 20, Hadley Castle Works, Telford, Shropshire, TF1 6RE, England
115 8th Floor, 25 Farringdon Street, London, EC4A 4AB, United Kingdom
116 456 Aerotron Parkway, LaGrange, 30240 GA, USA
117 GTH Corporate Services LLC, 1201 Pacific Ave Ste 2100, Tacoma WA 98401, USA
118 CT Corporation Systems, 1201 Peachtree St NE, Atlanta GA 30361, USA
119 CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
120 Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808, USA
121 CSC-Lawyers Incorporating Service, 50 West Broad Street, Suite 1300, Columbus OH 43215, USA
122 Corporation Service Company, 80 State Street, Albany NY 12207, USA
123 Corporation Service Company, 251 East Ohio Street, Suite 500, Indianapolis IN 46204, USA
124 Principal place of business is 179 Louis Street, Newington CT 06111, USA
125 Principal place of business is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
126 Corporation Service Company, 505 5th Avenue, Suite 729, Des Moines IA 50309, USA
127 Principal place of business is 1848 GKN Way, Newton NC 28658, USA
128 Principal place of business is 2200 North Opdyke Road, Auburn Hills MI 48326, USA
129 Illinois Corporation Service Company, 801 Adlai Stevenson Drive, Springfield IL 62703, USA
130 Principal place of business is 1001 Taylors Lane, Cinnaminson NJ 08077, USA
131 Principal place of business is 2715 Davey Road, Suite 300, Woodridge, Illinois, 60517-5064, USA
132 Arq. Baldomiro, 2408, Montevideo, Uruguay
133 30 Millbank, London SW1P 4WY

GROUP FINANCIAL RECORD

	2016 £m	2015 £m	2014 £m	2013 £m	2012[1] £m
Consolidated income statements					
Sales	8,822	7,231	6,982	7,136	6,510
Trading profit	684	609	612	597	504
Change in value of derivative and other financial instruments	(154)	(122)	(209)	26	126
Amortisation of non-operating intangible assets arising on business combinations	(103)	(80)	(69)	(75)	(37)
Gains and losses on changes in Group structure	(9)	(1)	24	12	5
Reversal of inventory fair value adjustment arising on business combinations	–	(12)	–	–	(37)
Pension scheme curtailments	–	–	–	–	63
Impairment charges	(52)	(71)	(69)	–	–
Acquisition-related restructuring charges	(31)	–	–	–	–
Operating profit	335	323	289	560	624
Share of post-tax earnings of equity accounted investments	73	59	61	52	38
Net financing costs	(116)	(137)	(129)	(128)	(94)
Profit before taxation from continuing operations	292	245	221	484	568
Taxation	(48)	(43)	(47)	(77)	(80)
Profit for the year	244	202	174	407	488
Profit attributable to non-controlling interests	(2)	(5)	(5)	(12)	(23)
Profit attributable to owners of the parent	242	197	169	395	465
Earnings per share – pence[1]	14.1	11.8	10.3	24.2	29.3
Dividend per share – pence	8.85	8.7	8.4	7.9	7.2
Management performance measures[2]					
Sales	9,414	7,689	7,456	7,594	6,904
Trading profit	773	679	687	661	553
Profit before taxation	678	603	601	578	493
Earnings per share – pence[1]	31.0	27.8	29.0	28.7	26.3

	2016 £m	2015 £m	2014 £m	2013 £m	2012[1] £m
Consolidated balance sheets					
Non-current assets					
Intangible assets (including goodwill)	1,908	1,856	1,442	1,476	1,544
Property, plant and equipment	2,670	2,200	2,060	1,945	1,960
Equity accounted investments	233	195	174	179	153
Deferred tax assets	557	388	407	225	302
Other non-current assets	74	63	60	104	92
	5,442	4,702	4,143	3,929	4,051
Current assets					
Inventories	1,431	1,170	971	931	885
Trade and other receivables	1,648	1,311	1,226	1,142	1,102
Cash and cash equivalents and other financial assets	416	304	322	184	181
Other (including assets held for sale)	26	22	18	53	51
	3,521	2,807	2,537	2,310	2,219
Current liabilities					
Borrowings	(64)	(137)	(43)	(27)	(115)
Trade and other payables	(2,186)	(1,757)	(1,611)	(1,485)	(1,392)
Current income tax liabilities	(142)	(121)	(125)	(135)	(157)
Other current liabilities (including liabilities associated with assets held for sale)	(277)	(229)	(127)	(66)	(58)
	(2,669)	(2,244)	(1,906)	(1,713)	(1,722)
Non-current liabilities					
Borrowings	(842)	(867)	(877)	(889)	(937)
Deferred tax liabilities	(227)	(157)	(223)	(178)	(204)
Other non-current liabilities	(948)	(719)	(350)	(274)	(367)
Provisions	(82)	(78)	(112)	(119)	(135)
Post-employment obligations	(2,033)	(1,558)	(1,711)	(1,271)	(978)
	(4,132)	(3,379)	(3,273)	(2,731)	(2,621)
Net assets	2,162	1,886	1,501	1,795	1,927
Net debt	(704)	(769)	(624)	(732)	(871)

1 As restated for the effect of IAS 19 (revised) and for the effect of the changes to the acquisition balance sheet related to the purchase of Volvo Aerospace on 1 October 2012.
2 Management sales and trading profit aggregate the sales and trading profit of subsidiaries with the Group's share of the sales and trading profit of equity accounted investments. Management profit before tax is management trading profit less net subsidiary interest payable and receivable and the Group's share of net interest payable and receivable and taxation of equity accounted investments. Management earnings includes subsidiary tax related to subsidiary management profit before tax less other non-controlling interests.

SHAREHOLDER INFORMATION

Financial calendar 2017

Ex-dividend date for 2016 final dividend	6 April 2017
2016 final dividend record date	7 April 2017
Final date for receipt of DRIP mandates	25 April 2017
Annual general meeting	4 May 2017
2016 final dividend payable	17 May 2017
Ex-dividend date for 2017 interim dividend[1]	10 August 2017
2017 interim dividend record date[1]	11 August 2017
2017 interim dividend payable[1]	18 September 2017

1 Please note that these dates are provisional and may be subject to change.

Annual general meeting

The annual general meeting (AGM) will be held on Thursday 4 May 2017 at 195 Piccadilly, London W1J 9LN, commencing at 2.00 pm. The notice of meeting, together with an explanation of the resolutions to be considered at the meeting, is contained within the AGM circular.

GKN website and share price information

Information on GKN, including this and prior years' annual reports, results announcements and presentations together with the GKN share price, is available on our website at www.gkn.com.

Shareholding enquiries and information

GKN's register of members is maintained by Equiniti who act as our registrar. If you have any questions about your shareholding or you require any other guidance, you can contact Equiniti as follows:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0371 384 2962[2]
(+44 121 415 7039 from outside the UK)

Correspondence should refer to GKN and include your full name, address and, if available, the 8- or 11-digit reference number which can be found on your GKN share certificate, dividend stationery or proxy card.

A range of shareholder information is available online at Equiniti's website, www.shareview.co.uk. Here you can also view information on your shareholding and obtain forms that you may need to manage your shareholding, such as a change of address form or a stock transfer form.

2 Lines are open 8.30 am to 5.30 pm, Monday to Friday, excluding UK bank holidays.

Share dealing service

GKN shares can be traded via the internet or by phone through Shareview Dealing, a service provided by Equiniti Financial Services Ltd. For further details, visit www.shareview.co.uk/dealing or call Equiniti on 03456 037 037. Equiniti Financial Services Ltd is authorised and regulated by the UK Financial Conduct Authority. The registered details of the provider are available from the above number.

A telephone dealing service is also available through Stocktrade. For further details telephone 0131 240 0414 (+44 131 240 0414 from outside the UK) and quote reference 'Company Schemes Dial and Deal'.

GKN does not endorse or recommend any particular share dealing service. The value of shares can fall and you may get back less than you invest; if you are unsure as to the suitability of an investment you should seek professional advice.

Dividend reinvestment plan (DRIP)

GKN offers a DRIP which enables shareholders to reinvest their cash dividends to buy additional GKN shares. If you would like more information about the DRIP or would like to apply online, please go to Equiniti's website, www.shareview.co.uk, or call Equiniti (details opposite).

American Depositary Receipts

GKN has a sponsored Level 1 American Depositary Receipt (ADR) facility in the US, with each ADR representing one GKN ordinary share. GKN's ADRs are traded on the US over-the-counter (OTC) market under the symbol 'GKNLY'. The ADR facility is managed by The Bank of New York Mellon.

Dividend payments are generally taxable and will be distributed to ADR holders in US dollars by The Bank of New York Mellon.

Any queries relating to GKN's ADR facility should be directed to The Bank of New York Mellon:

BNY Mellon Shareowner Services
P.O. Box 30170
College Station TX 77842-3170

Tel: +1 888-269-2377 (toll-free number in the US)
Tel: +1 201 680 6825 (international)
Website: www.mybnymdr.com
Email: shrrelations@cpushareownerservices.com

Electronic communications

As an alternative to receiving documents in hard copy, shareholders can elect to be notified by email as soon as shareholder documents such as our annual report and notice of meeting are published. This notification includes details of where you can view or download the documents on our website. Shareholders who wish to register for email notification can do so via Equiniti's website, www.shareview.co.uk.

Capital gains tax

A capital gains tax (CGT) liability may arise when you dispose of an asset (e.g. shares) which is worth more when you sell it than when you acquired it.

Over the years, the capital structure of GKN plc has changed. Events that may need to be considered when calculating any CGT liability in relation to our shares are set out in the following paragraphs.

2001 demerger of the industrial services businesses
The market values of a GKN ordinary share and a Brambles Industries plc (Brambles) ordinary share on 7 August 2001 (the first day of trading of Brambles shares) to be used to allocate the base cost of GKN ordinary shares acquired since 31 March 1982 are: GKN ordinary shares – 282.5 pence (43.943224%) and Brambles ordinary shares – 360.375 pence (56.056776%).

2000 'B' share issue
The market values of a GKN ordinary share and a GKN 'B' share on 30 May 2000 (the first day of trading of 'B' shares) to be used to allocate the base cost of GKN ordinary shares acquired since 31 March 1982 are: GKN ordinary shares – 914.5 pence (98.736774%) and GKN 'B' shares – 11.7 pence (1.263226%).

1982 base values
The adjusted 31 March 1982 base value of one GKN ordinary share held immediately before the 2009 capital reorganisation and rights issue was 45.501 pence. The adjusted base value immediately after the capital reorganisation and rights issue was 47.955 pence.

This information is provided primarily for the purpose of individual shareholders resident in the UK when calculating their personal tax liability. Shareholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK should seek professional advice. Neither GKN plc nor our registrar can advise on CGT matters.

Shareholder analysis

Holdings of ordinary shares at 31 December 2016.

	Shareholders		Shares	
Holdings	Number	%	Number	%
1 to 500	5,694	29.1	1.1	0.1
501 to 1,000	3,274	16.7	2.4	0.1
1,001 to 5,000	7,469	38.2	17.5	1.0
5,001 to 50,000	2,435	12.4	29.2	1.7
50,001 to 100,000	153	0.8	11.4	0.7
100,001 to 500,000	262	1.3	60.6	3.6
500,001 to 1,000,000	70	0.4	52.1	3.0
above 1,000,000	219	1.1	1,539.7	89.8
	19,576	100	1,714	100

Shareholder type				
Individuals	16,732	85.5	44.7	2.6
Institutions	1,144	5.8	1,450.3	84.6
Other corporates	1,700	8.7	219	12.8
	19,576	100	1,714	100

In addition, GKN held 11,629,654 ordinary shares in treasury as at 31 December 2016.

Shareholder security

We are aware that a small number of shareholders have received unsolicited telephone calls concerning their investment in GKN. These calls are from overseas-based organisations who offer to buy GKN shares for considerably more than the current market price. In some cases, the caller has suggested that there is currently a takeover offer for GKN. There is no such offer and we suspect that the calls are bogus.

Shareholders are advised to be very wary of any unsolicited investment advice, offers to buy shares or offers of free company reports. Operations, commonly known as 'boiler rooms', are targeting UK shareholders, and callers can be very persistent and extremely persuasive. We are aware that they attempt to persuade individuals to provide email addresses or other personal information; shareholders are strongly advised not to provide any such details.

The Financial Conduct Authority (FCA) provides the following guidance should you be contacted in this manner:

- If you've been cold-called with an offer to buy or sell shares, chances are it's a high-risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.
- Check that they are properly authorised by checking the FCA register of regulated firms at https://www.fca.org.uk/firms/financial-services-register.
- Search the FCA list of unauthorised firms and individuals to avoid doing business with at https://www.fca.org.uk/consumers/unauthorised-firms-individuals. If you deal with an unauthorised firm you will not be eligible to receive payment under the Financial Services Compensation Scheme.
- Report any suspicions to the FCA either by calling 0800 111 6768 or completing the online form at www.fca.org.uk/consumers/scams/report-scam/share-fraud-form.
- If the calls persist, hang up.

To reduce the risk of becoming a victim of fraud you should:

- ensure all your certificates are stored in a safe place, or hold your shares electronically in CREST (electronic settlement system for UK and Irish securities) via a nominee;
- reduce the number of cold calls you receive by registering with the Telephone Preference Service by visiting www.tpsonline.org.uk. Alternatively you can also register by writing to Telephone Preference Service, DMA House, 70 Margaret Street, London W1W 8SS;
- keep all correspondence containing your shareholder reference number in a safe place;
- shred all unwanted correspondence;
- inform Equiniti as soon as possible if you change your address. If you receive a letter from Equiniti regarding a change of address and have not recently moved house, please contact them immediately. You may be a victim of identity theft;
- know when dividends will be paid. You can request that dividends be paid direct to your bank, reducing the risk of cheques being intercepted or lost in the post. If you change your bank account, inform Equiniti of the details of your new account; and
- consider getting independent professional advice before making any investment decision, particularly if the type of investment is unfamiliar to you.

CONTACT INFORMATION

GKN

GKN plc

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1 Lines are open 8.30 am to 5.30 pm, Monday to Friday, excluding UK bank holidays.

GKN plc is a public company limited by shares and registered in England and Wales with the registered number 04191106

This annual report is available on our website.

Cautionary statement

This annual report and accounts has been prepared for the members of GKN plc and should not be relied upon by any other party or for any other purpose. It contains forward-looking statements which are made in good faith based on the information available at the time of its approval. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Nothing in this document should be regarded as a profits forecast.

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