Annual Report and Accounts 2017

GKN PLC

Engineering that moves the world

GKN is a global engineering group. 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 20 and 21.

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 22 and 23.

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 24 and 25.

Contents

Pages 52 to 96 comprise the Directors' report.

GKN IN 2017

As a global engineering group, 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 help them stay ahead.

Performance summary

Headlines of the year

- Management sales up 11% (organic sales up 6%), exceeding £10 billion for the first time.
- Excluding £112 million North American Aerospace balance sheet review adjustments:
  - Operating profit (management basis) of £774 million (2016: £773 million).
  - Earnings per share up 2% to 31.7 pence (2016: 31.0 pence).
- Order book on electrified drivelines reaches more than £2 billion.
- Ramp up of new engine deliveries to increase significantly.
- New product segment strategy and Project Boost announced and being implemented.

Statutory basis

Sales

£9,671m 2016: £8,822m

Earnings per share

29.3p 2016: 14.1p

Profit before tax

£658m 2016: £292m

Management basis[1]

Sales

£10,409m 2016: £9,414m

Earnings per share

26.6p 2016: 31.0p

Profit before tax

£572m 2016: £678m

Divisional results

1 **GKN Aerospace** £3,638m
2 **GKN Driveline** £5,308m
3 **GKN Powder Metallurgy** £1,174m
4 **Other Businesses** £289m

1 **GKN Aerospace** £175m
2 **GKN Driveline** £377m
3 **GKN Powder Metallurgy** £125m

1 See pages 19 and 29 for details on measurement and reporting of performance on a management basis.

2 Including corporate costs and Other Businesses.

Regional overview

As an international business, we serve our 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

£1,076m[1]

People

5,500[2]

Europe (excluding UK)

Sales

£4,084m[1]

People

23,000[2]

Americas

Sales

£3,674m[1]

People

16,800[2]

Asia Pacific

Sales

£1,572m[1]

People

14,400[2]

Africa

Sales

£3m[1]

People

100[2]

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)

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

CHAIRMAN'S STATEMENT

9.3p
Total dividend per share (2016: 8.85p)

26.6p
Earnings per share on a management basis (2016: 31.0p)

2017 was a year of contrasts. In some respects we had a good year: posting record management sales of £10.4 billion, extending our eDrive order book to more than £2 billion, and making progress in reducing the deficit in our UK pension scheme. However, we had disappointing trading margin and cash results. In part this was due to increased investment in our important long-term business opportunities of eDrive, the Pratt & Whitney geared turbofan jet engine, Industry 4.0 and additive manufacturing. But we also identified balance sheet issues at some of our Aerospace plants in North America which led to an adjustment of £112 million. We immediately commenced a detailed review of those issues (a summary of our conclusions can be found on page 26) and intensified our planning of the necessary actions to improve future margins and cash flow (now Project Boost).

Culture

Following the identification of balance sheet issues in October 2017, a comprehensive conduct and balance sheet review of Aerospace North America was immediately commenced together with a detailed risk assessment across all other GKN businesses. No material issues were identified outside of Aerospace North America and the conduct review showed that there was no evidence of fraud or intentional misconduct. However, it is clear that the culture in this area needs to be addressed. We have already taken action to strengthen resource and establish teams to improve quality and delivery for our customers. We continue to consider what further actions we can take to drive the right culture and as a result we are undertaking a Group-wide cultural review.

Dividend

Earnings per share on a management basis increased to 31.7 pence in 2017, excluding the impact of the balance sheet adjustment referred to above. We have again increased our dividend and are recommending a final dividend of 6.2 pence per share, making a total of 9.3 pence per share for the year, an increase of 5% over the prior year.

Board and senior management changes

Adam Walker and Kevin Cummings left the Board towards the end of 2017. Our talent pipeline provided two strong internal candidates in Jos Sclater, who was appointed Group Finance Director, and Hans Büthker, who was appointed Chief Executive GKN Aerospace, both with effect from November 2017. Following Nigel Stein's retirement at the end of the year, Anne Stevens became Chief Executive in January 2018. Further details of Board changes can be found in the Nominations Committee report on pages 64 and 65.

Our strategy

Our strategic objective of growing above our end markets has been successful but we now need to refocus on cash generation and margin improvement, while selectively growing some of our product segments above the market. Towards the end of 2017, we reviewed and revised our strategy which is described in more detail by Anne in her Chief Executive's review on pages 5 to 7.

People

Every day our people work hard to deliver for GKN. I thank them for their continued commitment in what has been a challenging year.

Unsolicited takeover bid

As you will be aware, GKN became the subject of an unsolicited takeover bid from Melrose Industries PLC in January 2018. The takeover process is ongoing as at the date of this report and we will continue to keep our stakeholders informed as things develop.

Mike Turner CBE
Chairman

CHIEF EXECUTIVE'S REVIEW

Anne Stevens became Chief Executive of GKN plc in January 2018.

> "GKN has world class global businesses with leading edge technologies in two of today's most dynamic and fast moving industries"

It is a great honour and privilege to be Chief Executive of GKN plc. Having served as a non-executive Director since July 2016, it was already clear to me that GKN has world class global businesses with leading edge technologies in two of today's most dynamic and fast moving industries. I have first-hand experience in these industries from previous roles and I know these markets are attractive in terms of their long-term growth potential.

GKN became the subject of an unsolicited takeover bid soon after I became Chief Executive. As at the date of this report, we are continuing to defend the Company against this bid and we will keep our stakeholders informed as things develop.

2017 performance

For many years, GKN's world class businesses have delivered growth well ahead of our markets, which is not an easy thing to do. Our 2017 results exemplify this trend; we grew sales 6% organically. All divisions contributed to this trend. Growth in Aerospace was 2%; in Driveline it was 9%; and in Powder Metallurgy it was 5%.

However, this growth has in many cases been delivered at the expense of cash generation and returns. This is clearly not acceptable to us or our shareholders. Again, our 2017 results exemplify this trend. Overall, trading margins dropped from 8.2% to 6.4%, 7.4% excluding the North American balance sheet adjustments described on page 26. Margin reduction occurred in all three divisions in 2017.

GKN's improvement track record in safety over the past few years has been strong. However, the second half of 2017 showed a marked deterioration. Tragically, a colleague in our Wheels business in Italy suffered a fatal accident in October 2017. Support for those affected has, of course, been our priority. However, at the same time, we have carried out thorough root-cause investigations and are taking action to ensure that all our employees go home safely every day.

Our new strategy

Our new strategy is focused on cash generation and margin improvement, while still growing selected businesses above the market. We have a new leadership team that is committed to delivering our new strategy, which has three elements:

1. Clarity through delivery of distinct product segment strategies.
2. Accountability through establishing a delivery culture, supported by changes in incentives.
3. Focus through operational and formal separation.

Taking each of these in turn, we are managing our core businesses in terms of product segments and allocating capital and setting targets on a differentiated basis. This strategy is set out in more detail on page 7; in summary, we have three **distinct strategies** for our core segments.

- For **'Improve'** product segments we will focus on margin and cash performance. These include products where we already have leading market positions and make up 58% of 2017 Group sales.
- 16% of 2017 Group sales is in our **'Grow'** segments which will focus on outperforming the market while maintaining strong margins. These include products where we already achieve strong financial performance.
- For **'Develop'** product segments we will accelerate the growth of exciting next generation technologies. We will not restrict capital expenditure here, but will be focused on revenue growth and ROIC.

Cash conversion is key across all segments.

The remaining 26% of our revenue is in businesses that we consider non-core. The Board is intending to exit most of these businesses over the next 12 to 18 months. This includes the sale of our well-performing, well-positioned Powder Metallurgy business

– a great business that we've grown and improved over many years. However, as it isn't core in the aerospace or automotive markets, we have decided a new owner will be better placed to invest in it and take it forward.

The second element of the strategy is to establish a **delivery culture** based on greater accountability, greater capability and faster pace. This will be delivered by a transformation infrastructure and an execution engine. Incentives will be aligned.

I cannot say enough about the importance of this second element of our strategy around culture and capability. The balance sheet review, following on from the inventory issues that we faced in Aerospace North America, indicated that a fundamental cause of the problem was placing high demands on the business without providing the resources and capabilities required to address those demands. We must change this approach, particularly as we set very high improvement expectations through Project Boost as described below.

Lastly, divisions are now being run as **separate operations**. This enables them to focus on the specific requirements of each product segment. In mid 2019, we plan to demerge to create dedicated automotive and aerospace companies, however we will consider any earlier option if we believe it in the best interests of our shareholders.

Project Boost

Project Boost is the 'execution engine' that we will use to deliver cash flow and margin improvement. Boost started with a bottom-up plan driven by divisional management. The bottom-up plans were reviewed and top-down targets were then developed and deployed. The targets were then taken by the divisions, and physical initiatives and work streams are now being developed in more detail.

Divisions own their targets and are accountable to deliver their plans. To track the initiatives real-time and ensure that we adjust and refine resources and capabilities to deliver the Boost targets, we will have a transformation office, led by GKN's new Chief Transformation Officer, Tom Kolaja.

Our target is to deliver £340 million recurring annual cash benefit from the end of 2020. To do this, we will pull four levers – manufacturing excellence, functional excellence, direct procurement and indirect procurement.

We are in a period of considerable change throughout the organisation as part of the new strategy and Project Boost. In this time of change, we will ensure that our improvement plans incorporate improvements in safety and culture in the same way that they incorporate margin improvement.

This is a fundamental reset and transformation of GKN. We are upgrading our capabilities, we are transforming our processes and systems and I am building a world class team committed to delivering the strategy and executing Boost. I believe this will generate significant cash for our shareholders in the short term and meaningful sustainable cash flow over the mid to long term. And that is why Boost is now well underway.

> "Our target is to deliver £340 million recurring annual cash benefit from the end of 2020."

Conclusions

As an engineer, my decision to accept the role as Chief Executive was an easy one. GKN has examples of world leading technology throughout our divisions. And this technology is delivered by great people. We serve customers in some of the most exciting sectors and we operate in communities all over the world that rely on the economic activity we bring.

And yet, to lead such an organisation can never be taken lightly and can never be treated as simply managing numbers in spreadsheets. I assure you I am committed to delivering world class financial performance to match our world class technologies and businesses.

Anne Stevens
Chief Executive
26 February 2018

Our business model and strategy

Our chosen markets

>> Read more about our markets on pages 8 and 9

Aerospace

GKN Aerospace is a leading tier one supplier of aircraft and engine structures and electrical interconnection systems to the global aerospace industry.

Automotive

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

Our new strategy to transform financial performance

Deliver distinct strategies for different product segments with rigorous capital allocation and focused performance targets

>> Read more in our divisional reviews on pages 20-25

Product segments

	Improve	Grow	Develop	Non-core
GKN Aerospace	> Specialty aerostructures > Aero aftermarket > Aero specialist positions	> Aero engines	> Aero additive manufacturing	> Powder Metallurgy > US Standard Aerostructures > Off-Highway Powertrain > Wheels > Engine and Aircraft Servicing > SABCA (minority interest) > Cylinder Liners > Fuel and Flotation Tanks
GKN Driveline	> Driveshafts > All-wheel drive (AWD)	> Driveline China	> eDrive systems	
Actions	> Improve cashflow and margin	> Grow at or above the market > Maintain strong margins	> Maintain technology leadership > Accelerate revenue growth > Control costs	> Fix US Standard Aerostructures, and assess way forward > For other segments, maximise shareholder value through exit

Establish a delivery culture based on greater accountability, capability and pace, supported by aligned incentives

>> Read more in our sustainability report on page 41

- Top-down cash and profit target setting
- Bottom-up planning for delivery of objectives including resources and investment required
- Divisional accountability for delivery of results
- Integrated cultural change and capability building
- New, consistent transformation infrastructure with an Executive Committee level Chief Transformation Officer (CTO)
- Incentives aligned to new strategy

Separate operationally now and formally in mid 2019

Separating operationally now

- Independently run businesses focused on specific market requirements
- More transparent reporting at product segment level
- Even leaner but stronger corporate centre

Separating formally when it makes sense

- Timing determined by the need to maximise shareholder value, carefully balancing:
  – Economic benefits
  – Cost of separation (e.g. tax and pensions)

CREATING VALUE

For shareholders
- Substantial improvement in margin and cash generation (see page 17) and driving long-term sustainable growth

For customers
- Leading edge technology (see pages 10 to 13)

For employees
- Wages, benefits and personal development (see pages 42 to 46)

For society
- Community support and lower environmental impact (see pages 49 to 51)

Project Boost delivery (by end 2020): world class businesses, world class performance, financially strong

>> Read about how we measure progress in our KPIs on pages 17 to 19
>> Read about our principal risks on pages 30 to 39

OUR MARKETS

The world economy is growing, and a rising population, urbanisation and increased affluence are driving change and creating opportunities for growth across the aerospace and automotive markets.

Aerospace

GKN's technology is helping the global aerospace industry meet technological and environmental challenges as demand for global air travel continues to rise.

2017 market trends

- Continued strong growth of 7.6% in passenger air travel (2016: 6.3%).[1]
- Freight air transport grew at 9.0% (2016: 3.6%).[1]
- Commercial aircraft market stabilising after years of unprecedented growth[2]:
  - Delivery of commercial aircraft at a record high level of 1,498 in 2017, compared with 1,258 in 2016.
  - Commercial orders were better than expected; 2,255 in 2017 compared to 876 in 2016, and the market was dominated by single-aisle aircraft in 2017 (89%).
  - Demand for wide-body aircraft is stable.
  - Order backlog continued at high level, with 2018 marking a new record high of 14,312 jets.
- Strong growth of 9.1% in the military fighter jet market, heavily driven by F-35.[3]

Outlook

- Air traffic forecast expected to grow 5% per year until 2020.[1]
- Commercial aircraft production expected to grow at an average rate of 2% until 2020 and then stabilise.[3]
- Airbus and Boeing forecast that the passenger aircraft fleet will more than double between 2016 and 2036.[2]
- Passenger load factors expected to remain at a record high rate of 80%.[1]
- Growth in Asia Pacific region dominates the outlook – contributing to 41% of air passenger traffic by 2036.[4]
- Strong growth in military fighter jet market, based around F-35, expected to continue.[3]

GKN Aerospace

Core product segments

Improve	Grow	Develop
> Specialty aerostructures > Aero aftermarket > Aero specialist positions	> Aero engines	> Aero additive manufacturing (see pages 12 and 13)

>> Read more about GKN Aerospace on pages 20 and 21.

Sources: 1 IATA; 2 Airbus and Boeing Order Tracker; 3 Teal; 4 Airbus.

Automotive

As global car sales continue to increase, expertise in electric drive technologies puts GKN at the forefront of this changing market where the drive to improve fuel efficiency and increase electrification is greater than ever.

2017 market trends

> Global light vehicle production increased 2% in 2017 to 95.1 million vehicles.

> Electric and full hybrid vehicle production grew by 24% in 2017 and now accounts for 4% of global vehicle production.

> In India, production rose 7% due to the expected improvement in domestic demand and higher consumer confidence.

> Production growth in China slowed to 3% as a result of the small vehicle sales tax incentive in 2016 and subsequent increase in the tax in 2017.

> Overall, the European market grew by 3% through solid West European demand and the start of recovery in Eastern Europe.

> North American output contracted 4% on 2016 as the lack of demand for passenger vehicles overshadowed the continuing popularity for SUVs and light trucks.

> Japanese production increased 5% due to recovery from market setbacks in 2016 and improved economic conditions in 2017.

> The Brazilian market remained fragile but the start of recovery boosted both demand and production.

Outlook

> External forecasts indicate that global vehicle production in 2018 will increase 1.9% to 97.0 million vehicles.

> Brazil is forecast to increase 13.2% and North America is expected to recover slightly from 2017 with a rise of 1.8%.

> China is expected to grow at just 0.6% as the market normalises from the withdrawal of incentive support.

> Europe is expected to grow by 2.4%.

> It is forecast that electric and full hybrid vehicles will reach 14% of total production by 2025, growing at a compound annual rate of 21%.

Source: IHS Automotive.

GKN Driveline

Core product segments

Improve	**Grow**	**Develop**
> Driveshafts > All-wheel drive	> Driveline China	> eDrive (see pages 10 and 11)

>> Read more about GKN Driveline on pages 22 and 23.

eDRIVE

The vehicles in which we travel are undergoing the greatest change for over a century, fuelled by the growth of electrification across the automotive sector.

GKN has been working on electric and hybrid transmissions for plug-in hybrids and pure electric vehicles since 2002, pioneering the development of single and multi-speed eAxles.

Following a series of significant programme wins with major global automakers, GKN's order book for its eDrive technologies hit £2 billion by the end of 2017. GKN's success is also accelerating annual sales growth. Sales, which were previously forecast to rise from £35 million in 2017 to £200 million in 2020, are now expected to increase over eight-fold to £275 million.

GKN's success has been achieved through a long-term commitment to research and development, bringing technology from the test track to the road. From supercars to delivery vans, GKN's eDrive systems are helping power a broad range of innovative and market-leading vehicles.

GKN's electric driveline systems feature on cars such as the Volvo XC90 T8 Twin Engine, the BMW 2 Series Active Tourer, the BMW i8, the Porsche 918 Spyder and the Mitsubishi Outlander, one of the biggest selling plug-in hybrids on the market.

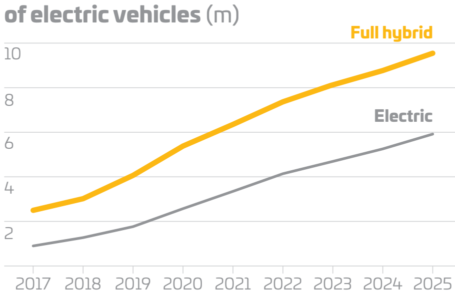
In Germany, GKN technology is bringing emissions-free delivery vans to the road through its work with Deutsche Post's Streetscooter, while the London Electric Vehicle Company's TX5 electric taxi has launched on the streets of London containing a GKN eDrive system.

The challenge now facing the automotive industry is how to take electric vehicles to the next level and make them more appealing to motorists. GKN believes the answer lies in vehicle dynamics, making electrified cars not only more efficient, but better to drive, and is developing new technologies to constantly improve electric vehicles.

GKN's eTwinsterX system, unveiled in 2017, takes efficiency and dynamic benefits to another level. The innovative system offers three key advantages over conventional electric drivelines. The unit is significantly smaller than other systems with equivalent power outputs due to its integrated design, while the eTwinsterX boasts industry-leading efficiency, with a unique two-speed transmission optimising gear changes for the best possible efficiency. The new eAxle also incorporates GKN's celebrated 'Twinster' torque vectoring technology, delivering significant advantages for vehicle stability, agility and safety.

Cementing its position as an eDrive innovator, GKN has agreed a multi-year partnership with Panasonic Jaguar Racing, providing design, manufacturing and engineering services to the Formula E team. See page 50 for more details.

Predicted growth in production volume of electric vehicles (m)



Source: IHS Automotive.

GKN's eTwinsterX system

ADDITIVE MANUFACTURING

Additive manufacturing (AM) is an entirely new way of thinking about how to design and make products. With total control over material properties and almost no design restrictions, AM is set to transform the world around us.

Also called 3D printing, AM allows engineers to deliver improvements in product performance, reliability, cost and weight by designing components that are either built layer-by-layer with virtually no waste at all, or by adding precise shapes onto existing components to create new, unique and complex geometries.

GKN's expertise in AM manufacturing enables transformative solutions, certified to the most rigorous industry and customer standards, and enables customers to overcome the most complex design challenges.

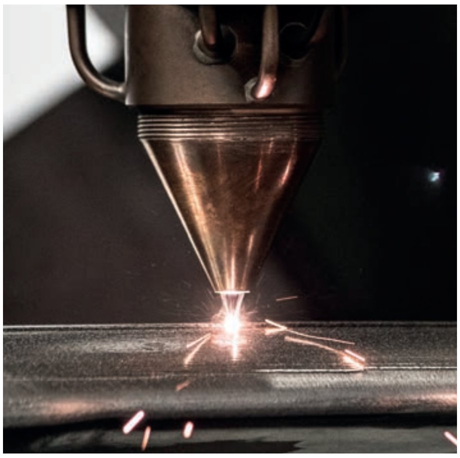
GKN Aerospace

Aerospace is the largest market for additive manufacturing, with expected growth of 26% per year through 2025.

Today, GKN Aerospace has additive components flying on seven aircraft platforms, including the A350 XWB, the Saab Gripen fighter jet and the NH90 helicopter, and expertise in multiple AM processes.

We are at the forefront of freeform deposition, a technique which builds metal structures by using a laser to melt metal wire or powder onto a substrate layer-by-layer to specific geometries specified by a CAD model. GKN typically uses freeform deposition for large engine and airframe structures. Powder bed technologies fuse fine metal powder together, allowing the manufacture of complex optimised small components.

GKN has been leading the additive manufacturing revolution for years, and is today partnering with other aerospace industry experts to progress innovations in this field.



Laser-blown welding on a commercial engine component.

FINANCIAL REVIEW

Our 2017 results show strong growth and, for the first time, we exceeded £10 billion in management sales. Management trading profit before tax, excluding the one-off impact of the North American Balance Sheet Review, was £684 million, £6 million higher than 2016, and EPS, before the balance sheet review, increased 2% to 31.7p. Going forward, our focus will be on generating cash and increasing our margins to improve returns for our shareholders, while growing the businesses in our 'grow' segment above the market.

Jos Sclater
Group Finance Director

Results

Management sales increased organically by £626 million (6%). Currency translation contributed a further £456 million offset by an £87 million net reduction from acquisitions/divestments, principally relating to the sale of Stromag.

Overall, organic trading profit reduced by £145 million, primarily due to the £112 million balance sheet review charge and associated costs in North American Aerospace and claims of £38 million partly offset by the absence of £40 million restructuring costs incurred in 2016. There was a benefit from currency translation of £43 million and a £9 million net reduction due to acquisitions/divestments.

The Group trading margin reduced to 6.4% (2016: 8.2%), or 7.4% excluding the £112 million North American Balance Sheet Review adjustments. The adjustments also impacted the return on average invested capital (ROIC), which reduced to 13.0% (2016: 16.0%).

At 31 December 2017, the Group had net debt of £889 million (31 December 2016: £704 million) and the total deficit on post-employment obligations totalled £1,504 million (2016: £2,033 million). During the year, the Group issued a new £300 million 3.375% annual unsecured bond, £250 million of which was paid into the GKN2 UK pension scheme.

Earnings per share

Management earnings per share was 26.6 pence, or 31.7 pence excluding the after tax impact of the £112 million North American Balance Sheet Review adjustments (2016: 31.0 pence). On a statutory basis, earnings per share was 29.3 pence (2016: 14.1 pence), impacted by a significant credit from the change in value of derivatives and other financial instruments. Average shares outstanding in 2017 were 1,714.7 million (2016: 1,712.1 million).

Dividend per share

The Board has decided to recommend a final dividend of 6.2 pence per share (2016: 5.9 pence per share). The total dividend for the year will, therefore, be 9.3 pence per share (2016: 8.85 pence per share), an increase of 5%.

Divisional results

1 **GKN Aerospace** £3,638m
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4 **Other Businesses** £289m

1 **GKN Aerospace** £175m
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Group performance

	Management basis			Statutory basis		
	2017[2]	2016	Change (%)	**2017**	2016	Change (%)
Sales (£m)	**10,409**	9,414	+11	**9,671**	8,822	+10
Operating profit (£m)	**662**	773	-14	**699**	335	+109
Trading margin (%)	**6.4**	8.2	-180bps			
Profit before tax (£m)	**572**	678	-16	**658**	292	+125
Earnings per share (pence)	**26.6**	31.0	-14	**29.3**	14.1	+108
Dividend per share (pence)	**9.30**	8.85	+5	**9.30**	8.85	+5
Free cash flow (£m)	**207**	201				
Net debt (£m)	**889**	704				

£658m

Profit before tax on a statutory basis (2016: £292m)

31.7p[2]

Earnings per share on a management basis (2016: 31.0p)

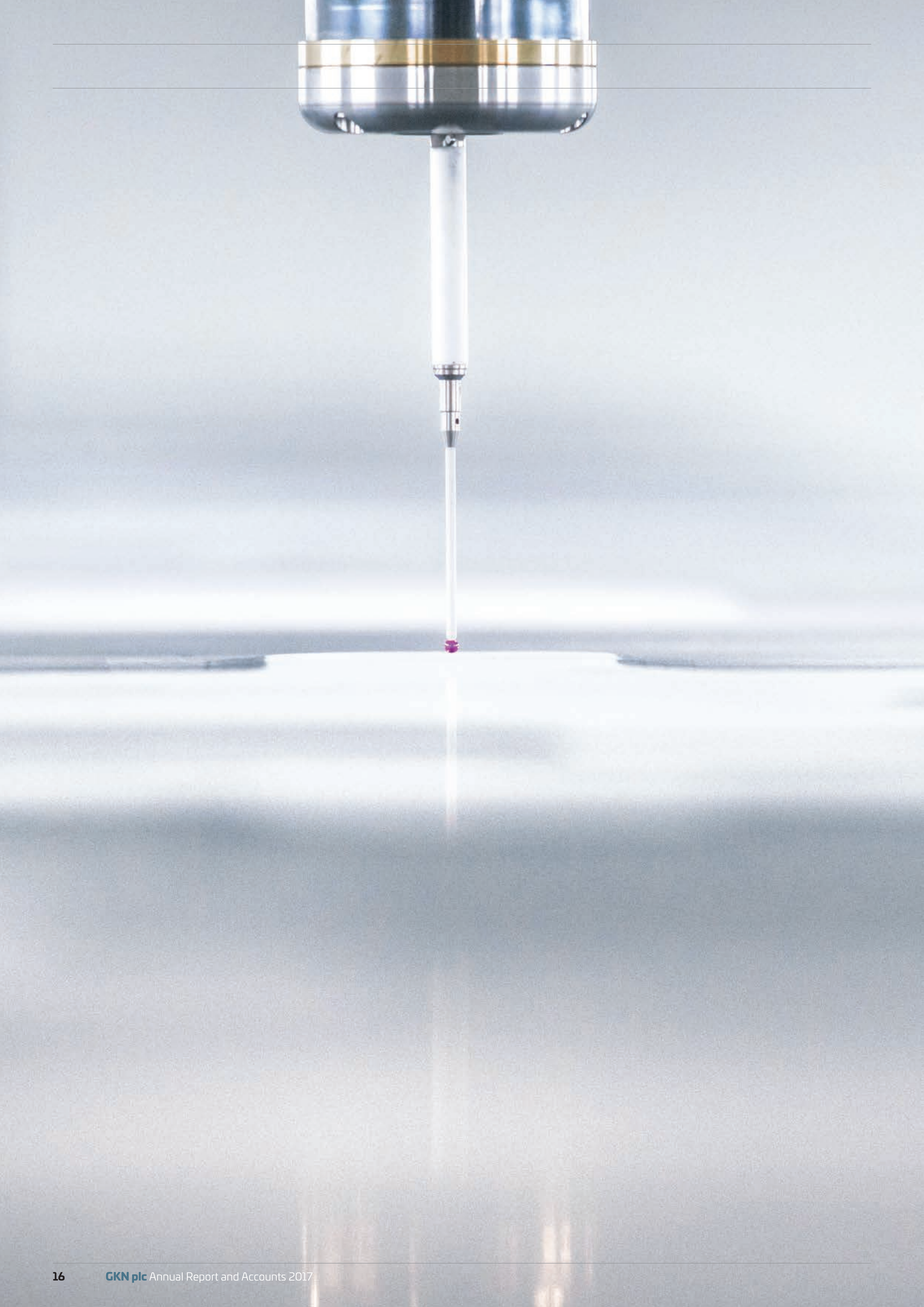
New strategy and Project Boost

As set out in our announcement of 14 February 2018, the Board of GKN has concluded a wide-ranging strategic and operational review, which started in 2017. This review focused on both capital allocation discipline and a transformation programme aimed at improving cash flow and margin (Project Boost).

This new strategy differentiates core product segments into improve, grow and develop, with each strategy having different capital expenditure targets and different expectations for growth, margin improvement, cash generation and return on investment. Core division margin targets for 2020 have been set, at least 14% for GKN Aerospace, at least 9.5% for GKN Driveline and 11% for the Group[3]. The Project Boost transformation plan is expected to deliver recurring annual cash benefits of £340 million from the end of 2020[1].

The new strategy has a clear framework that is expected to result in significant cash returns to GKN shareholders. The strategy includes a plan to sell Powder Metallurgy, as well as a number of other non-core businesses. GKN's progressive dividend policy will be to target an average payout of 50% of free cash flow over the period of 2018 to 2020. In addition, GKN expects to distribute surplus cash to shareholders, subject to maintaining an investment grade credit rating. In total, GKN is targeting returns of up to £2.5 billion to shareholders over the next three years, with a significant part expected to come from divestments executed within the first 12 to 18 months, including the sale of Powder Metallurgy.

1 Including corporate costs and other businesses.
2 Excluding £112 million North American Balance Sheet Review adjustments.
3 The trading margin targets for 2020 should not be construed as a profit forecast or interpreted as such.



KEY PERFORMANCE INDICATORS

We use the following financial and non-financial indicators of performance to help measure progress.

KPI	Definition	Our targets	2017 performance
Management sales growth[1]	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. See pages 14 and 15.	To achieve long-term growth rates in our 'improve' segments in line with our major markets and to grow our 'grow' and 'develop' segments above our markets (in absolute terms and on an underlying basis).	£10,409m **2017 £10,409m** 2016 £9,414m 2015 £7,689m 2014 £7,456m 2013 £7,594m
Trading margin[1]	Management trading profit expressed as a percentage of management sales. See pages 14 and 15.	To achieve an overall Group trading margin of above 10.5%.	6.4% **2017 6.4%** 2016 8.2% 2015 8.8% 2014 9.2% 2013 8.7%
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). See pages 14 and 15.	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.	26.6p **2017 26.6p** 2016 31.0p 2015 27.8p 2014 29.0p 2013 28.7p
Return on average invested capital (ROIC)[1]	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. See pages 14 and 15.	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).	13.0% **2017 13.0%** 2016 16.0% 2015 17.8% 2014 17.7% 2013 17.3%

1 For divisional contributions to each of these KPIs, see financial results on pages 20 to 25.

KPI	Definition	Our targets	2017 performance
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 and special pension payments. See page 28.	To generate positive free cash flow sufficient to cover dividend payments, provide funding resources to support organic and acquisitive earnings growth, and reduce indebtedness.	£207m **2017 £207m** 2016 £201m 2015 £370m 2014 £234m 2013 £346m
R&D as a percentage of sales	Total research and development expenditure, including customer and government funding, expressed as a percentage of management sales.	Sustainable investment in research and development to support future growth.	3.5% **2017 3.5%** 2016 3.6% 2015 4.4%
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.	Selective new business wins targeted in our chosen markets to help achieve our strategic objectives and financial goals.	**GKN Aerospace**[2] $4.1bn **2017 $4.1bn** 2016 $7.1bn 2015 $3.5bn **GKN Automotive**[3] £810m **2017 £810m** 2016 £1,186m 2015 £1,067m
Accident frequency rate (AFR)/ accident severity rate (ASR)	AFR is the number of lost-time accidents per 1,000 employees. ASR is the number of days/shifts lost due to accidents and occupational ill health per 1,000 employees. See pages 42 and 43.	Continued long-term reduction towards zero accidents.	**AFR*** 7% increase **2017 1.15** 2016 1.07 2015 1.20 **ASR*** 5% increase **2017 21** 2016 20 2015 39 *2016 data restated to include Fokker.
Energy efficiency	Energy consumption expressed as a percentage of sales. Calculation uses constant currency. See page 49.	3% year-on-year improvement.	2% improvement **2017 440 kWh** 2016 449 kWh 2015 470 kWh

2 Estimated total contract value.

3 Estimated annualised contract value.

KPI	Definition	Our targets	2017 performance
Apprentices[4]	Total number of apprentices employed at the year end. See page 46.	Year-on-year increase in the number of apprentices across the Group.	+34 apprentices **2017** **926** 2016 892 2015 875
Management turnover[4]	Voluntary turnover of management-level employees, excluding compulsory redundancies, terminations and retirements, expressed as a percentage of all management level employees. See page 45.	Voluntary turnover of management employees of less than 5%.	6.5% **2017** **6.5%** 2016 6.0% 2015 4.1%
Employee disclosure	Total number of calls received through the Group's employee disclosure hotline during the year. See page 46.	Year-on-year increase in the number of calls to the employee disclosure hotline, providing an early indicator of potential issues.	-16 calls **2017** **171** 2016 187 2015 158
Diversity[4]	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 leaders from certain targeted developing markets expressed as a percentage of total management-level employees. See page 44.	To achieve a five-year goal of 20% of leadership to be women by 2020 and, in time, 20% from under-represented groups.	13.0% women in management **2017** **13.0%** 2016 13.8% 2015 12.6% 12.0% leaders from under-represented groups **2017** **12.0%** 2016 12.0% 2015 9.9%
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. See page 48.	100% of employees within the target audience to complete training.	95% **2017** **95%** 2016 94% 2015 97%

4 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' and 'alternative performance measures' sections 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 1 (page 113 to 116) and note 3 (126 and 127) to the consolidated financial statements, 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 27.

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.

Core product segments

Improve
- Specialty aero structures
- Aero aftermarket
- Aero specialist positions

Grow
- Aero engines

Develop
- Aero additive manufacturing

Non-core product segments
- US standard aerostructures*
- Fuel and flotation tanks
- Engine and aircraft servicing

*Designated as non-core but immediate priority is to 'fix' the business, not divest.

Hans Büthker
Chief Executive, GKN Aerospace

Divisional summary

- Headline sales growth of 6%; 2% organic growth was ahead of the market.
- Around $4.1 billion of new and replacement work packages won over contract lives.
- China joint venture MOU signed with Comac and AVIC.
- Additive manufacturing (AM) partnerships with US Department of Energy's Oak Ridge National Laboratory and Saab.
- Trading margin of 7.8% (2016: 9.9%), excluding the £108 million balance sheet review adjustment. The most significant factor in the margin decline was the performance of the US Standard Aerostructures business which reported a trading loss for the year.

Performance

Overall, GKN Aerospace's organic sales were £76 million higher (2%). There was a £143 million benefit from currency translation and a £4 million reduction due to disposals. During the year, GKN Aerospace completed the sales of its Bandy Machining site in Burbank, California and the Applied Composites business in Linköping, Sweden. GKN Aerospace's sales were split 72% commercial and 28% military.

GKN Aerospace's organic commercial sales declined 1%, principally due to the greater exposure to the wide-body market. Reduced sales were reported on the A380, Boeing 737 MAX (due to the end of a temporary development contract in 2016), business jets, Boeing 777 and CFM56 engine. This was partly offset by stronger production of the A350 and A320, including the PW PurePower® Geared Turbofan™ (GTF) engines. Military sales were organically 11% higher, primarily due to an increase in production of the F-35 and F/A-18 Super Hornet, as well as development sales for advanced proprietary military programmes.

Trading profit was £175 million (2016: £339 million, including £10 million restructuring costs), reflecting the £108 million North American Balance Sheet Review adjustments, an organic profit decline of £73 million, a benefit from a favourable currency translation impact of £16 million and a £1 million improvement due to divestments. The £108 million North American Balance Sheet Review adjustments comprised inventory write-downs of £64 million, charges for onerous contracts of £18 million, re-assessment of customer receivables and claims of £19 million, and correction to fixed asset carrying value of £7 million.

The most significant factor affecting GKN Aerospace's profitability was the performance of the US Standard Aerostructures business which reported a trading loss for the year, due to declining legacy programmes, price pressure, the end of a development contract, and operational issues.

In addition, organic trading profit in the year was impacted by a number of factors which net out to around a £15 million negative impact on underlying trading profit. This includes: the £15 million charge in Alabama; a £28 million claim associated with engine programme delays; and recognising £6 million of lower trading profits from the SABCA equity accounted investment. These were partly offset by programme pricing adjustments of £13 million within the engines business and £19 million within the US Standard Aerostructures business.

The engine business performed well and investment continues in the PW PurePower® Geared Turbofan™ (GTF) engines across four different platforms. Fokker also delivered strong results, with good organic growth and achieving the 10% trading margin target set at the time of acquisition, a year ahead of original plans.

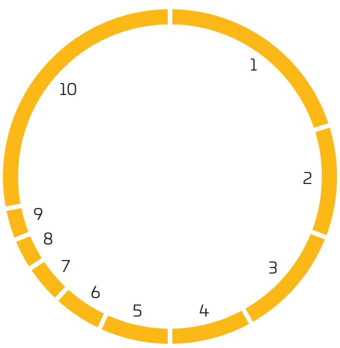
Trading margin was 7.8%, excluding the North American Balance Sheet Review adjustments (2016: 9.9%). Return on average invested capital, was 7.5% (2016: 14.6%).

Progress in the development and application of additive manufacturing (AM) continued in the year. Momentum increased in both free form and powder bed with both technologies in production, new orders won and parts now flying on seven platforms across the commercial, military and space markets. This is a key area of focus for the Group.

In summary

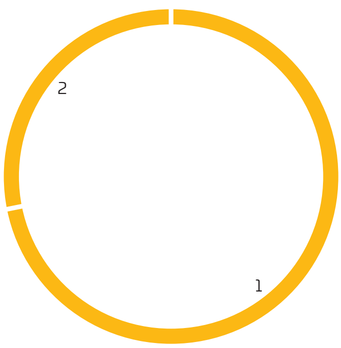
Sales	Trading margin	Trading profit	Return on average invested capital	People	Manufacturing locations
£3,638m	4.8%[1]	£175m[1]	7.5%[1]	17,700	52
(2016: £3,423m)	(2016: 9.9%)	(2016: £339m)	(2016: 14.6%)		**Countries**
					14

Sales by customer



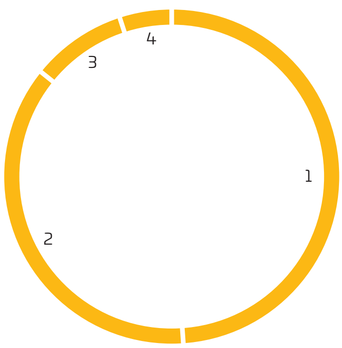
1 **Airbus** 20%
2 **Boeing** 11%
3 **United Technologies** 11%
4 **General Electric** 8%
5 **Lockheed Martin** 7%
6 **Rolls-Royce** 5%
7 **Safran** 4%
8 **Honeywell** 3%
9 **Gulfstream** 3%
10 **Other** 28%

Sales by market



1 **Commercial** 72%
2 **Military** 28%

Sales by product type



1 **Aerostructures** 49%
2 **Engine components and sub-systems** 37%
3 **Special products** 9%
4 **Services** 5%

1 Including the £108m charge relating to North American Balance Sheet Review described on page 26.

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. Off-Highway Powertrain is a global supplier of power management products, systems and service solutions for the world's leading off-highway and industrial equipment manufacturers. Its technologies deliver efficiencies in the agricultural, construction, mining, utility and industrial markets.

Core product segments

Improve
> Driveshafts
> All-wheel drive (AWD)

Grow
> All-wheel drive China

Develop
> eDrive

Non-core product segments

> Off-Highway Powertrain

Phil Swash
Chief Executive, GKN Automotive

Divisional summary

- Organic sales growth of 9%, significantly ahead of global auto production, helped by our broad geographic footprint and strong positions on high growth global platforms.
- eDrive order book extended to over £2 billion;
- PACE Innovation Award for the integrated co-axial eAxle on the Volvo XC90 T8 twin engine.
- Electrified drivetrain programmes launched in China joint venture (SDS).
- Trading margin of 7.1% (2016: 7.2%, restated), with a good performance in Europe offset by reduced profitability in the North American AWD business, increased eDrive R&D investment to drive future growth, warranty claims and raw material headwind.

Performance

Organic sales increased by £457 million (9%), substantially ahead of global light vehicle production which was up 2.2%. The beneficial effect from currency translation was £237 million. Constant Velocity Jointed (CVJ) Systems accounted for 65% of GKN Driveline's sales, all-wheel drive (AWD) and eDrive sales were 28%, and Off-Highway Powertrain sales represented 7%.

GKN Driveline's market outperformance was mainly in China and in North America. In China, significant growth was achieved following new programme launches with additional content from AWD sales, including to a number of domestic manufacturers, and an unusually strong sales performance in the fourth quarter. In North America, sales grew well above the market, reflecting strong recent programme gains and in Europe, production continued slightly ahead of the market, benefiting from good demand for premium vehicles. In Japan, GKN Driveline's sales grew at a slower rate than the market due to vehicle mix. Off-Highway Powertrain delivered strong sales growth and significantly improved trading profit.

Overall, GKN Driveline trading profit increased £47 million to £377 million, including the favourable impact of currency translation of £20 million. The organic increase in trading profit was £27 million, with the increased investment in eDrive of £36 million (2016: £16 million) being offset by the non-recurrence of restructuring charges in 2016 of £22 million (restated to include Off-Highway Powertrain, previously part of GKN Land Systems). The North American AWD business continued to improve operationally, although profitability reduced as new launches increasingly replaced mature, higher margin, programmes. During 2018, the focus will be on driving margin improvement.

Other costs incurred, include £10 million of warranty claims and net raw material price headwinds of £12 million. GKN Driveline's trading margin was 7.1% (2016: 7.2%). Return on average invested capital was 18.7% (2016: 18.3%).

GKN Driveline's European plants continue to operate at very high capacity utilisation with a strong conversion on the additional sales. In China, margin reduced as expected, with the benefit of increased sales being offset by pricing pressure and the on-going investment in new programmes, engineering and technology localisation, particularly to support AWD and eDrive growth. In the Americas, operations were helped by strong growth in Brazil, US and Mexico with an associated increase in launch investments being made to support a high number of new programmes.

The trend towards electrification of passenger vehicles continues to accelerate, which is an area of significant strength for GKN. GKN Driveline is already a market leader having delivered over 725,000 eDrive systems, serving premium and global customer brands with its award-winning technology and world leading vehicle and systems integration capability. The order book for eDrive technologies stood at £2 billion at the end of 2017 following a series of significant programme wins with major global automakers. During the year, £35 million of eDrive sales were reported, with sales expected to reach £500 million by 2022.

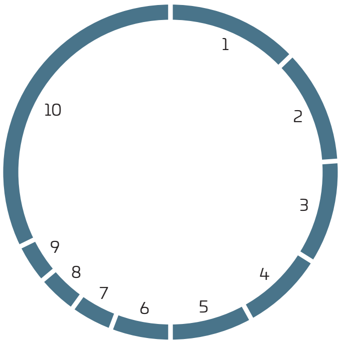
In summary

Sales	Trading margin	Trading profit	Return on average invested capital	People	Manufacturing locations[2]
£5,308m	7.1%	£377m	18.7%	31,700	58
(2016: £4,614m[1])	(2016: 7.2%[1])	(2016: £330m[1])	(2016: 18.3%[1])		

Countries

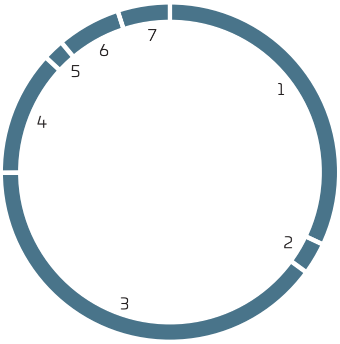
23

Sales by customer



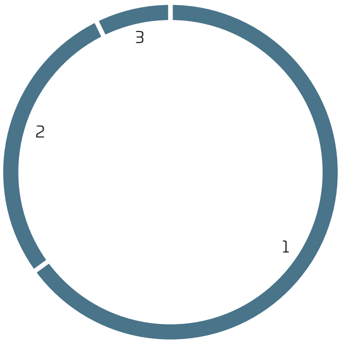
1 **Fiat Chrysler** 13%
2 **VW Group** 11%
3 **Ford** 10%
4 **GM Group** 8%
5 **Renault Nissan** 8%
6 **Toyota Group** 6%
7 **Tata Group** 4%
8 **Mercedes** 4%
9 **Geely Group** 4%
10 **Other** 32%

Sales by region of origin



1 **North America** 32%
2 **South America** 3%
3 **Europe** 40%
4 **China** 12%
5 **India** 2%
6 **Japan** 6%
7 **Other** 5%

Sales by product group type



1 **CVJ systems** 65%
2 **AWD and eDrive systems** 28%
3 **Other** 7%

1 Restated to include Off-Highway Powertrain.
2 Excluding Off-Highway Powertrain's 28 service sites.

GKN POWDER METALLURGY

GKN Powder Metallurgy comprises two businesses. 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.

Peter Oberparleiter
Chief Executive, GKN Powder Metallurgy

Divisional summary

- Organic sales growth of 5%.
- Acquisition of Tozmetal in Turkey.
- Titanium powder production for AM started with partner TLS Technik.
- Launched InstAMetal, digitised metal AM quoting, design and prototyping experience.
- Trading margin of 10.6% (2016: 11.4%), principally reflecting higher raw material surcharge and investment in high-end powder capability in China.

Performance

Organic sales were £55 million higher, including £33 million pass through to customers of higher scrap steel prices and other commodities. There was a £60 million benefit from currency translation and a £27 million increase from the acquisitions of a majority share of a powder manufacturer in China and a Turkish metal parts company.

Organic sales growth before raw material pass through was 2%, in line with global light vehicle production. Strong underlying sales growth was achieved in China, Europe and Brazil but sales in North America fell due to weaker automotive demand.

Trading profit increased £7 million to £125 million, benefiting from favourable currency translation of £7 million. The organic reduction in trading profit was £3 million and there was a £3 million profit from acquisitions.

The divisional trading margin was 10.6% (2016: 11.4%), reflecting the £8 million impact of higher raw material prices, ongoing investment in China and tougher market conditions in the US. Return on average invested capital was 19.7% (2016: 21.0%).

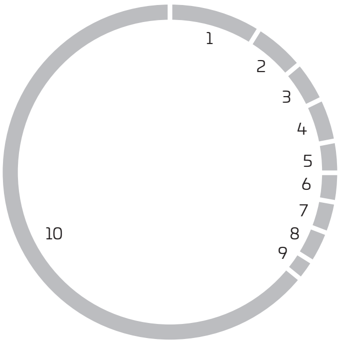
The European business, principally focused on small parts, grew well increasing its sales into the automotive market. Good progress continues in Asia with double digit sales growth. North America was tougher, reflecting a slowdown in the automotive market. Digitisation across the shop floor is assisting with productivity gains across GKN Powder Metallurgy.

Commercial titanium powder production for AM started in Cinnaminson, US, as part of the venture with TLS Technik. Interest in powder continues to be strong and a number of production orders have been received from key customers for both standard and customised titanium AM powder alloys. There is also increased demand for AM parts for use in the automotive and industrial sectors.

In summary

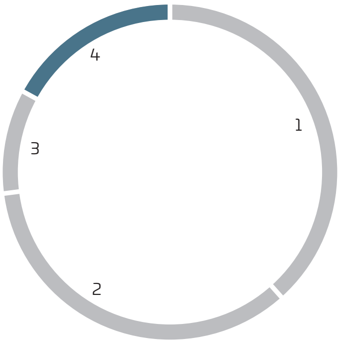
Sales	Trading margin	Trading profit	Return on average invested capital	People	Manufacturing locations
£1,174m	10.6%	£125m	19.7%	7,400	34
(2016: £1,032m)	(2016: 11.4%)	(2016: £118m)	(2016: 21.0%)		**Countries**
					10

Sales by customer



1 **Ford** 9%
2 **GM Group** 5%
3 **Schaeffler** 4%
4 **Fiat Chrysler** 4%
5 **Hilite** 3%
6 **Borg Warner** 3%
7 **Linamer** 3%
8 **ZF Group** 3%
9 **Bosch** 2%
10 **Other** 64%

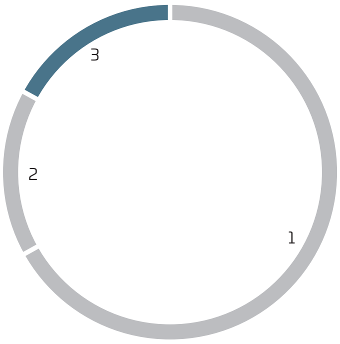
Sales by region



1 **Americas** £451m
2 **Europe** £409m
3 **Rest of world** £116m

4 **Hoeganaes** £198m

Sales by product type



1 **Automotive** £786m
2 **Industrial** £190m

3 **Hoeganaes metal powder** £198m

REVIEW OF BALANCE SHEET ISSUES IN NORTH AMERICA

We reported in our 2017 results announcement that, following ongoing pricing pressure, continuing operational challenges and the impact of programme transitions, a detailed review had been carried out at our North American Aerospace sites.

In October 2017, we reported that an initial review of our Alabama site had resulted in a £15 million non-cash charge relating to revised assumptions on programme inventory and receivables balances.

In November 2017, we further announced that, in light of the issues communicated earlier in relation to Alabama, a comprehensive balance sheet review had been immediately initiated across other Aerospace plants in North America. These businesses represent 10% of Group revenue.

A Steering Group, comprising the Group Finance Director, Group Financial Controller, Head of Corporate Audit and Head of Legal, was appointed to lead the review under the supervision of the Audit & Risk Committee.

The review comprised three key elements:

> a review of potential balance sheet exposures and key judgements, particularly focusing on working capital balances. This review included independent support from KPMG and engineering consultant Belcan;

> additional inventory count procedures, including independent testing by both KPMG and our Corporate Audit team; and

> a conduct review, with support from both Kirkland & Ellis and Slaughter and May.

In addition to the above:

> a detailed risk assessment was completed in respect of all other GKN businesses by group and divisional management; and

> additional risk-based procedures were completed by our external auditor Deloitte as discussed on page 98.

The review is now complete and the findings approved by the Audit & Risk Committee. This resulted in additional non-cash accounting adjustments in our Aerospace North America business totalling £108 million, and £4 million of associated costs. No issues were identified elsewhere in the Group. The adjustments include inventory write-downs totalling £64 million, recognition of provisions for onerous contracts of £18 million, reduction in receivables balances of £12 million, other working capital write-downs of £7 million and fixed asset write-offs of £7 million.

The adjustments relate to a combination of:

> revised assumptions, estimates and judgements regarding recoverability of certain working capital balances, particularly inventory. In certain cases this includes taking a more cautious view given the issues identified and changes in the business environment;

> changes in facts or circumstance during 2017; and

> the correction of immaterial prior period errors.

The review assessed whether there was evidence to suggest that any of the identified adjustments relate to prior periods and might therefore be categorised as errors in the preparation of prior year annual reports. This exercise inherently included an element of judgement as many of the related balances, such as inventory provisions, require estimation. The review therefore required the reassessment of conditions and contractual positions in prior periods using information which was available, or should reasonably have been available at that point in time, without using the benefit of hindsight. In some cases, this review was impacted by changes in GKN personnel and limitations in available information.

The review concluded that £22 million of the adjustments relate to prior periods and that, due to their materiality in the context of the Group's financial position, performance and cash flows, a restatement of the prior year financial statements is not required.

The Audit & Risk Committee, on behalf of the Board, has completed a thorough review of the circumstances under which these issues arose. This highlighted:

> a challenging business environment with certain sites experiencing reduced volumes, programme transitions and cost base compressions following sustained price downs;

> high levels of management turnover and reduced engineering resource, resulting in a loss of knowledge and experience together with available resource to meet operational demands such as rework;

> examples of management processes and methodologies which were not consistently or robustly applied;

> system limitations driving a reliance on people;

> a culture focused on short-term performance; and

> gaps in management oversight.

The review did not indicate any fraud or intentional misconduct.

As a consequence of this review, a number of individuals have ceased employment with the Group. In addition, a detailed improvement plan has been initiated to address issues identified and prevent similar issues occurring in the future. The improvement plan includes:

> a review of operational and financial controls over working capital;

> a thorough review of our three lines of defence activities and associated processes and controls;

> a Group-wide review of culture; and

> a review of the organisational structure and capabilities.

The Audit & Risk Committee will monitor the implementation of this improvement plan throughout 2018.

OTHER FINANCIAL INFORMATION

Other Businesses and corporate costs

GKN's Other Businesses comprise Wheels & Structures (previously part of GKN Land Systems) and Cylinder Liners (a 59% owned venture mainly in China, manufacturing engine liners for the truck market in the US, Europe and China). 2016 comparators are restated for the inclusion of Stromag and Wheels & Structures, previously part of GKN Land Systems.

GKN's Other Businesses reported combined sales in the period of £289 million (2016: £345 million). The change reflects a £38 million organic increase in sales due to good growth in Cylinder Liners and Wheels, a £16 million benefit from currency translation and a reduction due to the disposal of Stromag of £110 million.

A trading profit of £16 million was reported (2016: £7 million) including a £1 million benefit from currency translation. Organic trading profit was £21 million higher, reflecting a strong performance in Cylinder Liners and the absence of a restructuring charge in 2016. Trading profit was £13 million lower due to the disposal of Stromag.

Corporate costs, which comprise the costs of stewardship of the Group and operating charges and credits associated with the Group's legacy businesses, were £31 million (2016: £21 million), principally due to £4 million of additional costs associated with the North American Balance Sheet Review, £4 million of additional costs associated with closure of the UK pension scheme and the absence of a pension gain of £5 million in 2016. There was also a £1 million adverse currency translation impact.

Items excluded from management trading profit

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 Key Performance Indicators. 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 Group uses management measures, which are non-GAAP measures, for certain remuneration targets and to assess operating performance on a consistent basis, as we believe this gives a fairer assessment from period to period of the underlying activity 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.

The items excluded from management basis results are adjusted 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 of management control (change in value of derivative and other financial instruments and fair value changes on cross currency interest rate swaps), it is non-cash (interest charge on post-employment benefits and unwind of discounts) or it does not relate to trading performance but rather acquisition or divestment activity (amortisation of non-operating intangible assets arising on business combinations, gains and losses on changes in Group structure and acquisition-related restructuring charges).

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 credit of £364 million (2016: £154 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 2017, the net fair value of such instruments was a liability of £117 million (2016: £482 million liability) and the change in fair value during the year was a £364 million credit (2016: £135 million charge).

There was also a £6 million charge arising from the change in fair value of embedded derivatives in the year (2016: £4 million credit) and a net gain of £6 million attributable to the currency impact on Group funding balances (2016: £23 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 £100 million (2016: £103 million).

Gains and losses on changes in Group structure

The net loss on changes in Group structure was £2 million (2016: £9 million loss).

On 29 December 2017, the Group sold its GKN Applied Composites AB business for a cash consideration of £7 million before professional fees. The profit on sale of £3 million comprises profit on disposal of net assets only with no impact from reclassification of previous currency variations from other reserves.

On 14 August 2017, the Group sold its GKN Aerospace Bandy Machining, Inc. business for a cash consideration of £1 million before professional fees. The loss on sale of £1 million comprises £5 million loss on disposal of net assets and £3 million gain from reclassification of previous currency from other reserves.

Acquisition-related restructuring charges

There were no charges regarding acquisition-related restructuring in the year (2016: £31 million).

Impairment charges

Consistent with previous years, all goodwill, together with cash generating units (CGUs) where there were indicators of impairment, was tested for impairment. An impairment charge of £131 million (2016: £52 million) has been recorded in the income statement as an adjusting and therefore non-trading item within the line 'impairment charges' in respect of seven CGUs all within the Aerospace division.

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 £80 million (2016: £73 million), with trading profit of £94 million (2016: £89 million). The Group's share of the tax and net financing costs amounted to £14 million (2016: £16 million). Trading profit increased £5 million, primarily due to an unusually strong performance in the fourth quarter in China.

Net financing costs

Net financing costs totalled £121 million (2016: £116 million) and comprise the net interest payable of £76 million (2016: £79 million), the interest charge on post-employment benefits of £47 million (2016: £53 million), a credit from fair value changes on cross currency interest rate swaps of £4 million (2016: £18 million credit) and charge for unwind of discounts of £2 million (2016: £2 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 (2016: £86 million), while interest receivable was £10 million (2016: £7 million) resulting in net interest payable of £76 million (2016: £79 million).

Profit before tax

Management profit before tax was £572 million (2016: £678 million) and £684 million excluding the impact of the Aerospace North American Balance Sheet Review adjustments. Profit before tax on a statutory basis was £658 million (2016: £292 million). The main differences between management and statutory figures for 2017 are the change in value of derivative and other financial instruments, amortisation of non-operating intangible assets arising on business combinations, 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 22% (2016: 24%), arising as a £110 million tax charge (2016: £144 million) on management profits of subsidiaries of £492 million (2016: £605 million).

The theoretical average tax rate reduced in 2017, largely due to tax losses arising in the US. The book tax rate is slightly higher than the theoretical weighted average tax rate, principally due to the tax on items excluded from management profit and changes in deferred tax assets.

The tax rate on statutory profits of subsidiaries was 26% (2016: 22%) arising as a £149 million tax charge (2016: £48 million) on statutory profits of subsidiaries of £578 million (2016: £219 million).

Non-controlling interests

The profit attributable to non-controlling interests was £6 million (2016: £2 million).

Earnings per share

Management earnings per share was 26.6 pence, or 31.7 pence excluding the after tax impact of the £112 million North American Balance Sheet Review adjustments (2016: 31.0 pence). Average shares outstanding in 2017 were 1,714.7 million (2016: 1,712.1 million).

On a statutory basis, earnings per share was 29.3 pence (2016: 14.1 pence), impacted by a significant credit from the change in value of derivatives and other financial instruments.

Dividend

The Board has decided to recommend a final dividend of 6.2 pence per share (2016: 5.9 pence per share). The total dividend for the year will, therefore, be 9.3 pence per share (2016: 8.85 pence per share), an increase of 5%. The final dividend is payable on 14 May 2018 to shareholders on the register on 6 April 2018. 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 20 April 2018.

The Group's progressive dividend policy will be to target an average payout of 50% of free cash flow over the period of 2018 to 2020.

Cash flow

Operating cash flow, which is defined as cash generated from operations of £600 million (2016: £778 million) adjusted for capital expenditure (net of proceeds from capital grants) of £519 million (2016: £494 million), repayment of principal on government refundable advances of £8 million (2016: £6 million) and proceeds from the sale/realisation of fixed assets of £8 million (2016: £37 million), was an inflow of £81 million (2016: £315 million).

Management operating cash flow, which is operating cash flow adjusted for pension deficit funding and cash flow associated with restructuring charges excluded from management trading profit, was £397 million (2016: £388 million).

Cash generated from operations includes movements in working capital and provisions totalling £48 million (2016: £130 million). The 2017 movement was impacted by the £105 million working capital write-offs related to the North American Balance Sheet Review adjustments and the £15 million Alabama write-off.

Capital expenditure (net of proceeds from capital grants) on both tangible and intangible assets totalled £519 million (2016: £494 million). Of this, £440 million (2016: £410 million) was on tangible fixed assets and was 1.5 times (2016: 1.6 times) the depreciation charge. Expenditure on intangible assets, mainly initial non-recurring costs on Aerospace programmes, totalled £79 million (2016: £84 million).

The Group invested £201 million in the year (2016: £186 million) on research and development activities not qualifying for capitalisation, net of £61 million (2016: £59 million) customer and government funding.

Net interest paid totalled £71 million (2016: £76 million) including £6 million receipts related to favourable tax case settlements. Tax paid in the year was £113 million (2016: £93 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 and special pension payments, was an inflow of £207 million (2016: £201 million inflow).

Net debt

At the end of the year, the Group had net debt of £889 million (2016: £704 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 2017 was a liability of £151 million (2016: liability of £214 million) which is included in the net debt figure of £889 million. The benefit from these derivative instruments was primarily offset by the issuance of a new £300 million unsecured bond with an annual fixed interest rate of 3.375% maturing in May 2032, and the subsequent lump-sum pension contribution of £250 million.

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 2017, the total deficit on post-employment obligations of the Group totalled £1,504 million (2016: £2,033 million), comprising deficits on funded obligations of £782 million (2016: £1,322 million) and on unfunded obligations of £722 million (2016: £711 million). In total, the deficit has decreased £529 million since 31 December 2016, primarily due to changes in the actuarial assumptions and the pension contributions made.

The amount included within trading profit for the year comprises current service cost of £38 million (2016: £48 million) and administrative costs of £5 million (2016: £3 million). The interest charge on net defined benefit plans, which is excluded from management figures, was £47 million (2016: £53 million).

Cash contributions to the various defined benefit pension schemes and retiree medical arrangements totalled £344 million (2016: £121 million), including a £250 million lump sum contribution to the GKN2 scheme.

UK pensions

The accounting deficit for UK defined benefit pension schemes decreased to £675 million (2016: £1,204 million).

During the year, the Group's two UK defined benefit pension schemes completed their triennial funding valuations as at 5 April 2016 for GKN2 and 31 December 2016 for GKN3.

The outcome of these discussions resulted in a lump sum contribution of £250 million paid in

October 2017, in addition to the £42 million annual contribution. From 2018, the annual contribution will be £36 million per annum.

During the year, a decision was also taken to close GKN 2 to future accrual and following a consultation process with the scheme members, the closure took place effective 30 June 2017. UK pension benefits are now provided on a defined contribution basis.

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 £84 million (2016: £62 million).

Net assets

Net assets of £2,580 million were £418 million higher than the December 2016 year end figure of £2,162 million. The increase is driven by management profit after tax (£462 million), a gain on remeasurement of defined benefit plans, net of tax (£227 million), and changes in value of derivative and other financial instruments (£364 million), which have been partially offset by amortisation of non-operating intangible assets arising on business combinations (£100 million), currency (including fair value changes in net investment hedging) movements in other comprehensive income, net of tax (£163 million), impairment charges (£131 million) and dividends paid to equity shareholders (£154 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 2017, UK committed bank facilities were £844 million (2016: £863 million). Within this amount there are committed revolving credit facilities of £800 million (2016: £800 million) and a £32 million (2016: £48 million) eight-year amortising facility from the European Investment Bank (EIB). The revolving credit facilities of £800 million mature in 2019, while the third of five equal, annual £16 million EIB repayments was paid in 2017. At 31 December 2017, £32 million of the EIB facility was drawn (2016: £48 million drawn) and there were no drawings on any of the UK revolving credit facilities (2016: no drawings).

Capital market borrowings at 31 December 2017 and 31 December 2016 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. During the period, the Group issued a new £300 million 3.375% annual unsecured bond maturing in May 2032.

As at 31 December 2017, the Group had net debt of £889 million (2016: £704 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 2017, EBITDA was 12.5 times greater than net interest payable, while net debt was 0.9 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.

A limited number of Group trade receivables are subject to non-recourse factoring and customer supply chain finance arrangements, from seven banks. As at 31 December 2017, the facilities totalled £248 million (2016: £258 million) with drawings of £189 million (2016: £209 million).

The Group also has a limited supply chain finance programme for its suppliers from five banks. As at December 2017, total facilities were £150 million (2016: £101 million) with drawings of £94 million (2016: £73 million).

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. Having carried out sensitivity analysis and considered additional risks identified in the viability report, 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 2018, continuing to operate and meet its liabilities as they fall due. The Directors' assessment has been made by stress testing the Group's 2018 budget and forecasts for 2019 and 2020.

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, increased margin pressure and additional pension contributions. The assessment considered the potential impact of these risks on the 2018 budget and 2019 and 2020 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	
	2017	2016	**2017**	2016
Euro	**1.14**	1.22	**1.12**	1.17
US dollar	**1.29**	1.35	**1.35**	1.23

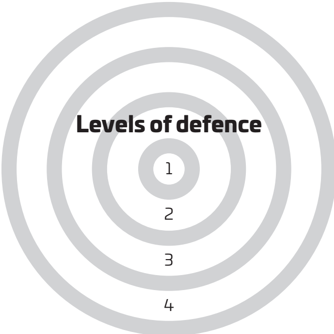
The approximate impact on 2017 trading profit of subsidiaries and equity accounted investments of a 1% movement in the average rate would be Euro – £2 million, US dollar – £2 million.

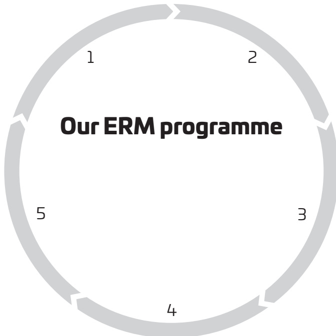
Basis of preparation

In this report, financial information, unless otherwise stated, is presented on a management basis. 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.

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 sets the Group's risk appetite annually and 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 below, 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. 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.

In the final quarter of 2017, executive management carried out a thorough investigation into potential accounting misstatements in Aerospace North America (see page 26). In response to the findings of this investigation, we considered the impact on our principal risks and our internal control and risk management system. Where relevant, we updated our principal risks, as set out below, and commenced a targeted improvement plan to address identified issues and further strengthen our risk management systems.

Our risk management procedures clearly let us down in 2017, so we are strengthening our cultural, organisational and people capability to ensure that we do not have similar issues again.

How GKN manages 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 as well as our trade compliance function. 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.

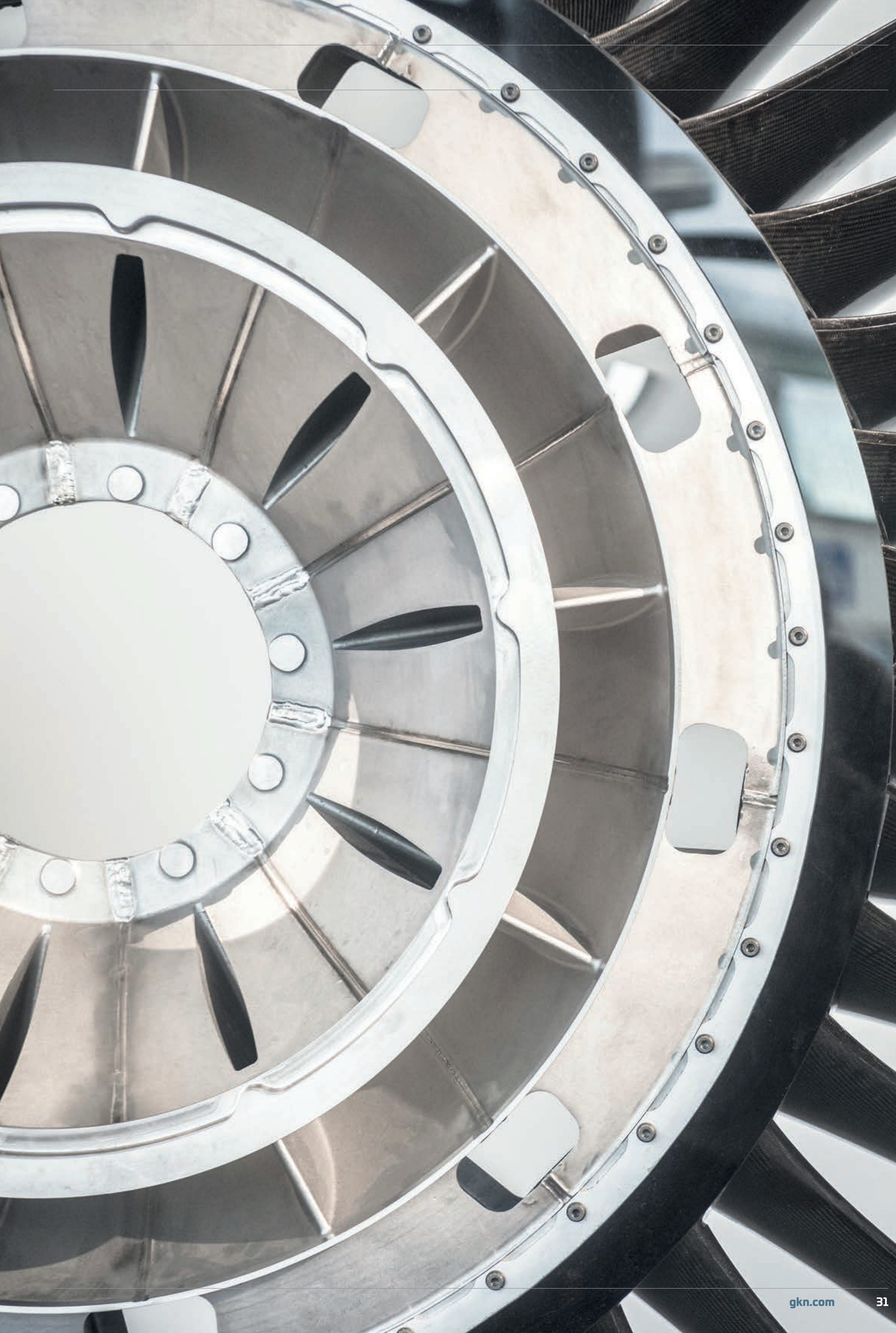
1 Identify and analyse: A broad spectrum of risks is considered through the ERM process. The Executive Committee and the Board review the output from ERM at both divisional and Group levels.

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

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

4 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.

5 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 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 stated objectives of transforming our business and achieving world class financial and operational performance.

In February 2018 the Group announced a new strategy (see page 7). We have reassessed our principal risks in light of the objectives of this new strategy and updated them accordingly, describing the impact, where relevant, below.

Over time, our risk profile evolves and the Board's view of the principal risks facing the Group is updated accordingly. 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 2017 and the outlook for each risk into 2018.

Risk trend

	Improve cash flow and margin Deliver improved cash flow and margins across the Group.	**Grow** Grow the 'improve' segments in line with market, and grow the 'grow' and 'develop' segments above the market.	**Separate** Operationally now and formally when it maximises shareholder value.
Increasing ▲	> People capability	> Technology and innovation	
Stable ◀▶	> Highly competitive markets > Customer concentration > Product quality > Health and safety > Information systems resilience > Laws, regulations and corporate reputation	> Programme management > Supply chain > Contract risk	> Pension funding > Operating in global markets
Reducing ▼			

People capability

Description

The Group's ability to deliver its strategy is dependent on 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.

Mitigation

> 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.

Changes in 2017 and outlook

Attracting and retaining talent has been challenging during the year, with increasing turnover at management level in certain divisions and regions, particularly in North America.

As part of our new strategy announced in February, we confirmed the Group's intention to dispose of some non-core businesses and to split the remaining businesses when the time is right. While we are confident this approach will maximise shareholder value, it is natural that some uncertainty will be created for certain employees within the Group which may challenge our ability to recruit and retain talent in the short term.

During the year we rolled out performance management training to over 3,300 managers, as well as linking management reward more closely to our performance evaluations; however, we plan to go further in 2018. As a part of Project Boost, we have realigned our management incentive schemes more closely to the operational and financial focuses of the Group as outlined in the new strategy. We are confident that the closer correlation between performance and reward will help us retain our best talent and recruit additional talent.

In addition to the measures announced with our new strategy, during 2017 we established two recruitment Centres of Excellence in the US and UK. These will improve control, visibility and consistency across our recruitment process, and are producing encouraging early results.

The recruitment and development of young engineering talent continues to be a focus. This is supported by Group-wide and divisional graduate programmes and a strong apprenticeship programme.

We develop and align resources and capabilities through the Group-wide organisation planning process. We are implementing a functional competency framework to further improve the process of defining and assessing levels of competency in key functions across the Group.

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 2017 and outlook

Strong competition and customer pricing pressures have continued throughout 2017. Aerospace margins continue to experience pressure from existing competitors, as well as emerging ones, such as the maturing Chinese aerospace industry. In GKN Driveline, change is being driven by the high growth electric and hybrid automotive vehicle markets, as well as rising costs of raw materials. Despite these challenges, we continue to win new business and differentiate ourselves through our technology.

We have continued a GKN-wide fixed-cost optimisation programme and taken actions to progressively redirect expenditure towards productivity improvements. Within the aerospace division, the integration of Aerostructures Europe and Fokker Technologies into GKN Aerospace, Aerostructures and Systems Europe and Asia was announced in October 2017 aiming to improve customer focus and operational efficiency. Project Boost will further strengthen the competitive position of the Group.

GKN Driveline has continued to benefit from improved strategic and customer alignment following its reorganisation into two global product lines at the end of 2016.

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 revenue 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 2017 and outlook

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 2017. No individual customer accounts for more than 10% of Group revenue.

Because most of our major OEM customers are within the automotive and aerospace industries it is unlikely that the disposals of non-core businesses as outlined in our strategy will affect this risk in the short term.

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;
- more complex products are involved, such as electric and all-wheel drive; 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 on customer KPIs.
- Maintenance of critical parts lists.
- External agency quality reviews and certifications.
- Robust contract terms and conditions.

Changes in 2017 and outlook

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 has introduced an annual quality control checklist and started a process of peer reviews to accelerate the sharing of best practice. During 2017 we have intensified the rigour of certain key controls and processes around product quality, and have also put in place the foundations for an enhanced quality auditing programme.

Health and safety

Description

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.

Mitigation

- 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.

Changes in 2017 and outlook

Regrettably, there was one fatality during the year – see page 42 for further details. A full investigation has been carried out and lessons learned have been incorporated into our processes and systems Group-wide.

After several years of reduced accident rates the Group's AFR and ASR increased slightly during 2017 compared to 2016. We continued to increase our near-miss reporting as a key leading indicator of our health and safety performance.

Our global contractor accreditation programme has been successfully piloted in 2017 with plans to roll out globally in 2018. Hazard awareness and risk assessment programmes continued with a particular focus on identifying and addressing potential catastrophic hazards.

We have also made good progress through the year in preparing for the roll out of ISO 45001 (Occupational Health and Safety Management).

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 2017 and outlook

The Group has continued to strengthen its mitigating processes and controls over the security of our information systems. During 2017, we completed a project to ensure compliance with new US Government information security standards at all relevant sites across the Group. We have also prepared for a 2018 project which will focus on further strengthening system segregation between office environments and manufacturing areas. A programme to introduce automated vulnerability scanning was also successfully introduced during 2017.

Our information systems will be a key enabler during 2018 as we roll out Industry 4.0 and increase the pace of our automation agenda as a part of Project Boost.

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 2017 and outlook

There have been no significant new regulations impacting the Group during 2017, 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 divisional leadership conferences and as an integral part of the GKN DNA. We also continue to rely on our GKN Governance Handbook to remind employees of our key Group policies and procedures, and during 2017, launched refresher training on export controls and anti-bribery.

During the year, GKN has started to prepare for the implementation of the European General Data Protection Regulation ('GDPR') which will become fully enforceable in the EU member states as from 25 May 2018.

In response to the findings of our North American Balance Sheet Review, we have commenced a detailed improvement plan to address identified issues and prevent similar issues occurring in the future (see page 26).

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 or need.

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 2017 and outlook

During 2017, the pace of change has continued to increase. This is especially true in our automotive business where products are also becoming more complex.

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 monitor developments and refresh our eDrive strategy regularly.

We have continued to diversify into targeted areas of new technology including additive manufacturing, bionic tooling and vehicle electrification. We have continued to prioritise our projects around automation and data exchange as we move toward Industry 4.0.

A key part of the Group's new strategy (page 7) is differentiated capital allocation models across our main product segments. This will enable us to direct the investment of capital towards the areas of our business where returns will be greatest. This new approach to capital allocation will help us maintain our early leadership positions on technologies which we see as key to our markets in the future, such as eDrive and additive manufacturing. It will also enable us to get the most out of more mature segments of the business by investing where there is opportunity to grow in a way which boosts margins and returns.

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 2017 and outlook

During the year we continued to implement the improved programme management framework which was introduced in 2016 and to implement the lessons learned from programme management issues we experienced that year. We have further strengthened a number of standard procedures, gate reviews and reporting.

This will continue in 2018, where we plan to extend our process of peer reviews and sharing of lessons learnt. Our programme management processes will also benefit from the upgrade in skills and capabilities and an improvement in our product launch processes which will be achieved as part of Project Boost. This will include an investment in both our methodology and the tools we use to deploy it.

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 2017 and outlook

We continue to carefully manage and monitor our supply chains and, where appropriate, build on long-term supplier relationships. During the year, we have undertaken enhanced supplier risk assessment and benchmarking exercises as part of a longer term project to improve visibility and monitoring of key parts of our supply chain.

We have also continued to roll out the Supply Chain Excellence Model alongside a maturity mapping project focused on sales, inventory and operations planning (SIOP). This project will help track our progress towards becoming a world class supply chain function.

We continue to place an emphasis on developing our people and equipping them with the skills to succeed. 180 supply chain professionals and business leaders have attended our Supply Chain Excellence programme during 2017. We have continued to focus on our supply chain talent management agenda through the year in order to continue to build capability and strength in depth throughout the function.

Projects to improve our procurement processes for both direct and indirect materials have been underway since mid-2017. We expect these to begin mitigating some of the risk in our supply chains during 2018 as well as delivering significant margin and cash benefits.

Contract risk

Description

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.

Mitigation

> 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.

Changes in 2017 and outlook

During the year, we continued to follow the strengthened contract management processes previously introduced in each division. These processes aim to ensure effective management of risks associated with complex design and build contracts.

Pension funding

Description

The Group has a number of defined benefit pension plans with aggregate net liabilities of £1,504 million at 31 December 2017. 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 2017 and outlook

Following the conclusion of the 2016 valuation exercise, the Group reduced the volatility of future deficit recovery payments as it closed the UK defined benefit pension to future accrual and made a £250 million lump sum payment to the scheme in October 2017.

The uncertainty following the UK's decision to leave the EU continues to have a potential impact on the yields on long term bonds and, thereby, on the UK pension liability, as will any wider issues in global financial markets. We will continue to monitor the impact of future market volatility, and seek to reduce volatility where appropriate.

While the initial takeover offer has been rejected, as this process continues there remains a level of uncertainty over the future impact on our pension schemes. Any changes in the Group's ownership structure and financing may impact the level of covenant support provided to the schemes, and the contributions required by the schemes' independent Trustees in the future. We continue to maintain an open and constructive dialogue with the Trustees on these matters.

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 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 2017 and outlook

Market conditions are discussed in the Chief Executive's review on pages 5 and 6 and the markets overview section on pages 8 and 9.

Political and economic uncertainty continued into 2017, with geopolitical tensions remaining and impacted by policy changes from the new US administration. Despite encouraging economic development in 2017, there remains a level of uncertainty from the gradual normalisation of monetary policy by the US Federal Reserve, the Bank of Japan and the European Central Bank. We expect to receive a significant benefit following tax reforms enacted in a number of key territories for the Group. These should see the long term group tax rate drop by 2%. We also believe the US tax reforms will limit tax leakage on the planned disposals of non-core businesses which we outlined in our strategy.

The UK's vote to leave the EU and the absence of detailed agreements between the UK and the EU has resulted in uncertainty in future trading arrangements between the UK and the rest of the world, and lower expectations for UK GDP in the short to medium term. GKN is a global business with 90% of its sales generated outside the UK; this will limit the effect of the vote on the Group.

SUSTAINABILITY REPORT

At GKN, we aim to have a positive effect on all the many stakeholders and communities with which we interact. Our people are our source of success and it is through them that our relationships are forged. Their activity creates many different interactions every year on every level: international and local; customer and supplier; technical and commercial. In a world where supply chains are long and complex, and distractions are many, this is never easy. At its heart, our collective behaviour relies on GKN people doing the right thing.

Anne Stevens
Chief Executive

Since joining the GKN Board in 2016, I have visited many locations and spoken with many of our people, and have been impressed by their skill, diligence and attitude. The right processes and systems often help them succeed but, in some cases, we need to better embed these into our ways of working.

Looking forward, and as part of our new strategy, our operations need to be more efficient. We must eliminate waste, build capability and strengthen business processes for sustainable, consistent long term results. This is the starting point to help us create a sustainable successful business culture.

Supporting this, we constantly need to upgrade capabilities and skills. The world is changing and we need to be able to exploit these changes for the benefit of stakeholders. Of course, a big element of this is becoming leaders in Industry 4.0, increasing our level of automation and growing our use of analytical data to make us a more efficient organisation. In Lean manufacturing we have already seen success, but there will always be more to do and we are in the process of developing initiatives to accelerate it throughout all our facilities.

All this takes new skills. But it also relies on all GKN people taking responsibility for their actions and being accountable for the outcomes. And it is in this regard that we have work to do to ensure that this is engrained at every level of our organisation. During 2018, we will be conducting a cultural review, linked to employee engagement, which will identify where we need to focus cultural change. This will involve speaking to employees across the business to highlight issues of concern. We will then create an action plan based on the results to make improvements.

Creating a culture where people take ownership of results, where people are accountable for how these are delivered and where pace and quality are a way of life is central to the success of Project Boost, and therefore to the success of our business.

This starts at the top and I know that the Executive team and their senior teams will provide the sort of inspirational leadership we need to get this done.

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 42 to 46 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 47 and 48 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 49 to 51 about how we do the right thing in our world

Our people

At GKN, our policy of 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

2017 performance

- A fatal accident occurred in one of our plants in Italy.
- Group health and safety performance declined when compared with 2016.
- Continued focus on proactive near miss reporting showed a 23% increase year-on-year.
- 59 independent health, safety and environment audits globally.
- Continued deployment of our global safety programme *think*SAFE!
- Group preparation for ISO 45001 international standard for occupational health and safety management.
- Our global contractor accreditation programme successfully piloted in India with plans to roll out globally in 2018.
- Our catastrophic risk reduction programme (BowTie) further strengthened risk prevention and mitigation at relevant sites.
- A small number of health and safety enforcement actions were recorded in the year incurring total penalties of £30,600.

2018 priorities

- Continue development and deployment of our behavioural safety programmes for leaders.
- Implement our Design for Safety programme for manufacturing engineering.
- Deploy ISO 45001 (replacing OHSAS 18001).
- Fully deploy the global contractor accreditation programme.
- Evolve our *think*SAFE! programme to incorporate latest e-learning techniques to further enhance employee engagement and interaction.

The health and safety of our people is our number one priority. We are committed to providing a safe working environment and our goal is zero preventable accidents. However, we regret that a fatal accident occurred during 2017. An employee at the GKN Wheels plant in Italy suffered a fatal crush injury resulting from a fall of material. We deeply regret this loss of life and have provided support to all those involved with the incident and the family of the deceased. A full investigation has been carried out and lessons learnt have been incorporated into our processes and systems Group-wide.

Both our accident frequency rate (AFR) and our accident severity rate (ASR) increased slightly during 2017 (7% and 5% respectively) when compared with 2016 (the 2016 base line has been adjusted to include Fokker which is now fully incorporated into GKN health, safety and environmental (HSE) reporting). We have continually reduced AFR and ASR for a number of years and, while this reversal in progress is disappointing, the reasons can be isolated to specific businesses where the underlying factors are well understood and have been addressed. We are confident we can re-establish progress in 2018. During 2017, we continued to focus on proactive measures such as near miss incident reporting, with 27,900 near misses reported this year (2016: 22,600). These are a key leading indicator of potential incidents and reporting

7%

Increase in AFR to 1.15 (2016: 1.07)

5%

Increase in ASR to 21 (2016: 20)

27,900

Near misses reported (2016: 22,600)

is vital in allowing us to avoid future accidents. We will further enhance this programme during 2018 to incorporate next level reporting of hazards identified.

Our global programme, *think*SAFE! is the cornerstone of our approach to collectively engage all employees in the improvement of health and safety across the Group. *think*SAFE! covers key health and safety topics that are highlighted from constant analysis of all incidents across the Group. In 2017 this resulted in the development of new ebrochures to raise awareness of 'Don't WALK BY!', hazards to health, fall of material, slips, trips and falls, plus an environmental ebrochure on water usage. A further refinement in 2018 will enable divisions to tailor elements of this programme to their specific needs by selecting focus topics aligned to local priorities.

Our Group HSE Audit programme is a key independent check in maintaining safety standards. In 2017, we carried out 59 HSE audits. Analysis has shown that GKN's risk profile has reduced since implementing the audit programme, including a significant reduction in the number of high risk items being identified. The 2018 schedule will focus on management responsibility in addition to aligning the HSE audit action closure process with those of other audit functions within the Group. We continue 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.

Virtually all our manufacturing sites continue to be certified to the health and safety standard OHSAS 18001 or equivalent, and having started preparations during 2017, will see the progression towards certification to the new ISO 45001 standard during 2018 .

Respecting the rights of others

2017 performance

- 100% of leaders completed our Leadership Assurance process.
- Introduction of a global maternity leave policy, with a minimum standard of eight weeks leave at 100% pay and flexible working arrangements.
- Embedded diversity and inclusion principles into centralised resourcing activities and succession planning process, as well as into a global onboarding programme and learning and development process to be launched in 2018.

2018 priorities

- Introduce 50:50 gender hiring in graduate programmes.
- Review appointment policy with the objective of having women on every management team, including plant management teams.

Diversity and inclusion

We are committed to creating an inclusive workplace, free from discrimination, where diversity is valued. We need people of different backgrounds, with different skills and perspectives, and a balance of cultures, ethnicities and genders to help us succeed. We aim 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.

As at 31 December 2017	Men	Women
GKN plc Board[1]	6	2
Senior managers[2]	319	37
Total employees[3]	42,600	8,517

1 Excludes Nigel Stein who retired from the Board on 31 December 2017.
2 Comprises GKN senior executives and, as required by s414C of the Companies Act 2006, GKN subsidiary company directors.
3 Excluding joint ventures.

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 2017, women made up 13% of leaders, slightly down on last year due to restructuring in management grades where we have fewer females. Under-represented groups accounted for 12% of leaders in 2017, slightly up from 2016.

Overall, women currently represent 17% of our global employees and under-represented groups represent 25%. We are committed to increasing the diversity of our people through D&I training, reviewing recruitment processes and sharing learning from our plants that employ a more diverse workforce.

UK gender pay gap

Based on the UK Government's methodology, we have a median gender pay gap of 6.9% across all GKN employees in the UK. Evaluation of this data indicates that the difference in median pay is due to proportionally more men being in operational roles that attract shift premiums. We have a variety of mechanisms to promote consistency in reward between men and women on the same job grade or doing the same work. These include fixed union negotiated spot rates in our manufacturing sites and a structured approach to job sizing and pay determination in other areas of the business.

GKN Code

The GKN Code describes how we act and what we expect of our employees and Board members. It applies to each of us and aims to ensure a long-term, sustainable future for GKN. It requires that our business is run in an ethical and socially responsible manner. In return for the commitment made by employees to behave according to the Code, all Group companies commit to treat employees fairly and with respect, recognising their abilities, differences and achievements. The Code sets out our values as a Group, which guide us in the way we do business, and the standards of behaviour expected from our people 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. This year, as in previous years, all our leaders certified they had done so.

Developing our people

2017 performance

- Integrated the GKN DNA and Leadership Behaviours into our recruitment processes, and aligned with our performance evaluation and objective setting process.
- Updated the criteria used to assess the performance of all employees to make them simpler and easier to understand.
- Rolled out training on performance management, with more than 3,300 managers completing the training in 2017.
- Linked rewards for the management population to their performance.
- Conducted a second global employee engagement survey.
- Launched central resourcing centres in the US and UK to improve recruitment.

2018 priorities

- Roll out training to all managers on employee engagement.
- Launch a pulse survey tool to measure team engagement alongside annual EngageMe surveys.
- Launch a global onboarding programme for new starters.
- Implement a single talent framework across GKN with a clear and simple approach that translates across different cultures.
- Launch a new Group-wide Learning and Development methodology including talent management, leadership development and competency management.
- Conduct the third EngageMe survey, focus on building HR and manager capability to continuously improve team engagement and performance.

We are committed to helping all our employees succeed in developing their careers 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 further changes to the GKN performance management criteria have improved how this happens. The calibration of performance and potential ratings ensures a consistent view across teams and divisions, and balanced treatment of both what the results are and how they have been achieved.

To further align all activities on talent management, leadership development and competency management to our DNA and business strategy we have developed a new learning and development (L&D) methodology to be launched in 2018. We aim to have a simple L&D framework that is attractive to every generation and makes GKN more competitive.

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 2017, the Group internal recruitment rate for management roles was 71% (2016: 70%). Voluntary turnover of management employees, which excludes compulsory redundancies, terminations and retirements, was 6.5% (2016: 6.0%), falling outside our target range of less than 5.0%.

GKN DNA and Leadership Behaviours

The GKN DNA is a simple set of principles that summarises our culture and describes GKN at our best. 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. In 2017, our performance and career management system has been aligned with the GKN DNA and Leadership Behaviours. Going forward, we will ensure that all actions throughout the employee lifecycle are anchored to the GKN DNA.

Graduates and apprentices

In 2017, we continued to run both Group-wide and divisional graduate programmes to attract high-quality graduates. The Group-wide International Graduate Programme (IGP) attracts graduates from China, the US, India, Sweden 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 58 graduates, including 15 women. In addition to this, we recruited a further 119 direct-entry graduates across the Group.

GKN also has a strong apprenticeship programme, which combines practical skills with classroom learning. At the end of the year, there were 926 apprentices across the Group.

Employee engagement

The global employee engagement survey, which launched in 2016 to help make GKN a better place to work and help build a high-performance culture, was conducted for the second time in 2017. 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 2017, more than 41,000 (86%) 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.

The overall results, which were a small improvement on 2016, showed that engaged employees often lead to higher levels of safety, quality and productivity across our operations.

Additionally, and in support of this annual survey, we are changing the way we run Positive Climate Index (PCI) sessions to a team-based, rather than site-based, approach. We recognise that engagement happens at a team level and this gives us the opportunity to drive ownership of meaningful actions and continuous improvement within teams, while also helping to track real improvements and demonstrating best practice.

Speaking up when we see behaviour which is wrong

2017 performance

> Received and investigated 171 calls through our employee disclosure hotline.

2018 priorities

> Continued focus on speaking up and promoting open and honest communication throughout GKN every day.

We believe in speaking up when we see behaviour which is wrong. We want all employees to feel able to ask questions or raise concerns about behaviour which is inconsistent with the GKN Code in the knowledge that their concerns will be listened to, investigated and dealt with properly and sensitively – without fear of reprisal or disciplinary action.

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 2017, there were 171 calls to the hotline, down 9% from 187 calls in 2016. Matters reported are independently investigated and feedback is always provided to the caller.

An apprentice at GKN Driveline, Birmingham, UK.

171

Calls to employee disclosure hotline in 2017 (2016: 187)

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. Our policies in these areas are set out below.

Creating a high performance business

2017 performance

- Continued to drive standardisation across the Group through a series of Group-wide health checks of our key quality and programme management processes.
- *Team working*, our lean initiative to enable multiple businesses to collaborate on CI initiatives continues to benefit pace and scale of achievement for the sites involved as well as strengthening participants' skills.
- Assessment completed and structure put in place to build cross-functional strengths and collaboration in order to exploit the advantages of Industry 4.0.
- Our cobot (collaborative robot) initiative continues to grow with projects in place and delivering benefits across the Group.

2018 priorities

- Strengthening accountability and responsibility by tracking actions, changing management reporting systems and introducing a new balance scorecard to measure financial and non-financial metrics.

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. Over 310 leaders received GKN Lean training during the year delivered by GKN's own Lean experts.

2017 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.

310

leaders trained in Lean principles in 2017

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, which tracks online customer scoring of our performance, is firmly established in the monthly divisional operational review process, and we judge ourselves using our customers' quality data on our performance. In 2017, a quality control checklist was implemented and completed across all divisions. Also a process of peer audits was introduced within each division, with the start of cross divisional audits scheduled for 2018.

Honest and proper conduct

2017 performance

- Rolled out an anti-bribery and corruption refresher training programme.
- Updated the GKN Governance Handbook to include new requirements around Health and Safety, Quality and Trade Compliance.

2018 priorities

- Conduct a cultural review to address issues identified in North America and establish a delivery culture.
- Build a culture in which employees feel confident to raise concerns at the earliest opportunity enabling prompt resolution.

Governance

The GKN Governance Handbook was launched in 2016, and updated in early 2017. 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 first completed a Modern Slavery risk assessment within our supply chain during 2016 and have continued to strengthen our processes in this area during 2017 with the roll out of a risk-based approach to screening our suppliers and customers for past human rights convictions.

Anti-bribery and corruption

We do not believe in bribery and have a policy of zero tolerance of bribery and corruption. 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. Following our 2016 refresher programme on competition and antitrust laws, in 2017 we rolled out a refresher programme on anti-bribery and corruption. We continually re-evaluate our audiences for these training programmes, and this year we extended the target audience for anti-bribery and corruption training by over 2,000 people.

Of those targeted, 92% completed anti-bribery and corruption training, 96% completed competition law training and 95% completed export control and 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 individuals with higher potential to be exposed to risks in these areas.

Suppliers

Our suppliers are integral to the sustainability of our businesses and it is essential that they operate their business in a way that supports our commitment to the highest ethical standards. 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.

95%

of target employees completed online compliance training

GKN Powder Metallurgy employee calibrating a cobot on a quality assurance line.

Our world

Our policy is 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.

Helping to protect the environment

2017 performance

- 2% improvement in energy efficiency.
- No change in total greenhouse gas emissions.
- Continued progress on energy management – first US site certified to ISO 50001, bringing total number of GKN sites certified to 26.
- Trained our site-level energy experts on the effective use of our online energy monitoring system.
- Over 50,000 employees were engaged on the subject of water – Making Every Drop Count.
- Significant improvement in reducing waste to landfill by increasing recycling in all divisions.
- GKN Aerospace Sweden recognised by Pratt & Whitney with its 2017 Supplier Sustainability Award.
- There were six environmental enforcement actions in 2017 resulting in penalties of £2,965.
- Created a new GKN Environmental Strategy, pointing the way to future environmental improvements.

2018 priorities

- Roll out the new Environmental Strategy to all locations.
- Deliver *think*Green! environmental training to all employees.
- Continue to certify sites to ISO 50001 – all European sites to be certified by 2019 and other sites by 2020.
- Do a 'deep dive' into the effects of climate change on our business and develop appropriate strategies to minimise GKN's impact on climate change.

In 2017, our energy efficiency improved by 2% to 440kWh per £000 sales (2016: 449kWh). We continue to make good use of our online energy monitoring system by identifying significant energy consumers, driving down our base load of energy consumption, and accurately evaluating the effects of energy efficiency improvement projects.

ISO 14001 is our mandated environmental management system and the 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.

2%

improvement in energy efficiency to 440kWh per £000 sales (2016: 449kWh per £000 sales)

Greenhouse gas emissions methodology

GKN calculates greenhouse gas emissions using the Greenhouse Gas Protocol as a guide 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. Scope 2 emissions, and total greenhouse gas emissions, are calculated using both Location[1] and Market[2] based methods.

2017
2016

No change

Total greenhouse gas emissions (location method)
(tonnes CO_2 equivalent)

2017	**1,294,000**[1]
2017	**1,309,000**[2]
2016	1,292,000[1]
2016	1,210,000[2]

-4%

Total emissions per £ million sales
(tonnes CO_2 equivalent)

2017	**156**
2016	163

+3%

Scope 1: combustion of fuel
(tonnes CO_2 equivalent)

2017	**290**
2016	281

No change

Scope 2: electricity and heat
(tonnes CO_2 equivalent)

2017	**1,003,000**[1]
2017	**1,018,000**[2]
2016	1,005,000[1]
2016	922,000[2]

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* 2017	**187**	**56**	**0.41**	**5.9**	**86**
GKN Aerospace* 2016	243	79	0.54	7.2	69
GKN Driveline 2017	**1,176**	**440**	**1.28**	**144**	**97**
GKN Driveline 2016	1,208	461	1.26	147	94
GKN Powder Metallurgy 2017	**2,374**	**861**	**2.36**	**91**	**94**
GKN Powder Metallurgy 2016	2,459	910	2.24	90	92
GKN Wheels & Structures 2017	**1,114**	**322**	**2.59**	**244**	**99**
GKN Wheels & Structures 2016	1,177	338	2.64	260	99
GKN Off-Highway Powertrain 2017	**1,141**	**325**	**9.76**	**141**	**98**
GKN Off-Highway Powertrain 2016	1,197	342	11.43	136	97

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

*GKN Aerospace performance expressed per £000 sales.

Building on the Company's electrification expertise and rich motorsport heritage, GKN is proud to have agreed a multi-year partnership with Panasonic Jaguar Racing, which will see the business provide design, manufacturing and engineering services to the Formula E team. Expertise from across GKN will provide technical consultancy and new technology, from driveshafts and differentials to the use of additive manufacturing, for the team's Formula E race car – the Jaguar I-TYPE. GKN Driveline's considerable experience in delivering state-of-the-art electric vehicle systems means it will also advise on the development of the I-TYPE's all-electric powertrain.

Supporting local communities

2017 performance

- Invested more than £500,000 in over 360 projects aimed at supporting young people as part of our global Hearts of Gold community scheme.
- A second livestream of Formula Student UK provided support for young engineers competing in the event.
- Continued participation in See Inside GKN (where school children visit GKN locations) and Take Your Child to Work initiative to promote STEM education for young people around the world.
- Outstanding community involvement recognised through our annual Hearts of Gold awards.
- Launch of Young Hearts funding initiative to support employees around the world on community projects relating to young people and education.

2018 priorities

- Continue to promote other local Hearts of Gold activities.
- Continue to promote Young Hearts initiative.

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 2017, GKN hosted nearly 50 school visits via our 'See Inside GKN' initiative, in which 1,800 children from nine countries visited our facilities.

In total during the year, GKN invested over £1 million in 300 significant projects aimed at supporting young people. These projects touched the lives of almost 60,000 young people in 20 countries.

More than £55,000 has been granted to 30 applicants from 12 countries as part of GKN's Young Hearts campaign which launched earlier this year.

Open and honest communication

2017 performance

- Increased publication of information and news, and enhanced social media presence.
- Expanded communications and understanding of key Group-wide technologies, such as additive manufacturing.

2018 priorities

- Maintain the flow of news and information about GKN and ensure it reaches internal and external audiences.

We aim to help our shareholders and external audiences understand our business through honest communication which is easy to access and understand. In 2017, we incorporated the separate divisional websites into the corporate website which launched at the end of 2016 and continued to promote community support online. We continued to use social media channels to reach and interact with a wider audience.

Sustainability – how we manage principal risks

Below we set out the principal risks (see pages 30 to 39) relating to the matters referred to in this sustainability report and how we manage them through our non-financial KPIs (pages 18 and 19) and other methods (described in the relevant section of the report).

	Principal risk	Non-financial KPIs	Other
Our people	> People capability > Health and safety	> Apprentices > Management turnover > Diversity > Accident frequency rate/accident severity rate	> Gender pay gap analysis > ISO 45001 certification
Our business	> Laws, regulations and corporate reputation > Supply chain	> Compliance training > Employee disclosure	> Management of modern slavery risks (see Modern Slavery Act statement on gkn.com)
Our world	> Laws, regulations and corporate reputation	> Energy efficiency	> ISO 50001 certification

BOARD OF DIRECTORS

Mike Turner CBE 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 and former non-executive director of Lazard Ltd. Fellow of the Royal Aeronautical Society.

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

Anne Stevens E
Chief Executive

Appointed to the Board as an Independent non-executive Director in July 2016 and became Chief Executive in January 2018.

Experience Has extensive experience across both the automotive and aerospace industries. Former non-executive director of Lockheed Martin Corporation and 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 and XL Group plc.

Angus Cockburn A R N
Independent non-executive Director

Appointed to the Board in January 2013 and as Senior Independent Director in February 2018.

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.

Tufan Erginbilgic 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 and member of the Strategic Advisory Board of the University of Surrey.

Shonaid Jemmett-Page 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 chairman of Origo Partners plc. Former non-executive director of Havelock Europa, Close Brothers Group plc and APR Energy plc.

External appointments Independent non-executive director of Greencoat UK Wind plc and Caledonia Investments plc. Non-executive chairman of MS Amlin plc and senior independent director of Clearbank Limited.

Richard Parry-Jones CBE A R N
Independent non-executive Director

Appointed to the Board in March 2008.

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. He was GKN's Senior Independent Director from May 2012 until February 2018. 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.

Jos Sclater E
Group Finance Director

Appointed to the Board in November 2017.

Experience Joined GKN in 2011 and was appointed to the GKN Executive Committee in June 2014. He has held a number of senior roles at GKN including Head of Strategy and General Counsel. His early career was spent at AkzoNobel and ICI.

Phil Swash E
Chief Executive GKN Automotive

Appointed to the Board in January 2016.

Experience Joined GKN in 2007 as Chief Executive Officer GKN Aerospace Europe. Appointed Chief Executive of GKN Land Systems in January 2014 and became Chief Executive GKN Driveline in September 2015. In November 2017, he assumed responsibility for GKN's Wheels & Structures and Off-Highway Powertrain businesses. 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.

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

Mike Turner CBE
Chairman

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.

Culture

As a Board, we are responsible for setting and demonstrating the values and behaviours that we expect from our employees. As I mentioned on page 4, in light of the balance sheet issues in Aerospace North America, we took immediate actions to address the culture in this part of the Group. We are undertaking a Group-wide cultural review to identify any further actions we can take to ensure that we have an appropriate culture of transparency, accountability and delivery.

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.

During the year, Nigel Stein indicated his desire to retire from the Board as Chief Executive and the Nominations Committee began the process of planning for his succession. More information is set out in the Nominations Committee report on pages 64 and 65. Nigel led the Group as Chief Executive over a period of five years and was a Board member for a total of 16 years, and we are extremely grateful to him for his dedication and contribution to GKN over this time. We wish him well in his retirement.

Despite the set-back of Kevin Cummings' departure subsequent to his appointment as Chief Executive Designate, we are delighted that Anne Stevens has taken on the role of Chief Executive, with the support of Jos Sclater, who was appointed as Group Finance Director to replace Adam Walker in November 2017. Together with Phil Swash leading GKN Driveline and their collective depth and breadth of experience across GKN's core businesses, we anticipate that their leadership of the executive team will result in substantial progress on the objectives of Project Boost during 2018.

Accountability

The Board is ultimately responsible for setting the risk appetite of the Group and for maintaining appropriate risk management systems. Following the North American Balance Sheet Review (summarised on page 26) improvement plans have been put in place to strengthen our risk management processes.

The details of how we have complied with the principles and provisions of the UK Corporate Governance Code 2016 (the Code) are described more fully throughout this report.

Mike Turner CBE
Chairman
26 February 2018

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
- reviewing management performance.

Our governance framework establishes a clear division of responsibilities that have been approved by the Board and are summarised below. Further details can be found on our website at www.gkn.com together with a full description of our role as a Board and the specific responsibilities reserved to us.

Shareholders

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

Chairman
Leads the Board and is responsible for its effectiveness

Board committees
Support the Board in the fulfilment of its duties

Chief Executive
Leads the business and is responsible for executing the strategy

Senior Independent Director
Acts as a sounding board for the Chairman and intermediary for other Directors where necessary

Non-executive Directors
Constructively challenge and help develop the Group's strategy

Executive Directors
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 for scheduled meetings approximately eight 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 October 2017, we visited GKN Driveline's facility in Zumaia, Spain, where we toured the facility, 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 2017.

Board focus areas in 2017

Strategy	> Reviewed overall Group strategy. > Reviewed and approved the Group's strategic plans and annual budget. > Reviewed a number of potential acquisitions.
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. > Agreed severe but plausible scenarios to model and test the viability of the Group. > Reviewed the impact of Brexit and agreed actions to be taken to further understand the risks.
Capabilities	> Considered succession planning for the Board, the Executive Committee and senior executive positions within the Group. > Evaluated the effectiveness of the Board and agreed appropriate actions.
Performance	> Considered Group financial performance against budget and forecast. > Considered health and safety performance throughout the Group. > Reviewed the half-year and annual results and approved the annual report and interim financial statements. > Reviewed Group and divisional key pPerformance indicators.
Control	> Assessed, with the support of the Audit & Risk Committee, the effectiveness of internal control and audit processes.
People	> Reviewed progress against the Group's diversity targets. > Approved the decision to cease future accrual in the Company's UK defined benefit pension scheme. > Adopted the SAYE and SIP plan approved by shareholders at the 2017 AGM.
Stakeholder engagement	> Received a presentation on feedback from the Group's employee engagement survey. > Received papers on investor relations activity, key investor comments and shareholder feedback.

In addition, the Board devoted a significant amount of attention during the final quarter of the financial year to the issues arising out of the North American Balance Sheet Review (see page 26), the culture of the organisation and the revision of the Group's strategy including the development of Project Boost.

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** (until 31 December 2017) **Anne Stevens** (from 1 January 2018)	**Nigel Stein** (until 31 December 2017) **Anne Stevens** (from 1 January 2018)
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, General Counsel (until 10 November 2017) and the Head of Strategy and Communications (from 1 February 2018)	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

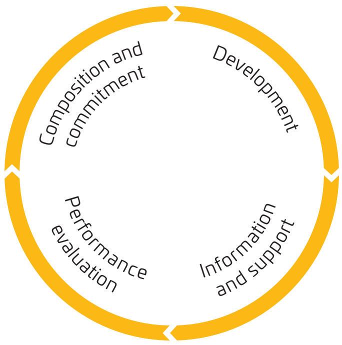
Lean Enterprise Sub-Committee	Governance and Risk Sub-Committee	Group Technology Strategy Board
Drives operational best practice through the application of Lean business processes	Monitors and reviews matters relating to governance, compliance and risk management	Develops the Group's technology plan

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.

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

Composition and commitment

Appointments and Board diversity

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. 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.

Board appointments are subject to the Group Diversity and Inclusion Policy. The objective of the policy is to ensure that we attract and retain the best possible people for any given role irrespective of their personal attributes. The Policy is clear: all appointments must be based on ability, qualifications, merit and suitability for work irrespective of where the candidate is from, and his or her sexual orientation, gender, religion, age or nationality. Pursuant to the Policy, all recruitment consultants must be instructed to provide a long list of candidates that reflects an inclusive demographic so that a reasonable number of diverse candidates are given consideration.

Recommendations for appointment to the Board are made by the Nominations Committee. The Committee follows Board-approved procedures (available on our website) that incorporate the requirements of the Group Diversity and Inclusion Policy and provide a framework for different types of Board appointments. The procedures require Board appointments to be based on merit against objective criteria with due regard to diversity on the Board. The Committee agrees a broad role specification for non-executive roles and appoints head hunters to produce a long list of diverse candidates for the Committee's consideration. The Chief Executive determines the role specification and capabilities required for executive positions, and if the position is not to be filled internally, leads the external search to produce a short list of candidates for the Committee's review.

We understand the importance of diversity and our aim is for the Board to consist of people with diverse experience who can add real value to Board debates and support the achievement of our strategic objectives. This includes diversity of industry skills, knowledge and professional background in addition to gender, age, education and ethnicity. As at 31 December 2017, just under 25% of the Board were women, and from 1 January 2018, 25% of the Board were women.

Following his appointment to the Board during the year, Jos Sclater will retire and offer himself for election at the 2018 annual general meeting. All other Directors in post at the date of this annual report will retire and seek re-election at the AGM in accordance with the provisions of the Code. Biographical details of all Directors seeking election or re-election are given on pages 52 and 53.

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 from May 2012 to February 2018. Richard's effectiveness as an independent non-executive Director was reviewed last year and his term was renewed for a further period of three years. His independence was again reviewed carefully as part of the Board effectiveness evaluation (see page 60 for further details). Based on feedback received from the other Directors, the evaluation concluded that Richard continues to play a fully independent role on the Board.

The Board is not aware of any matter that would be likely to 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.

During the year the Board comprised four executive Directors (reduced to three by the end of the year) and six non-executive Directors including the Chairman (reduced to five by the end of the year).

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 his or her letter of appointment and non-executive appointees must demonstrate that they have sufficient time to devote to the role.

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.

If the takeover bid mentioned in the Chairman's statement (see page 4) lapses or is withdrawn, Anne Stevens will step down from one of her current two non-executive directorships.

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 his or her respective role.

Board and committee attendance

Attendance at scheduled meetings of the Board and of the Audit & Risk, Remuneration and Nominations Committees held during 2017, with the number of meetings that the Director was eligible to attend shown in brackets where relevant, is shown below. In addition, a number of ad hoc Board and Committee meetings took place during the year.

Director	Board (8 meetings)	Audit & Risk Committee (5 meetings)	Remuneration Committee (5 meetings)	Nominations Committee (5 meetings)
Chairman				
Mike Turner	8	–	–	5
Executive Directors				
Nigel Stein	8	–	–	–
Kevin Cummings[1]	7 (7)	–	–	–
Jos Sclater[2]	1 (1)	–	–	–
Phil Swash	8	–	–	–
Adam Walker[2]	7 (7)	–	–	–
Non-executive Directors				
Angus Cockburn	8	5	5	5
Tufan Erginbilgic[3]	6	2	4	4
Shonaid Jemmett-Page	8	5	5	5
Richard Parry-Jones	8	5	5	5
Anne Stevens	8	5	5	5

1 Kevin Cummings stepped down from the Board on 16 November 2017.
2 Adam Walker stepped down from the Board and Jos Sclater was appointed to the Board on 10 November 2017.
3 Tufan Erginbilgic was unable to attend certain meetings due to prior business commitments.

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
- external training where appropriate, particularly on matters relating to the role of a Director and the role and responsibilities of Board committees.

In relation to the appointment of Jos Sclater during the year, a formal induction programme was not necessary as he was already fully familiar with the Group's structure, business and people, and as former company secretary to the Company, he is experienced in governance matters and the role of a director.

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	> Corporate governance reform proposals > General Data Protection Regulation > Modern Slavery Act statements > New annual report disclosure requirements > Gender pay gap reporting requirements
Strategy	> Long-term market and technological trends > Technology and innovation > Industry 4.0
Risk	> The impact of Brexit > Cybersecurity > Insurance
Finance	> Tax strategy
Capabilities	> Succession planning

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. Following the external evaluation conducted in 2016, we undertook an internal evaluation in 2017. The evaluation process is described below.

Performance evaluation process

Together with the Company Secretary, I agree areas of focus believed to be critical to the Board's effectiveness. For 2017, the areas of focus included:

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

Extensive one-to-one interviews conducted by the Company Secretary with each Director

Summary of results presented to the Board for discussion

Key actions agreed by the Board

Progress against our key actions for 2017 and the 2018 key actions agreed by the Board following discussion of the evaluation results are set out below.

	2017 key actions		2018 key actions
Area of focus	**Key action**	**Progress**	**Key action**
Strategy	Conduct a deep dive on the bid process to enhance consistency of approach across the divisions.	> The Audit & Risk Committee received presentations on programme management risk which set out the bid processes for GKN Driveline and GKN Aerospace.	> In light of the Group's lower trading margins, further reviews will be undertaken in this area during 2018.
Risk	Continue the programme of deep dive reviews to assess the robustness and consistency of key risk management programmes across the divisions.	> The Audit & Risk Committee received deep dive reviews from divisions on areas within the principal risks. It continued to focus on quality and programme management.	> Deep dive reviews will continue in 2018 taking into account the root causes and improvement plans identified as part of the North American Balance Sheet Review.
Succession planning	Hold a Board discussion around the Board skills matrix.	> The skills needed on the Board were considered as part of the Nominations Committee process to identify successors to the Chief Executive and Group Finance Director.	> Given the changes to Board composition, this will be considered further in 2018.
Board papers	Review the format of the Board pack to ensure it is standardised.	> The format and content of Board papers was reviewed during the year and standardised papers were developed for key areas.	> Work will continue to standardise and streamline the Board pack in 2018.

Director evaluation

The individual performance of the Directors was evaluated during the Board evaluation process described opposite. 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; details of these evaluations can be found in the relevant Committee report.

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 96. The auditors' report on pages 97 to 107 includes a statement by Deloitte LLP about their reporting responsibilities. As set out on page 29, 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 page 30.

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.

Risk management

Policies and procedures
Risk appetite
Culture and values
Business strategy
Delegated authorities

Fourth line of defence	**Oversight** The Board The Executive Committee The Audit & Risk Committee
Third line of defence	**Independent assurance** Internal audit External statutory audit External assurance providers
Second line of defence	**Monitoring and compliance** Self assessments Group functional reviews
First line of defence	**Risk ownership and control** Policies Organisation Risk assessments Procedures Training

Assurance
Metrics and KPIs
Risk reporting
Incident reporting

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

> 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

> 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 the risk management and internal control systems relating to some of the Group's principal risks. The function is supported by PricewaterhouseCoopers LLP, 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 57, 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.

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 32 to 39.

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
- ongoing training and development of financial reporting personnel.

The North American Balance Sheet Review improvement plan will consider additional/modified controls to be put in place during 2018.

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 66 to 72.

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 in relation to businesses outside of Aerospace North America and up to the date of approval of the annual report. Apart from the matters set out in the improvement plans relating to the North American Balance Sheet Review, 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.

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 2017, 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 2018 AGM is given on page 174. 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 64 and 65, the Audit & Risk Committee report on pages 66 to 72 and the Directors' remuneration report on pages 73 to 92, provide a description of how the main principles of the 2016 edition of the UK Corporate Governance Code (the Code) have been applied within GKN during 2017. 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 2017, 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 93 to 95.

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.

2017 activities

During 2017 we:

> considered succession planning for the Chief Executive's position and made recommendations to the Board as to the appointment of Kevin Cummings as Chief Executive Designate and Anne Stevens as interim Chief Executive (subsequently confirmed as a permanent role in January 2018)

> recommended the appointment of Jos Sclater as Group Finance Director

> recommended to the Board a three-year extension to Tufan Erginbilgic's term of appointment.

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 achieved this aim by 1 January 2018. 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.

In February 2018, Richard Parry-Jones indicated that he wished to stand down as Senior Independent Director. The Committee recommended to the Board the appointment of Angus Cockburn to the role taking into account the investor relations experience gained from his finance director positions.

Chief Executive

In considering succession planning for a new Chief Executive to take over from Nigel Stein, the Committee followed Board-approved procedures. It engaged Spencer Stuart, an external search consultancy, to conduct assessments of internal candidates and identify appropriate external candidates. Spencer Stuart has no other connection with the Company. Following consideration of both internal and external candidates, and taking into account the results of the assessments, Kevin Cummings was appointed Chief Executive Designate.
In November 2017, on further consideration, the Board determined that the next stage of GKN's development would be best delivered under alternative leadership and as a result Kevin Cummings left the Company. Given her extensive experience across automotive and aerospace industries, the Nominations Committee (excluding Anne Stevens) concluded that it would be appropriate to request that Anne Stevens take on the role of Chief Executive on an interim basis, pending a search for an external candidate.

In the period during which Anne acted as interim Chief Executive, the Board was impressed with the contribution she made in setting out plans for a significant improvement to the Group's performance. Subsequently, on 12 January 2018, Anne Stevens was appointed as the new Chief Executive. The Committee considered Anne's track record in previous roles and her capability to transform GKN. The Committee considered that she had the experience and operational and strategic skills that were ideally suited to the challenges facing the Group, including executing Project Boost. The Board accepted the Committee's recommendation to appoint Anne as Chief Executive on a permanent basis.

Committee membership

Mike Turner (Chairman)
Angus Cockburn
Tufan Erginbilgic
Shonaid Jemmett-Page
Richard Parry-Jones

All members are non-executive Directors.

The Secretary to the Committee is Kerry Watson, Company Secretary

Role

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

> 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 held five scheduled meetings in 2017. Our attendance at these meetings is set out in the table on page 59. Additional meetings were held on an ad hoc basis as required.

Group Finance Director

In considering a replacement for Adam Walker as Group Finance Director, the Committee considered the internal candidates available for this role. Jos Sclater joined GKN in late 2011 as General Counsel. He has undertaken a number of additional roles since that time including acting as Company Secretary from 2014 to 2016 and as Director of Strategy and M&A from 2016. Earlier in 2017 he also assumed responsibility for GKN's additive manufacturing activities. With his strategic and commercial experience, Jos was considered to be ideally suited to the requirements of the role and the Board accepted the Committee's recommendation that he be appointed as Group Finance Director.

Performance evaluation

The Committee's annual evaluation was carried out as part of the Board review process described on page 60. 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 2017.

On behalf of the Committee

Mike Turner CBE
Chairman of the Nominations Committee
26 February 2018

AUDIT & RISK COMMITTEE REPORT

Dear Shareholder

I am pleased to present the Audit & Risk Committee report for 2017. 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.

In October and November 2017, the Board announced a detailed review of certain aspects of our operations in Aerospace North America and further details are set out on page 26.

During the year, in addition to the North American Balance Sheet Review and its routine business, the Committee continued to focus on risk management. We:

> received reports on the quality risk management systems operated by the divisions

> discussed the programme management processes used by the divisions

> reviewed the methodology and approach to the creation of a total risk assurance map to further improve the Group's risk management processes

> considered IT risk management across the Group

> received an update on the financial governance structure in the Automotive division

> continued to be updated on the assessment of the impact of IFRS 15 on the Group's financial reporting, to be implemented in the next financial year

> monitored the transition of the Group Finance Director role from Adam Walker to Jos Sclater and received a report on the induction activities that took place.

Looking ahead to 2018, we will focus on the improvement plan to address matters arising out of the North American Balance Sheet Review, particularly in relation to internal controls and risk management, and obtaining regular updates during the year. We will also consider the governance and assurance requirements arising out of Project Boost.

Further details of our activities during the year and up to the date of this report are set out on the following pages.

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 the adjustments arising out of the North American Balance Sheet Review, impairment testing, the clarity and completeness of reporting and preparation for the requirements of IFRS 15 from the 2018 financial year

> 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

> reviewed documentation prepared to support the going concern judgement and the viability statement given on page 29.

Committee membership

Shonaid Jemmett-Page (Chairman)
Angus Cockburn
Tufan Erginbilgic
Richard Parry-Jones

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.

Anne Stevens stepped down from the Committee with effect from 1 January 2018 following her appointment as interim Chief Executive and subsequent appointment as new Chief Executive on 12 January 2018.

The Secretary to the Committee is Kerry Watson, Company Secretary.

In order to maintain effective communication, we invite the 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.

Role

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 auditor

> the activities and effectiveness of the internal audit function (Corporate Audit)

> the effectiveness of the Group's internal control and risk management systems

> 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 held five scheduled meetings in 2017, 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 59. Additional meetings were held on an ad hoc basis as required.

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.

Significant issues

We identified the issues below as significant in the context of the 2017 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
North American Balance Sheet Review In the final quarter of 2017, executive management carried out an investigation into potential accounting adjustments in Aerospace North America (see page 26). Many of the resulting accounting adjustments required judgement and estimation, including in the assessment of the carrying value of inventory and receivable balances, the recoverability of specific items of property, plant and equipment, and the recognition of liabilities. Additionally, judgement was necessary when assessing the extent to which the identified accounting adjustments may relate to prior years and consequently whether there was a need to restate previously reported results and financial statements. The review also included an assessment of the root causes and potential failures in GKN's internal control and risk management systems.	In consultation with executive management, in November 2017, we agreed the scope of the review and that each element would be supported by independent experts. We oversaw the appointment of each expert and the scope and materiality applied to their work. KPMG was appointed to lead the independent accountant's review, while lawyers in the UK (Slaughter and May) and US (Kirkland & Ellis) carried out the conduct review. Management and KPMG regularly reported to the Committee during the period November 2017 to February 2018. We sought to ensure that the review had been thorough and balanced and requested recommendations for addressing identified issues and future improvements. Details of management's review are given in the Strategic Review on page 26. Given the significance of this review, as Chairman of the Committee, I also attended the weekly management Steering Group meetings. We spent considerable time discussing and challenging management on the key judgements, assumptions and estimates taken during the course of this review and on the outcomes. We also sought to ensure that management was able to apply sufficient resource to enable the review to be completed on a timely basis. A key element of our review focused on the judgement by management that the prior period errors identified were not sufficiently material to warrant restatement of prior year accounts in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. We reviewed a specific report from management on this matter and challenged the basis of their conclusions, in particular: > whether adjustments arose as a result of the failure to use reliable information that was available when the prior year accounts were authorised for issue and would reasonably have been expected to have been taken into account, and hence represent prior period errors > whether it was practicable to identify and appropriately measure amounts relating to prior years > the extent to which adjustments arose as a result of changes in management estimates and judgements, rather than error, and hence should be recorded against 2017 profits. We discussed these matters with the Group's external auditors, including the distinction between a prior period error and a change in accounting estimate and whether the prior period error was material in the context of the Group accounts. Taking into account the reports made by management and external experts, we are satisfied that: > the accounting adjustments made are appropriate and prudent, taking into account the potential range of outcomes > the nature and impact of the errors were not material to the prior year results > the conduct review concluded that the adjustments did not arise from fraudulent behaviours > recording these adjustments in the current year, accompanied by comprehensive presentation and disclosures, is 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 > 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 > the period over which cash flows are forecast > the disclosure of key estimates and judgements in the financial statements. We also considered sensitivities that would impact the assumptions noted above. We obtained the external auditor's 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 seven units and a charge to the income statement of £131 million.

>> See Note 11 (c) to the financial statements

Area of focus	Committee action
Clarity and completeness of reporting The Board uses adjusted results as the measure of the ongoing performance of the Group's divisions and excludes items which may be volatile and therefore distort the comparison of trading performance. 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 guidance issued by ESMA and the FRC > the judgements management made in relation to the presentation and disclosure including the nature and consistency of items adjusted > the updated disclosures and reconciliations. 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, these do not include areas where management has made critical estimates or judgements and, as we considered them to be stable in nature, we did not classify them as significant issues in the context of the 2017 financial statements.

Area of focus	Committee action
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

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 by management and the assessment from the external auditors, we were satisfied with the approach and judgements taken.

>> See Note 11 (b) to the financial statements

Area of focus	Committee action
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 auditor's assessments on certain tax matters, including: > the increase in provisions for uncertain tax positions. In particular, 2017 saw increases in provisions in certain countries where GKN has been subject to lengthy audits and challenging assessments > the release of tax provisions arising from resolution of previously uncertain tax positions, including releases following the successful resolution and finalisation of cases and audits in respect of specific subsidiaries. Having considered updates from management and the external auditor's views, the Committee was satisfied with the judgements taken by management.

>> See Note 6 to the financial statements

External audit

We have:

- approved Deloitte's audit plan, terms of engagement and fee for the audit of the 2017 financial statements
- reviewed the independence, objectivity and effectiveness of Deloitte
- recommended to the Board the reappointment of Deloitte for 2017
- noted the non-audit fees payable to Deloitte, having regard to the 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.

2017 audit plan

Deloitte's audit plan sets 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. Following the initiation of the North American Balance Sheet Review, the Committee agreed a revised audit plan to extend the scope of the audit to perform additional procedures at the Aerospace North America sites, and at units outside GKN Aerospace. The level of materiality was adjusted both at Group level and for the businesses within Aerospace North America.

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.

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
- 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. 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 before 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 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 2017.

Details of the fees paid to Deloitte in 2017 can be found in note 4 (a) to the financial statements. Non-audit fees incurred during 2017 amounted to £0.8 million which related principally to audit-related assurance services. Non-audit fees as a percentage of audit fees totalled 11% (ratio of 0.11:1). All such activities remained within the policy approved by the Board.

Effectiveness and reappointment of Deloitte for 2018

The Committee assessed Deloitte's performance throughout the year taking into consideration:

> its feedback and insights on the Group's business and internal control systems
> the quality of Deloitte's reports to the Committee
> its planning process and audit plan for the 2017 financial statements
> feedback from Deloitte on its own performance
> its performance in the 2017 half-year review process.

Our assessment was supplemented by a survey to review the effectiveness of Deloitte's audit process in relation to the 2016 financial year. During the survey, the views of senior management and finance personnel were sought and the results considered by the Committee. The survey confirmed that Deloitte's audit approach was effective, and there were no questions around their objectivity and independence or the strength of audit challenge.

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

This is the second year Deloitte has been the Company's auditor following the competitive tender undertaken in 2015. The current audit partner is Mr Ian Waller, who has been in position since Deloitte was appointed. Given the recent tender, it is not anticipated that the next tender will take place before 2025.

Taking these elements into account, we concluded that it was appropriate to recommend to the Board Deloitte's reappointment as the Company's auditor for 2018.

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

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit & Risk Committee Responsibilities) Order 2014 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. 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. In reviewing Deloitte's audit approach, the Committee was mindful of the observations made by the FRC in relation to SDS in respect of the PwC audit.

Internal control and risk management

In fulfilling our remit we:

> considered the annual 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
> reviewed the methodology and approach to the creation of a total risk assurance map to further improve the Group's risk management processes
> carried out in-depth reviews of the quality risk management and programme management processes in GKN's key businesses
> in relation to the North American Balance Sheet Review, reviewed the reports from management and the external experts regarding the circumstances under which these issues arose and the remedial steps taken. We have considered the further remedial steps proposed to the Group's internal control and risk management systems to address identified issues and avoid any repetition of these issues in the future. These actions are summarised on page 26
> in light of the issues arising out of the North American Balance Sheet Review, reviewed management's reassessment of the principal risks (set out on pages 32 to 39).

In reviewing the effectiveness of the Group's systems of internal control and risk management, we considered the Internal Control Review conducted on an annual basis 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 reviewed the quality risk management system within GKN Aerospace, GKN Driveline and GKN Powder Metallurgy and considered the programme management processes used by GKN Aerospace and GKN Driveline.

Progress is being made on the development of a total risk assurance map for the Group, and we received an update on the methodology and approach being taken by Corporate Audit on this.

Where we identified areas requiring improvement, specific actions were delegated to management with progress against the actions tracked at subsequent meetings. In relation to the North American Balance Sheet Review, we are satisfied that the actions taken by management are adequate and that appropriate improvement plans have been inititiated. We will continue to monitor the implementation of these improvement plans during 2018.

Apart from the improvement plans identified under the North American Balance Sheet Review, 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, in relation to businesses outside Aerospace North America, the risk management and internal control processes in place during 2017 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 UK Corporate Governance Code 2016 with regard to the Group's systems of internal control and risk management.

Internal audit

In fulfilling our responsibilities, we:

> reviewed progress against the 2017 Corporate Audit programme

> considered the 2018 Corporate Audit programme, including the proposed audit approach, coverage and allocation of resources, and approved variations to the programme to enable greater focus on the North American Balance Sheet Review

> 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 before 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:

> Corporate Audit's charter and strategy

> audit activities

> progress against the approved annual programme

> any control issues identified

> any themes arising in relation to audit recommendations

> 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.

During 2017, the Committee reviewed and approved a revised strategy for the development of Corporate Audit's activities. Delivery of key strategic projects, including the total risk assurance map and greater use of data analytics, is a key focus for the function in 2018. These projects will be undertaken alongide delivery of an internal audit plan that will consider both areas of principal risk to the Group and site-level processes and control, including a high degree of focus on our Aerospace North America businesses and Project Boost.

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 Board on a biannual basis.

Other matters

During the year we:

> received an update on IT risk management and the control environment for the use of technology within the Group

> received updates from divisional finance directors on matters relevant to their divisions

> monitored the induction programme for Jos Sclater in relation to his appointment as Group Finance Director during the period.

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 60. A report on the Committee's performance was provided by the Company Secretary. Feedback showed that the Board had confidence in the effectiveness of the Committee.

On behalf of the Committee

Shonaid Jemmett-Page

Shonaid Jemmett-Page
Chairman of the Audit & Risk Committee
26 February 2018

DIRECTORS' REMUNERATION REPORT

Dear Shareholder

I am pleased to present the Directors' remuneration report for 2017.

Looking back… remuneration outcomes in 2017

Base salaries

Base salary increases for executive Directors in July 2017 ranged from 2.1% to 2.9% taking into account performance and increases awarded elsewhere in the Group. The average global increase for all employees was 3.3%.

Annual bonus

Payouts based on Group and divisional performance against profit, cash and strategic measures, underpinned by quality of earnings, ranged from 0% to 32.75% of salary.

Long-term incentives

The 2015 Sustainable Earnings Plan (SEP) core award, which required compound annual EPS growth of at least 6%, lapsed along with the associated sustainability award.

Summary

These modest outcomes demonstrate the strong tie between performance and reward in our remuneration policy and scheme design.

Annual bonus plan

As described in the strategic report, GKN made progress in 2017, notably strong growth in management sales. Excluding the impact of the North American Balance Sheet Review, management trading profit was slightly ahead of 2016 and earnings per share (EPS) increased from 31.0 pence to 31.7 pence. However, when taking into account the impact of the Review, trading profit before tax and EPS both declined year on year. In this context, Nigel Stein waived his right to a bonus payment.

Long-term incentive plan

The 2015 SEP award lapsed as we did not achieve the very challenging annual compound growth rate target of at least 6% in management EPS over the three-year performance period to 2017.

Board changes

The Committee considered the leaving arrangements for Nigel Stein, Adam Walker and Kevin Cummings during the year. It also considered the remuneration of Anne Stevens and Jos Sclater on their appointment as Chief Executive and Group Finance Director respectively. The approach we took in relation to these matters is in line with our remuneration policy and is detailed in the report.

Looking forward… proposed changes in 2018

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 and that of the Group as a whole.

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.

Project Boost

For 2018, our approach to implementing our remuneration policy remains broadly unchanged. However, the Committee is currently considering the structure of a one-off incentive plan to reinforce the delivery of Project Boost over the next three years. Project Boost is key to maximising shareholder value through the improvement of cash flow and margin, and it is therefore crucial that management is incentivised appropriately to deliver the project. It is intended that participation in this incentive plan would apply to executive Directors and all management including plant managers. The implementation of any new plan will require our remuneration policy to be amended and major shareholders will be consulted in due course.

Professor Richard Parry-Jones CBE
Chairman of the Remuneration Committee
26 February 2018

2017 key activities

Salary and annual incentive plan	> Considered and approved STVRS payout for 2016 and set targets for 2017. > Approved salary review proposals for executive Directors, Company Secretary and members of the Executive Committee and reviewed fees for the Chairman.
Long-term incentive arrangements	> Determined vesting levels for 2014 SEP awards.
Policy and remuneration framework	> Consulted with shareholders on proposed changes to our remuneration policy to be put before the AGM. > Adopted a revised policy relating to the payment of non-UK executive Directors in their home currency, to align with the policy adopted by the Company for employees generally.
Compliance and governance	> Considered and reviewed practices and changes to corporate governance environment with regard to remuneration arrangements.
Management changes	> Considered and approved remuneration arrangements for incoming and departing Directors, and as a result of changes in responsibilities. > Considered the remuneration arrangements for changes at senior executive level.

Annual report on remuneration

The Committee presents the annual report on remuneration, which together with the Chairman's letter, will be put to shareholders for approval as an advisory vote at the 2018 AGM to be held on 3 May 2018.

Executive Directors

Single total figure of remuneration (audited)

The table below shows the single total figures for 2017 and the comparative figures for 2016.

	Fixed pay						Variable pay										
	Salary £000		Taxable benefits £000		Pension £000		Annual bonus STVRS – cash £000		Annual bonus STVRS – deferred shares £000		Long-term incentives £000		Other remuneration £000		Recovery	Total remuneration £000	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	**2017**	2016
Executive Directors																	
Nigel Stein	835	815	18	18	259	326	–	518	–	–	–	136	–	–	–	**1,112**	1,813
Jos Sclater	71	–	2	–	17	–	19	–	9	–	–	–	–	–	–	**118**	–
Phil Swash	524	505	15	15	160	157	115	263	57	–	–	19	2	202	–	**873**	1,161
Former Executive Directors																	
Kevin Cummings	452	505	380	126	90	101	–	328	–	62	–	26	–	229	**(291)**	**631**	1,377
Adam Walker	504	571	13	15	126	143	–	367	–	–	–	–	–	–	–	**643**	1,096
Total	**2,386**	2,396	**428**	174	**652**	727	**134**	1,476	**66**	62	**–**	181	**2**	431	**(291)**	**3,377**	5,447

Explanatory notes to the single total figure table

Board changes

The following changes took place during the year:

Director	Date of appointment	Date of leaving the Board
Adam Walker	–	10 November 2017
Jos Sclater	10 November 2017	–
Kevin Cummings	–	16 November 2017
Nigel Stein	–	31 December 2017

All figures in the single total figure table and in this report relate to remuneration earned during the period in which the relevant person served as a Director on the Board.

Salary

While Kevin Cummings was a Director, he was a US national on assignment. For 2017, the Committee adopted a revised policy for the setting of salary for non-UK executive Directors, and his service contract was amended so that the sterling value of his salary was converted to US dollars at the average exchange rate for the 2016 calendar year, with the intention that US dollars would be the currency of his salary on an ongoing basis.

For 2016, his salary was set in sterling and payment was made in US dollars based on 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 applied to pension and taxable benefits to the extent they were paid in US dollars. These terms were in accordance with his service contract at that time.

Taxable benefits

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

Pension

There are differing arrangements for each of the executive Directors as described on page 76.

Annual bonus (STVRS)

For 2017, 33% of STVRS payments are automatically deferred into shares for two years and the balance is paid in cash. This is in line with the approved policy. Nigel Stein waived his right to a bonus payment for 2017.

For 2016, Kevin Cummings had an amount representing 12.3% of salary deferred into shares, which has since lapsed (see Recovery on page 76). No amounts were deferred for Nigel Stein, Phil Swash or Adam Walker. STVRS payouts for that year were based on a cash payment up to 65% of salary with any amount in excess being deferred into shares for two years.

Long-term incentives (SEP)

The performance period for the 2015 SEP core award ended on 31 December 2017 and both the core and associated sustainability awards lapsed in full.

For 2016, the values relate to shares vested under the 2012 sustainability award and dividend equivalent shares accrued from date of grant to date of release on the vested shares. These values were 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 condition for the 2012 sustainability award).

Other remuneration

For Phil Swash, value comprises options granted under the GKN plc 2017 Sharesave Plan (SAYE) in the year based on the embedded value at grant (20% of the average share price for the three dealing days immediately before the invitation date multiplied by the number of options granted). Adam Walker also participated in the 2017 SAYE grant. However, as his options lapsed on leaving GKN, they are not included in the table on page 75. Full details of the SAYE option grants are set out on page 82.

For 2016, the values relate to vested share awards granted in 2015 under the GKN Share Incentive and Retention Plan (SIRP) to Phil Swash and Kevin Cummings before their appointment to the Board (see Recovery below for Kevin Cummings). These values were calculated on the same basis as the SEP 2012 sustainability awards referred to on page 75.

Recovery

The recovery made in 2017 relates to amounts reported in the single total figure table for 2016 that lapsed in accordance with the severance terms agreed with Kevin Cummings (see page 87), relating to the 2015 SIRP award and the 2016 STVRS.

Salary

The annual salary reviews for executive Directors were carried out in June 2017. 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 2.1% to 2.9% (rounded to the nearest thousand) to take effect from 1 July 2017. The average increase for employees globally was 3.3%.

Subsequently, in November 2017, Phil Swash received a 7.6% increase having assumed additional operational responsibility for GKN Wheels & Structures and GKN Off-Highway Powertrain. At the same time, Jos Sclater was appointed to the Board as Group Finance Director.

	Date of last salary change			
	10 Nov 2017 £	1 July 2017 £	1 July 2016 £	Increase %
Executive Directors				
Nigel Stein	–	845,000	825,000	2.4
Jos Sclater	**500,000**[1]	–	–	–
Phil Swash	**565,000**	525,000	510,000	2.9[2]
Former Executive Directors				
Kevin Cummings	–	525,000[3]	510,000	2.9
Adam Walker	–	590,000	578,000	2.1

1 Salary on appointment to the Board.
2 Excludes subsequent increase on assuming additional responsibilities.
3 Notional salary in sterling for the purposes of calculating long-term incentive awards. The 2.9% increase was applied to Kevin Cummings's salary in US dollars.

Implementation of policy for 2018

Any salary increases in 2018 will be in line with the approved 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 total figure table on page 75.

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
231	125	11	5	8	380

1 Company operated hypothetical US tax and social security withholding so that he was 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 not expected to be refunded to the Company, based on the information available to date.
2 Assignment expenses included housing.
3 Assistance with completion of tax return.
4 Amount represents provision of a car net of payroll contributions.

Implementation of policy for 2018

Benefits for 2018 will be implemented in line with the approved 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 and/or they may choose to take a cash allowance.

Nigel Stein and Phil Swash were entitled to legacy arrangements under the defined benefit section of the Scheme, which closed to future accruals on 30 June 2017. Nigel Stein opted out of the Scheme in 2014 and from the date of opting out until May 2017 he received a cash allowance of 40% of his base salary. From May 2017, his allowance was reduced to 25% of base salary in line with the approved policy.

Phil Swash accrued benefits during the period up to 30 June 2017 under the defined benefit section of the Scheme based on a pension of up to two-thirds of pensionable salary and maximum accrual rate of 1/40th (calculated on a career average basis since 1 September 2007). He received a cash allowance of 25% on the difference between his pensionable salary and base salary. From 1 July 2017, his benefits under the defined benefit section of the Scheme were crystalised and will be index linked, and he receives 25% of his base salary as a combination of a payment into the defined contribution section of the Scheme and a cash allowance.

Jos Sclater receives 25% of base salary from the date of his appointment to the Board as a combination of a payment into the defined contribution section of the Scheme and a cash allowance.

Adam Walker had opted out of the Scheme and received a cash allowance of 25% of base salary, which ceased when he resigned from the Board.

Kevin Cummings (as a US national) received a retirement benefit allowance into a 401(k) retirement plan up to the maximum permitted by US law until he left the Board.

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.

Implementation of policy for 2018

Pension entitlements for 2018 will be implemented in line with the approved policy.

Pension benefits (audited)

The table below sets out details of the pension benefits of those executive Directors who benefit from the defined benefit section of the Scheme.

	Pivotal retirement date[1]	Accrued pension at 31.12.17[2] £000	Transfer value of accrued pension at 31.12.2017[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	90	2,379	–	8	251	259
Phil Swash	07.10.23	21	541	1	22	138	160

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 before becoming a Director as well as for qualifying services after becoming a Director. As the defined benefit section of the Scheme closed to future accrual on 30 June 2017, this amount is based on service up to that date.
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 2016 and remain applicable.
4 Notional value of defined benefit and cash allowances included in single total figure table on page 75.

The single total figure table on page 75 includes remuneration received by way of pension contributions to the defined contribution section of the Scheme and/or cash allowances.

Appointment of Anne Stevens as Chief Executive

Anne Stevens was appointed as interim Chief Executive under a contract dated 15 December 2017, which took effect on 1 January 2018. Her salary was £1,123,850 per year and she was not entitled to any benefits other than UK tax support and Company-provided accommodation.

From 12 January 2018, Anne was appointed as Chief Executive under a contract dated 13 February 2018. She will receive an annual salary of £845,000. In addition, she will receive healthcare benefits, expatriate benefits allowance and a cash allowance of 25% of base salary as an alternative to contributing to the pension scheme. She will also be entitled to participate in the short- and long-term incentive arrangements. Her remuneration is in line with the approved policy. Further details of Anne's service contract are set out on page 87.

Annual bonus plan: Short Term Variable Remuneration Scheme (STVRS)

The operation of the 2017 STVRS award is in line with the approved policy as set out below.

	Operation
Performance period	One year.
Opportunity	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 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.
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.
Other restrictions	Subject to malus and clawback.
Release	33% of bonus payments will be deferred into shares and will be subject to a two-year holding period under the Deferred Bonus Plan (DBP).

2017 STVRS performance (audited)

The financial and strategic measures for the 2017 STVRS were linked to our overall strategic objectives and financial goals that applied during 2017. This strategic framework is set out on page 14 of the 2016 annual report and accounts, and the five strategic objectives that applied during 2017 are: Leading in our chosen markets; Leveraging a strong global presence; Differentiating ourselves through technology; Driving operational excellence; and Sustaining above market growth, with the aim of Delivering strong financial returns.

Performance measure	Link to 2017 strategic objectives and financial goals
Financial measures	
Profit	Delivering strong financial returns
Cash	Delivering strong financial returns
Strategic measures	
Develop capability in additive manufacturing	Differentiating ourselves through technology
Further progress and success in eDrive to improve market share	Differentiating ourselves through technology
Sharpen business focus	Leading in our chosen markets
Increase productivity and standardisation	Driving operational excellence
Closure of UK defined benefit pension scheme to new accruals	Delivering strong financial returns

The performance against financial measures is set out below and shows the extent to which performance was met at threshold, target and maximum levels. The table shows Nigel Stein's actual performance in relation to the 2017 STVRS, however Nigel Stein waived his right to this payment in light of the adjustments made as a result of the North American Balance Sheet Review. Jos Sclater's 2017 STVRS actual performance as percentage of salary only relates to the period of time he was a Director.

		Target performance				Actual performance (as % of salary)	
Director	Measure	Threshold	Target	Maximum	Actual	Threshold / Target / Maximum	Maximum opportunity (% of salary)
Nigel Stein	Group profit	£770m	£810m	£842m	£572m	0.00%	75
	Group cash		See below			12.50%	37.5
	Group strategic measures		See below			27.00%	37.5
						Total achieved: 39.50%	150
Jos Sclater	Group profit	£770m	£810m	£842m	£572m	0.00%	75
	Group cash		See below			1.80%	37.5
	Group strategic measures		See below			3.80%	37.5
						Total achieved: 5.60%	150
Phil Swash	Group profit	£770m	£810m	£842m	£572m	0.00%	37.5
	Divisional profit	£380m	£409m	£430m	£361m	0.00%	37.5
	Divisional cash		See below			7.25%	37.5
	Divisional strategic measures		See below			25.50%	37.5
						Total achieved: 32.75%	150

The management profit and margin figures above are calculated using the 2017 budget exchange rates to eliminate the impact of translational currency fluctuations.

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 stock turn targets (measured three times during the year). 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**
Develop capability in additive manufacturing	> Orders won and in the pipeline with targeted customers. > Accredited as a Partner with multiple organisations in the year.
Further progress and success in eDrive to improve market share	> Considerable success in gaining business. > Market leader in P4 architecture for electric all-wheel drives; successful launch of eTwinster.
Sharpen business focus	> Progress on portfolio rationalisation and movement of work to plan.
Increase productivity and standardisation	> Increased standardisation significantly across CVJ. > Progress on cobots and automation. > Progress on the Gold Operating System for Aerospace.
Closure of UK defined benefit pension scheme to new accruals	> Success in closing the defined benefit pension scheme in the UK within reasonable cost and without disruption to operations.

Implementation of policy for 2018

The STVRS performance measures are reviewed annually. The measures and weightings for 2018 are set out below. The outcome of these measures will be disclosed in the next annual report on remuneration.

	% of salary	
	Target	Maximum
Profit	22.5	45
Cash conversion	22.5	45
Strategic objectives	30	60
Total	**75**	**150**

Deferred Bonus Plan (DBP)

The operation of the DBP is in line with the approved policy as set out below.

	Operation
Amount deferred	33% of any bonus payments.
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 2016 STVRS based on amounts in excess of 65% of salary:

Director	% of salary deferred into shares	Face value of award (£)[1]	No of shares awarded[2]	Date of release
Kevin Cummings[3]	12.3	62,115	16,675	2019

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 82 .
3 Award lapsed on date of leaving (see page 82).

Jos Sclater also received a 2017 DBP award before his appointment to the Board (see page 82 for further details). As reported on page 75, 33% of the 2017 STVRS payments for Phil Swash and Jos Sclater will be deferred into shares under the DBP and awards will be granted in 2018.

Long-term incentives: Sustainable Earnings Plan (SEP)

The operation of the SEP was simplified for 2017 and is in line with the approved policy as set out below.

	Operation
Performance period	Single award with a three-year performance period.
Opportunity	Normal annual maximum opportunity is 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 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 > whether EPS has grown in absolute terms.
Other restrictions	Subject to malus and clawback.
Release	Vested shares will be subject to a two-year holding period before release.

2017 SEP target

The detailed performance measures for the 2017 awards are set out below.

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%

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.

Vesting of awards in 2017 (audited)

The vesting of the 2015 SEP core award was subject to EPS growth over a three-year period to 31 December 2017. As stated in the Committee Chairman's letter, the required EPS growth was not achieved and both the core and sustainability awards lapsed in full on 19 February 2018.

2015 SEP core award	Target for vesting[1] Threshold	Maximum	Actual
Performance measure (EPS growth[2])	6%	12%	-2.9%
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.

Awards granted in 2017 (audited)

The tables below set out awards made during the year under the SEP and the SAYE to each person appointed as a Director at the time of the award.

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	200	1,650,000	464,135	25	31.12.19
Phil Swash	200	1,020,000	286,919	25	31.12.19
Kevin Cummings[3]	200	1,020,000	286,919	25	31.12.19
Adam Walker[3]	200	1,156,000	325,175	25	31.12.19

1 SEP awards were granted as a single performance share award with no exercise price.
2 Value is based on the maximum number of shares vesting assuming the performance condition is satisfied in full. The number of shares was calculated using the GKN share price of 355.5p, being the average share price for the three dealing days immediately before the date of grant (11 May 2017). 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 SEP award.
3 Awards lapsed on date of leaving (see page 82).

Director and award type[1]	Savings period	Face value of award (£)[2]	No. of shares awarded	Maturity date
Phil Swash	3 years	9,000	3,491	01.10.2020
Adam Walker[3]	3 years	9,000	3,491	01.10.2020

1 SAYE awards were granted as market value options with an exercise price.
2 Value is based on the maximum number of shares vesting assuming continued employment until the maturity date. The number of shares was calculated using the GKN share price of 257.79 pence being the average share price for the three dealing days immediately before the invitation date (1 August 2017) less a 20% discount. Awards were granted on 24 August 2017.
3 Award lapsed on date of leaving (see page 82).

Jos Sclater received awards under the SEP and SAYE before his appointment to the Board (see page 82 for further details).

Implementation of policy for 2018

The vesting schedule for the 2017 SEP on page 79 will also apply to the 2018 SEP awards.

In line with the approved policy, the performance measures for the 2018 award will include both financial and strategic measures (up to a maximum weighting of 20% of the maximum opportunity). Financial performance will be measured against a base year EPS for 2017 (using book tax rate) of 31.7 pence (adjusted to take into account the impact of the North American Balance Sheet Review). The strategic measures will be disclosed in next year's annual report on remuneration.

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 82.

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.

During the year, we approved an increase to the shareholding requirement for executive Directors from 200% of salary to 250% of salary. In doing so, the alignment of their interests has been strengthened further with those of shareholders. Directors are expected to retain all vested long-term incentive awards (net of tax) until the requirement is met in full.

Executive Directors are expected to achieve 125% of base salary within five years of appointment and 250% as soon as possible thereafter. The table below sets out where the shareholding requirement has been met or the progress made towards meeting it.

We recognise that the performance of the SEP plays an important factor in executive Directors achieving their shareholding requirement. The recent performance of the SEP has resulted in no payout in 2016, 2017 or 2018 and therefore it may take some executive Directors longer to achieve the requirement. This will also be the case for the other executives 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 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 2017. 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]	SIRP Restricted[3]	SAYE[4]	SEP[5]	SIRP Performance[6]	ESOS[7]
		Required	Achieved[1]	Unvested	Unvested	Unvested	Unvested	Unvested	Vested
Executive Directors									
Nigel Stein	2,127,416	250%	795%	6,515	–	–	1,431,331	–	635,041
Jos Sclater	37,812[8]	250%	24%	6,677	59,064	3,491	275,648	44,552	–
Phil Swash	118,011	250%	66%	–	–	3,491	743,923	57,563	61,453
Former Executive Directors									
Kevin Cummings	211,711[9]	–	–	–	–	–	–	–	116,346[10]
Adam Walker	115,899[11]	–	–	–	–	–	–	–	–

1 Based on average share price of 315.90 pence per share for the period 1 October 2017 to 31 December 2017 and salary as at 31 December 2017.
2 DBP awards granted as conditional awards. Vesting is subject to continued employment only. Malus provisions apply.
3 SIRP Restricted award granted as conditional award before being appointed to the Board. Vesting is subject to continued employment only. Malus and clawback provisions apply.
4 SAYE awards granted as market value options. Vesting is subject to continued employment only.
5 SEP awards granted as conditional awards. Vesting is subject to the achievement of an EPS performance condition. Malus and clawback provisions apply.
6 SIRP Performance awards granted as conditional awards before being appointed to the Board. Malus and clawback provisions apply. SIRP awards vested in full and will be released as soon as practicable after the holding period.
7 ESOS awards are market value options. Vested ESOS awards are those not exercised at 31 December 2017.
8 Shares held on appointment to the Board.
9 Shares held on leaving the Board (including 10,000 GKN American Depository Receipts).
10 Awards held on leaving the Board (see page 82 for further details).
11 Shares held on resigning from the Board.
12 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 88).

Further details on the interests in share awards and options shown above can be found in the table and additional notes on page 82.

There were no changes in the interests of Directors in the period 31 December 2017 to 26 February 2018.

Directors' interests in share awards and options

Director and plan	Shares held at 01.01.2017[1]	Shares granted in year	Shares released/ options exercised in year	Dividend shares released in year	Shares lapsed in year	No. of shares at 31.12.2017	Status at 31.12.2017[2,3]	Share price (pence)[4]	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	–	209,973	23,572	34,996	–	Released	208.36	2015-2016
DBP 2016	6,515	–	–	–	–	6,515	Unvested	272.07	n/a
	886,525	–	**209,973**	**23,572**	**34,996**	**641,556**			
SEP 2014	335,502	–	–	–	335,502	–	Lapsed	396.23	2014-2018
SEP 2015	381,355	–	–	–	–	381,355[5]	Unvested	358.17	2015-2019
SEP 2016	585,841	–	–	–	–	585,841	Unvested	272.07	2016-2020
SEP 2017	–	464,135	–	–	–	464,135	Unvested	355.50	2017-2019
	1,302,698	**464,135**	–	–	**335,502**	**1,431,331**			
Jos Sclater[6]									
SIRP 2015 Performance	44,552	–	–	–	–	44,552	Unvested	289.73	2015-2016
	44,552	–	–	–	–	**44,552**			
SAYE 2017^	–	3,491	–	–	–	3,491	Unvested	257.79	n/a
SEP 2015	72,076	–	–	–	–	72,076[5]	Unvested	358.17	2015-2019
SEP 2016	113,198	–	–	–	–	113,198	Unvested	272.07	2016-2020
SEP 2017	–	90,374	–	–	–	90,374	Unvested	355.50	2017-2019
SIRP 2017 Restricted	–	59,064	–	–	–	59,064	Unvested	325.066	n/a
DBP 2017	–	6,677	–	–	–	6,677	Unvested	372.50	n/a
	185,274	**159,606**	–	–	–	**344,880**			
Phil Swash									
ESOS 2010^	36,714	–	–	–	–	36,714	Vested	134.60	2010-2012
ESOS 2011^	24,739	–	–	–	–	24,739	Vested	199.58	2011-2013
SEP 2012	34,560	–	29,623	3,319	4,937	–	Released	208.36	2015-2016
SIRP 2015 Performance	57,563	–	–	–	–	57,563	Unvested	289.73	2015-2016
	153,576	–	**29,623**	**3,319**	**4,937**	**119,016**			
SAYE 2017^	–	3,491	–	–	–	3,491	Unvested	257.79	n/a
SEP 2014	69,231	–	–	–	69,231	–	Lapsed	396.23	2014-2018
SEP 2015	93,128	–	–	–	–	93,128[5]	Unvested	358.17	2015-2019
SEP 2016	363,876	–	–	–	–	363,876	Unvested	272.07	2016-2020
SEP 2017	–	286,919	–	–	–	286,919	Unvested	355.50	2017-2019
	526,235	**290,410**	–	–	**69,231**	**747,414**			
Kevin Cummings									
ESOS 2009^	55,056	–	–	–	–	55,056[7]	Vested	110.08	2009-2011
ESOS 2010^	36,714	–	–	–	–	36,714[7]	Vested	134.60	2010-2012
ESOS 2011^	24,576	–	–	–	–	24,576[7]	Vested	200.90	2011-2013
SEP 2012	47,332	–	40,570	4,546	6,762	–	Released	208.36	2015-2016
	163,678	–	**40,570**	**4,546**	**6,762**	**116,346**			
SEP 2014	82,314	–	–	–	82,314	–	Lapsed	396.23	2014-2018
SEP 2015	105,790	–	–	–	105,790	–[8]	Lapsed	358.17	2015-2019
SEP 2016	363,876	–	–	–	363,876	–[8]	Lapsed	272.07	2016-2020
SEP 2017	–	286,919	–	–	286,919	–[8]	Lapsed	355.50	2017-2019
SIRP 2015 Performance	65,391	–	–	–	65,391	–[8]	Lapsed	289.73	2015-2016
DBP 2017	–	16,675	–	–	16,675	–[8]	Lapsed	372.50	n/a
	617,371	**303,594**	–	–	**920,965**	–			
Adam Walker									
SAYE 2017^	–	3,491	–	–	3,491	–[8]	Lapsed	257.79	n/a
SEP 2014	212,982	–	–	–	212,982	–	Lapsed	396.23	2014-2015
SEP 2015	241,929	–	–	–	241,929	–[8]	Lapsed	358.17	2015-2019
SEP 2016	410,671	–	–	–	410,671	–[8]	Lapsed	272.07	2016-2020
SEP 2017	–	325,175	–	–	325,175	–[8]	Lapsed	355.50	2017-2019
DBP 2016	4,248	–	–	–	4,248	–[8]	Lapsed	272.07	n/a
	869,830	**328,666**	–	–	**1,198,496**	–			

^ Indicates awards granted as share options.

1 The figures for SEP awards granted in 2014, 2015 and 2016 represent both the core and sustainability awards and those granted in 2017 are based on a single award.

2 SIRP 2015 Performance and DBP 2016 awards will both be released as soon as practicable after the end of the relevant holding and vesting periods respectively.

3 Expected release dates for other awards:
> ESOS dates exercisable up to: 6 May 2020 (2010 award) and 31 March 2021 (2011 award).
> SAYE dates exercisable: 1 October 2020 to 31 March 2021 (2017 award).
> DBP expected release date: February 2019 (2017 award).
> SEP expected release dates: in 2019/2021 (2016 award) and in February 2022 (2017 award). Release date for 2016 awards is 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. The 2017 awards are released after the end of the two-year holding period.
> SIRP Restricted expected release date: July 2020 (2017 award).

4 The share price used to calculate the number of shares granted under awards and options is:
> for SEP, DBP and SIRP Performance and SIRP Restricted, it is the average price for the three dealing days immediately before the grant dates
> for SAYE, it is the average price for the three dealing days immediately before the invitation date, and for the ESOS, it is the five dealing days immediately before the grant date. These are also the prices at which SAYE and ESOS options can be exercised.

5 Performance condition for the 2015 SEP core and sustainability awards was not met so these awards lapsed in full on 19 February 2018.

6 Awards granted before being appointed to the Board.

7 Awards exercisable for period of six months following leaving date.

8 Awards lapsed on leaving the Board.

The aggregate gain made by Directors on the release of the above awards during the year was £1,121,000.

Non-executive Directors

Single total figure of remuneration (audited)

	Basic fees £000		Senior Independent Director/Committee Chairman fee £000		Total £000	
	2017	2016	**2017**	2016	**2017**	2016
Chairman						
Mike Turner	**350**	335	**–**	–	**350**	335
Non-executive Directors						
Angus Cockburn	**63**	60	**–**	–	**63**	60
Tufan Erginbilgic	**63**	60	**–**	–	**63**	60
Shonaid Jemmett-Page	**63**	60	**15**[1]	15[1]	**78**	75
Richard Parry-Jones	**63**	60	**25**[2]	25[2]	**88**	85
Anne Stevens[3]	**63**	30	**–**	–	**63**	30
Total	**665**	605	**40**	40	**705**	645

1 Fee for Audit & Risk Committee Chairman.
2 Fees for Remuneration Committee Chairman (£15,000) and Senior Independent Director (£10,000).
3 Anne Stevens is a US national and her fee was converted into US dollars using the exchange rate quoted on Bloomberg for the last practicable date before the quarterly payment date.

Fees

As reported last year, fees for non-executive Directors are now reviewed (but not necessarily increased) annually in line with employee salary reviews.

The Committee and the Board carried out their review of fees for the Chairman and non-executive Directors respectively in November 2017 and decided that no changes would be made for 2018. 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.

Implementation of policy for 2018

The table below sets out the fees with effect from 1 January 2018.

	1 Jan 2018 £	1 Jan 2017 £	Increase %
Chairman	**350,000**	350,000	0
Non-executive Directors	**63,000**	63,000	0
Audit & Risk Committee Chairman	**15,000**	15,000	0
Remuneration Committee Chairman	**15,000**	15,000	0
Senior Independent Director	**10,000**	10,000	0

Non-executive Directors' shareholdings

Non-executive Directors are required to achieve a minimum shareholding of 30% of their base fee within three years of appointment. The minimum requirement level was reviewed in December 2017 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.

Details of how the Chairman and non-executive Directors meet the shareholding requirement are set out below. Anne Stevens will be subject to the shareholding requirement for executive Directors (see page 81) following her appointment as Chief Executive.

The table below shows the number of shares held by the Chairman and non-executive Directors and their connected persons at 31 December 2017.

		Shareholding requirement	
	Shares held	% of fees required	% of fees achieved[1]
Chairman			
Mike Turner	260,000	30	235%
Non-executive Directors			
Angus Cockburn	10,000	30	50%
Tufan Erginbilgic	30,000	30	150%
Shonaid Jemmett-Page	12,900	30	65%
Richard Parry-Jones	10,000	30	50%
Anne Stevens	–	30	–

1 Based on average share price of 315.90 pence per share for the period 1 October 2017 to 31 December 2017 and fees as at 31 December 2017.

Remuneration in context

Our remuneration framework is cascaded to the management population globally. Salary reviews for management are undertaken annually with reference to their performance 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 long-term incentive awards are granted to around 300 executives and all plant managers to encourage share ownership and align their interests with those of shareholders. Shareholding requirements currently apply to the top 100 executives.

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

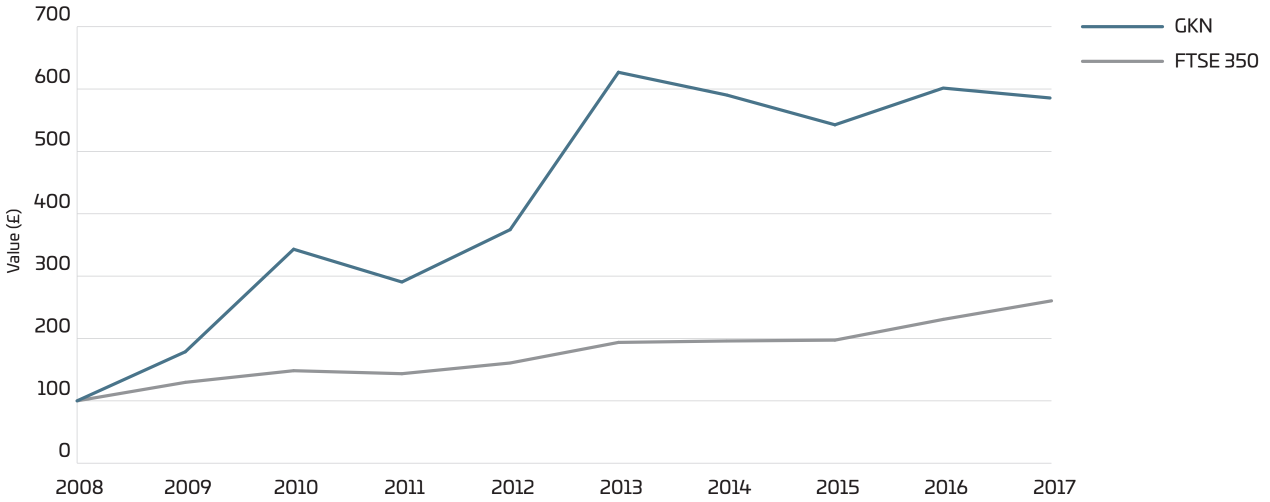
The table below shows the percentage change in salary, benefits and bonus for the Chief Executive compared to a senior management population of approximately 458 employees worldwide. We consider this group to be appropriate as it includes employees with international responsibilities who have similar 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	2.4[1]	4[2]
Benefits	0	1.7
Annual bonus	-100	-52.7

1 The average increase for all employees globally (3.3%) 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 nine-year period to 31 December 2017. 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 nine 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	**2017**
Total remuneration (single total figure, £000)	1,267	1,779	3,659	3,206	3,853	2,922	1,681	1,813	**1,112**
STVRS payout (% of maximum)	50	95	39	42	75	48	61	58	**0**
LTIP vesting (% of maximum)	0	0	100	100	100	67.5	0	10	**0**

1 Sir Kevin Smith retired as Chief Executive on 31 December 2011 and Nigel Stein was appointed Chief Executive on 1 January 2012 and retired as Chief Executive on 31 December 2017.

Relative importance of spend on pay

The table below compares the total remuneration for all employees with dividends paid to shareholders for 2017 and 2016.

	2017 £m	2016 £m	Change %
Total employee remuneration[1]	**1,961**	1,849	6.1[2]
Dividends[3]	**154**	150	2.7

1 Includes salary, bonus and benefits (see note 9 to the financial statements).
2 This relates principally to currency fluctuations. Normal wage increases and headcount changes amounted to 1%.
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 as at 31 December 2017 are listed below and are independent non-executive Directors. Anne Stevens stepped down from the Committee with effect from 1 January 2018 following her appointment as interim Chief Executive and subsequent appointment as new Chief Executive on 12 January 2018.

Chairman	Richard Parry-Jones
Members	Angus Cockburn Tufan Erginbilgic Shonaid Jemmett-Page
Secretary	Kerry Watson (Company Secretary)
External advisers	Mercer Kepler (Kepler)
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 held five scheduled meetings during the year (see page 59 for attendance at Committee meetings). Additional meetings were held as necessary.
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 > 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

We appointed Kepler (now part of Mercer Limited) as our independent advisers in April 2016 following a competitive tender process. Their performance will be reviewed regularly. During the year, Kepler provided advice 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 £37,500.

The wider Marsh & McLennan group (which includes Kepler and Mercer) provided other services to the Group during the year. 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.

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. The Committee is satisfied that the advice it receives from Kepler is objective and independent.

Committee performance evaluation

The annual evaluation of the Committee was carried out internally and 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.

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.

During 2017, Nigel Stein was a non-executive director of Inchcape plc and received fees of £60,000 for the period up to 31 December 2017 (date he retired as Chief Executive and from the GKN Board). Adam Walker is a non-executive director of Kier Group plc and also chairman of its risk management and audit committee and received total fees of £52,363 up to 10 November 2017 (the date he resigned from the GKN Board). 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 on page 87 and in the approved policy. All Directors in office at the date of this annual report, as set out on page 87 will offer themselves for election or re-election at the 2018 AGM.

Executive Directors' service contracts

	Date of contract	Notice from Company	Notice from Director
Anne Stevens	13.02.18	12 months	6 months
Jos Sclater	08.06.11	12 months	6 months
Phil Swash	08.01.16	12 months	6 months

Anne Stevens was appointed interim Chief Executive under a contract dated 15 December 2017 which took effect on 1 January 2018. The term of that appointment was originally 12 months but could be terminated by the provision of one month's notice by either party. In the event of early termination, the Company could make a payment of basic salary in lieu of notice.

From 12 January 2018, Anne was appointed as Chief Executive under a contract dated 13 February 2018, with notice provisions as set out above.

Jos Sclater's service contract was entered into on his appointment as General Counsel with effect from 28 September 2011 and continues to apply to his role as Group Finance Director on 10 November 2017.

Non-executive Directors' letters of appointment

	Date of original letter of appointment	Expiry of current term	Years' service at 31.12.17
Mike Turner	31.07.09[1]	03.05.18	8 years
Angus Cockburn	19.11.12	01.01.19	5 years
Tufan Erginbilgic	04.04.11	08.05.20	6 years
Shonaid Jemmett-Page	28.04.10	31.05.19	7 years
Richard Parry-Jones	26.02.08	28.02.20	9 years

1 Relates to date appointed as non-executive Director. His subsequent letter of appointment as Chairman was dated 24 November 2011.

Payments for loss of office (audited)

Kevin Cummings left the Board and GKN on 16 November 2017. Payments in respect of his departure are set out below:

> 12 months' pay in lieu of notice (PILON), comprising base salary ($724,500) and retirement benefit ($144,900).

> $273,000 as compensation for loss of office.

> US healthcare benefits for a period of 12 months, estimated at approximately $22,000.

> Repatriation expenses of approximately $8,500.

Tax return preparation advice support for 2017 and 2018, and tax equalisation on the PILON amounts will be provided as per the terms of his expatriation agreement. The cost of this will not be known until the end of 2018 and will be reported when known.

All unvested incentive awards granted under the SEP, the SIRP and the DBP lapsed. Vested ESOS options will be exercisable until 15 May 2018 (six months following leaving), in accordance with the plan rules. Details of the awards that lapsed and options exercisable are set out on page 82.

Payments to past Directors (audited)

Nigel Stein

Nigel Stein retired as Chief Executive and Director on 31 December 2017 and will retire from the Group on 14 March 2018. No STVRS or SEP awards will be made to him in 2018. Remuneration payments in respect of Nigel Stein's retirement as determined by the Committee are set out below.

In accordance with the rules of the relevant plans, vested incentive awards will be treated as follows:

> 2010 ESOS award over 434,621 shares with an option price of 134.60p and 2011 ESOS award over 200,420 shares with an option price of 199.58p have vested and will be exercisable until 13 September 2018 (six months following retirement).

> The 2016 DBP award over 6,515 shares will be released as soon as practicable after the vesting period in accordance with the rules of the plan. A cash amount equivalent to the dividends on the shares during the deferral period will also be paid.

> In respect of the unvested 2016 SEP award, the Committee has exercised discretion and determined that he will be treated as a 'good leaver' under the terms of the plan. Under the revised rules of the plan as approved by shareholders in May 2017, he will also be treated as a 'good leaver' in respect of the 2017 SEP. The 2015 SEP core and sustainability awards lapsed as noted earlier in this report.

> The number of shares under the 2016 and 2017 SEP awards will be pro-rated to reflect his length of service during the performance periods and vesting will remain subject to the original performance conditions.

> No payment was made in respect of his 2017 STVRS (see page 78 for further details).

Adam Walker

Adam Walker left the Board and the Company on 10 November 2017. He received no payments for loss of office. In accordance with the relevant incentive plan rules, all of his outstanding awards lapsed on his date of leaving. He did not receive a 2017 STVRS payment.

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 he was entitled to receive. Details of the actual payments made to him during the year are set out below:

> Tax return support of £7,450 (2016: £7,172). Value estimated at £25,000 until the vesting of all outstanding awards. No further payments due.

> 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 £117,847 (2016: £80,273) to the UK and US tax authorities. For 2016, the Company held an estimated credit balance of £45,000 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 shares vested under his 2012 core award (90,797 shares and 10,192 dividend equivalent shares) were released to him. The shares vested under his 2012 sustainability award (10,893 shares and 1,220 dividend equivalent shares) were also released on the same day. In both cases, the shares were pro-rated to reflect time served during the respective core and sustainability performance periods. There are no further awards outstanding.

The aggregate gain made by William Seeger on the release of the above awards during the year was £407,000.

Dilution limits

During the year, we introduced the SAYE and the GKN plc 2017 Share Incentive Plan (SIP). The first SAYE awards were granted in August 2017 and those under the SIP are expected to be granted in March 2018.

The rules of our discretionary share plans (SEP and ESOS) and all-employee plans (SAYE and SIP) 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 and all-employee plans in the previous ten-year rolling period was 2.75% and 3.15% respectively.

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 2016	Shares acquired	Shares transferred to participants	Balance of shares at 31 December 2017	Percentage of shares held at 31 December 2017
2,013,467	1,759,996	149,095	3,624,368	0.21%

Our normal policy is to satisfy awards under the SEP, ESOS and SAYE by using shares held in treasury; 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 and SIRP by Trust shares.

Statement of voting at AGM

The table below sets out the votes cast at the 2017 AGM for the annual report on remuneration and the remuneration policy. Shareholders raised no issues at the 2017 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 (2017 AGM)	1,059,478,840	99.37	6,699,813	0.63	1,066,178,653	99,841,835
Remuneration policy (2017 AGM)	1,065,561,772	97.41	28,344,636	2.59	1,093,906,408	72,114,080

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.

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 and annual report on remuneration, has been approved by the Board.

Signed on behalf of the Board

R Parry-Jones

Professor Richard Parry-Jones CBE
Chairman of the Remuneration Committee
26 February 2018

As at 6 March 2018, there were no changes in the interests of Directors.

Directors' remuneration policy

The Company's full policy on directors' remuneration was approved by shareholders at the 2017 AGM and can be found on the Company's website at www.gkn.com/remuneration. We have included sections of the remuneration policy below that we consider would be most helpful for shareholders to see in the context of the annual report on remuneration set out in this report.

The policy applies for three years from May 2017. 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 92.

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 on page 92.

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 on page 92.

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.

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.

ADDITIONAL INFORMATION

Annual general meeting

The annual general meeting (AGM) of the Company will be held at 2.00pm on Thursday 3 May 2018 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 6.2 pence per ordinary share in respect of the year ended 31 December 2017, payable to shareholders on the register at the close of business on 6 April 2018. This, together with the interim dividend of 3.1 pence paid in September 2017, brings the total dividend for the year to 9.3 pence.

Issued share capital

At 31 December 2017, the issued share capital of the Company consisted of 1,726,103,630 ordinary shares of 10 pence each (2016: 1,726,103,630 shares), of which 8,625,886 shares (0.5%) were held in treasury (2016: 11,629,654 shares; 0.7%). During the year, a total of 3,003,768 ordinary shares were transferred out of treasury in connection with the exercise of awards by participants under the Company's share incentive schemes (2016: 539,274 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 2017, 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	% of voting rights
BlackRock, Inc.	5.80
Deutsche Bank AG	5.43

In the period up to and including 1 March 2018, the Company was advised of the following changes and additions to the interests notified under Rule 5 of the Disclosure Rules and Transparency rules of the Financial Conduct Authority:

Shareholder	% of voting rights
Bank of America Corporation	7.047
Barclays plc	5.259
Deutsche Bank AG	Below 3%
GIC Private Limited	Below 3%
HSBC Holdings plc	6.068

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 2017	Service in the year ended 31 December 2017
Mike Turner	Chairman	Served throughout the year
Nigel Stein	Chief Executive	Retired from the Board on 31 December 2017
Kevin Cummings	N/A	Left the Board on 16 November 2017
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
Jos Sclater	Group Finance Director	Appointed to the Board on 10 November 2017
Phil Swash	Chief Executive GKN Automotive	Served throughout the year
Anne Stevens	Independent non-executive Director	Served throughout the year
Adam Walker	N/A	Retired from the Board on 10 November 2017

Membership of the Board and biographical details of the Directors in office at the date of this report are shown on pages 52 and 53. Further details relating to Board and committee composition are disclosed in the corporate governance statement.

Following his appointment to the Board in November 2017 and in accordance with the Company's articles of association, Jos Sclater will retire and offer himself for election at the 2018 AGM. All other Directors in office will retire and offer themselves for re-election at the 2018 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.

Anne Stevens, who served as an independent non-executive Director throughout 2017, was appointed as Chief Executive in January 2018. 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 73 to 92.

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 2017 AGM, the Directors were authorised to exercise the powers of the Company to purchase up to 171,722,259 of its ordinary shares. No shares were purchased under this authority in 2017. The Directors were also authorised to allot shares in the Company up to an aggregate nominal amount of £57,240,753, with an additional authority to allot up to a further aggregate nominal amount of £57,240,753 in connection with an offer by way of a rights issue. These authorities will remain valid until the 2018 AGM or 30 June 2018, if earlier. Resolutions to renew these authorities will be proposed at the 2018 AGM.

Directors' indemnities

Pursuant to the articles of association, the Company has executed a deed 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 2017 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 £32 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% per annum interest and maturing on 19 September 2022 and £300 million variable rate notes paying 3.375% per annum interest and maturing on 12 May 2032, in each case issued under Euro medium-term note programmes 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 2017.

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, financial 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 93. 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 51, and this Directors' report, comprising pages 52 to 96 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
26 February 2018

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

> 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 to:

> 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

> 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 United Kingdom 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 52 and 53, 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

> 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
26 February 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC

Report on the audit of the financial statements

Opinion

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 2017 and of the Group'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 Financial Reporting Standard 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.**

We have audited the financial statements of GKN plc (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company balance sheets;
- the consolidated cash flow statement;
- 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, including FRS 101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: > Existence and valuation of inventory; > Presentation and disclosure of the adjustments arising from the balance sheet review in Aerospace North America; > Management override of controls; > Carrying value of goodwill, intangible and tangible assets; > Assumptions made in determining pension liabilities; and > Presentation and disclosure of non-trading items. Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ▶.
Materiality	The materiality that we used for the Group financial statements was £23.5 million. 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 as it provides us with a consistent year on year basis for determining materiality.
Scoping	We selected 55 reporting units representing 44% of the Group's revenue where we requested components auditors to perform a full scope audit of the components' financial information. We also requested component auditors to perform specified audit procedures on certain account balances and transactions at a further 48 reporting units. These units represented a further 42% of the Group's revenue. A full audit was also performed at the SDS joint venture in China, which represented 96% of the share of post-tax earnings of equity accounted investments.
Significant changes in our approach	We presented our audit plan to the Audit & Risk Committee in September 2017. As set out on page 105, below, this included a planned reduction in full scope audits and increase in focused audit procedures due to our scope being higher in 2016 as it was our first year as auditor. As a result of certain matters identified by management, reported in the trading updates issued in October and November, we refined our audit approach identifying new risks and expanding the scope of work as follows: > We extended the scope of our audit to include all of the Aerospace North American businesses which management was investigating in their balance sheet review; > We increased the minimum levels of risk we associated with inventory, accounts receivable and other payables at a number of businesses, including specifically identifying an additional key audit matter in relation to inventory existence and valuation at a number of locations; > We updated the key audit matters in relation to both management override of controls and financial presentation, with a specific focus on the reporting and disclosures of the adjustments arising from the North American Balance Sheet Review; > We performed enhanced management override procedures at all businesses in scope for group audit testing. This included extending our audit procedures in relation to journals, balance sheet reconciliations and enquiries of management; and > We reduced group materiality reflecting the lower forecast result and the anticipated adjustments arising from the North American Balance Sheet Review.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the Directors' statement on page 29 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 and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: > the disclosures on pages 30-39 that describe the principal risks and explain how they are being managed or mitigated; > the Directors' confirmation on pages 30 and 54 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; or > the Directors' explanation on page 29 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 are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

New key audit matters in the current year reflect changes in our risk assessment and include:

- Existence and valuation of inventory – specifically in relation to the Aerospace North American businesses which were subject to the management balance sheet review and four other businesses where we identified heightened risks of material misstatement.
- Presentation and disclosure of the adjustments arising from the North American Balance Sheet Review.
- Management override of control – which has been elevated to represent a key audit matter in 2017 given the perceived increase in risk in Aerospace North America which led to enhanced management override procedures being performed.

Key audit matters from the prior year which have not been included in the current year audit report include:

- Recoverability of material contract related assets relating to development costs and other intangibles arising from acquisitions. Aerospace programmes with material exposures have now reached a level of profitability where impairment risk is reduced.
- Revenue recognition. This has not been included because there has only been one material contract modification in the year. Whilst we audited the accounting for and effect of this modification it has not required a significant amount of audit effort.

Existence and valuation of inventory

Key audit matter description	Refer to page 26 (Strategic report) and page 68 (Audit & Risk Committee report), and note 2 (Segmental analysis). Following ongoing pricing pressure, continuing operational challenges and the impact of programme transitions, a detailed review was carried out by management in the GKN Aerospace North America Alabama plant which resulted in a £15 million charge relating principally to programme inventory balances. The subsequent balance sheet review across Aerospace North America identified inventory write-downs totalling a further £64 million. Given the nature of the adjustments identified and the quantum of the write off we identified a significant risk and key audit matter relating to the existence and valuation of inventory at these locations. As set out in note 15 to the accounts total inventories are £1.4 billion of which £523 million relates to WIP and £370 million to finished goods. Estimation is required in determining the recoverable value of inventory. As part of our risk assessment, using our programme specific knowledge at each location as well as a range of metrics including stock turn and inventory provisioning percentage, we identified inventory balances either similar in nature to those where write-downs had occurred, or sites where inventory displayed characteristics which appeared to be outliers to the divisional norm. Given the adjustments identified by management the focus of our key audit matter was inventory existence and valuation at these locations. Inventory where we identified a key audit matter in relation to either its existence or valuation totalled £363 million. In locations where we had previously considered inventory to be a higher risk, and recognising the aggregation risk with the balances identified above, we also updated our risk assessment to consider inventory valuation and existence at these sites to be significant risks.
How the scope of our audit responded to the key audit matter	Members of the group audit team visited our local component audit teams at each business where significant risks were identified in relation to inventory. We designed audit procedures which responded specifically to the local risks identified. In response to the significant risk we performed additional procedures which included: > testing of the design and implementation of key controls such as the periodic counting of inventory and review of inventory provisions; > performing detailed sample tests of inventory identified at the stock count, including focused testing on quarantined WIP, tying each sample to the relevant engineering assessment and making direct enquiries of engineers and programme managers to understand the nature of the stock and its realisable value; > evaluating the findings of the independent engineers, engaged by management to challenge the company's assessment of inventory, and the independence and competence of the external engineers, together with the scope of their work, in order to enable us to place reliance on the work of management's external engineering consultant; > performing testing of net realisable value of finished goods against subsequent sales; > performing a profitability review by programme; and > performing movement analysis on the inventory balances to understand the movement of WIP.
Key observations	From our work performed we found inventory to be fairly stated and that the inventory write downs the company recorded in the Aerospace North American sites of £79 million were materially appropriate.

Presentation and disclosure of the adjustments arising from the North American Balance Sheet Review	
Key audit matter description	Refer to page 26 (Strategic report), page 68 (Audit & Risk Committee report), note 2 (Segmental analysis). As referenced above, in the final quarter of 2017 management carried out an investigation into potential accounting adjustments in Aerospace North America. This led to the identification of £123 million of adjustments (including the £15 million charge in relation to Alabama which was reported in October 2017). Working with independent advisors, management sought to age the adjustments identified and in doing so determine which may have been reflective of circumstances that existed at 31 December 2016 and therefore merit consideration for a prior year restatement. IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, defines a prior period error as an omission from, and misstatement in, the entity's financial statements for one of more prior periods resulting from a failure to use, or misuse of, reliable information that was available when the financial statements were authorised for issue and could reasonably have expected to have been obtained and taken into account. When such a determination has been made IAS 8 requires restatement where prior period errors have a material impact on the financial statements. It distinguishes prior period errors from accounting estimates which, by their nature, may need to be revised as additional information becomes known. IAS 8 defines a material misstatement as one that could, individually, or collectively, influence the economic decisions that users make on the basis of the financial statements. The review concluded that £22 million of the adjustments constituted prior period errors under IAS 8. Management concluded that the prior period error of £22 million, considered individually or in aggregate with the range of other items which may contain both an element of error and change in estimate, were neither qualitatively or quantitatively material and a restatement of the prior year financial statements was not required. Given the complexity in the judgements taken by management, our key audit matter focused on whether the adjustments were appropriately presented and disclosed.
How the scope of our audit responded to the key audit matter	In addition to the procedures set out in relation to the inventory existence and valuation, we performed specific audit procedures to analyse the nature of the adjustments. These procedures were designed to assess whether adjustments related to estimation or error, and the availability of information to make those adjustments at the prior year end. This included: > making direct enquiries of external advisers, including those performing the conduct review and the balance sheet review; > re-performing ageing calculations and re-calculating provision levels; > testing of the completeness and accuracy of reports used to identify which inventory adjustments in 2017 related to inventory which existed in 2016; > reviewing a key contract and understanding the nature and status of negotiations with that customer to challenge the point at which it became onerous; > assessed the information available, or which could have been reasonably expected to be taken into account, at 31 December 2016; and > reviewing prior year work papers, the conduct review and our wider audit procedures to search for evidence that the prior year error was larger than £22 million. In order to determine whether the level of error was material, we reviewed management's paper and the rationale they provided for not restating the prior year financial statements. We have challenged their views and formed our own opinion, based on a number of qualitative and quantitative, factors in determining whether a restatement is required.
Key observations	Having completed our procedures, we concur with management's judgement that the impact of the identified prior year error is not material and so no restatement of previous results is required.

Management override of controls	
Key audit matter description	Refer to pages 68 and 71 (Audit & Risk Committee report). Management is in a unique position to override controls that otherwise appear to be operating effectively. In the final quarter of 2017 an investigation in to potential accounting adjustments in North America was undertaken. As set out above we identified a key audit matter relating to the carrying value of inventory and another relating to the presentation of the findings. In addition to these matters we considered whether the adjustments identified in the Aerospace North American balance sheet indicated a breakdown in the control environment in those businesses and therefore a heightened risk that controls preventing management override had not operated effectively. As a result, we identified an additional key audit matter relating to management override of controls across all businesses in our group audit scope. The Aerospace North America review management performed included an assessment of the root causes and potential failures in GKN's internal control and risk management systems which provides a base for future remediation.
How the scope of our audit responded to the key audit matter	In addition to the procedures above to respond to the inventory and presentation key audit matters, we extended our audit testing to perform enhanced management override procedures at all material in scope units. This included, but was not limited to: > understanding the overall governance and oversight process surrounding management's investigation, including the balance sheet review and conduct review; > examining the scope and results of work carried out by management's experts. We utilised an in-house forensics team to support our procedures and challenge, specifically in relation to the scope of work and performance of the conduct review; > making direct enquiries of the lawyers involved in the conduct review to understand the procedures performed in reaching their conclusion that there was no hard evidence of fraud or deliberate misconduct; > evaluating the specific changes made to the inventory provisioning approach; > using our journal interrogation tools to perform journal testing at 78 in-scope businesses by reconciling a complete population of journals and selecting those that met our specific risk criteria based on our professional judgement and scepticism; > reviewing balance sheet reconciliations related to other payables and other receivables and testing reconciling items to a lower level of materiality; > using our questionnaire to make direct enquiries of over 100 personnel at local sites to identify any potential fraud risks; and > examining the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors.
Key observations	From our work we have not identified any indicators of inappropriate management override of controls in these areas.

Carrying value of goodwill, intangible and tangible assets

Key audit matter description	Refer to page 69 (Audit & Risk Committee report), note 1 (Accounting policies and presentation), note 11c (Goodwill and other intangible assets) and note 12 (Property, plant and equipment). The Group holds goodwill of £492 million, other intangible assets of £1.2 billion and tangible assets of £2.7 billion at 31 December 2017. The Group recognised impairment charges of £131 million in 2017. IAS 36 'Impairment of assets' requires the Group to perform an annual impairment test on goodwill and indefinite lived intangibles and to perform a review for impairment of other assets where there are indicators that the carrying value of assets exceeds their recoverable value. The latter is relevant to businesses such as St. Louis which has no goodwill balance but demonstrated indicators of impairment during the year. We identified two key audit matters relating to the carrying value of assets and the annual impairment review as follows: > Management's estimate of cash flows to support the business valuation for EP West and St Louis, which we assessed to be a key audit matter as the businesses have faced operational challenges in the year and a reasonably possible change in assumptions could give rise to a material impairment; and > Identification and allocation of goodwill to cash generating units ('CGUs') within the Driveline division, where business change prompted a review of the historical CGU structure and judgements were required to be taken as to whether cash inflows continued to support the historical CGU assessment. We tested a number of other risks associated with the carrying value of goodwill but did not consider them to represent key audit matters where significant additional audit effort was applied. These included two areas which were identified as key audit matters in the prior year being the derivation of discount rates and long growth rates, and the presentation of the results of the impairment review in accordance with the requirements of IAS 36.
How the scope of our audit responded to the key audit matter	We have obtained and understood the Directors' impairment models for those CGUs 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 for EP West and St Louis. In evaluating the forecast cash flows presented we have: > obtained support for forecast sales growth; > agreed cost savings to detailed management plans and savings already contracted; > assessed the future margins relative to historical performance for each CGU and evaluated the risk factors in the cash flows by reference to forecasting accuracy; > compared the position set out by management to our understanding of industry factors relevant to that CGU; > challenged whether the period management have used internal cash flows forecasts for prior to the perpetuity calculation is supportable; > directed our internal valuation specialists to review the detailed impairment model to ensure it complies with the requirements of IAS 36 and is a robust mathematical valuation model including assessing the discount rates and growth rates applied; and > considered whether the value in use methodology represents the highest recoverable value and whether management's future intentions support the use of the value in use model. 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 challenging whether each plant should represent its own CGU. We obtained support for the current level of interaction between plants within sub-segments, and therefore for the new CGU structure. We recalculated the allocation of goodwill, and other non-monetary assets, between the new CGUs and tested impairment reviews prepared by management.
Key observations	From our work performed we are satisfied with the carrying value of assets recognised and the identification of cash generating units.

Assumptions made in determining pension liabilities

Key audit matter description	Refer to page 39 (Risk management), page 69 (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 £4.4 billion, the majority of which relates to schemes in the UK, US and Germany. We have identified a key audit matter relating to 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 key audit matter	We used our internal actuarial experts to assess the key assumptions for the UK, US and German schemes. Our assessment included reviewing 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 calculations. 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 and that the discount rate methodology responds to specific market conditions at 31 December 2017.

Presentation and disclosure of non-trading items

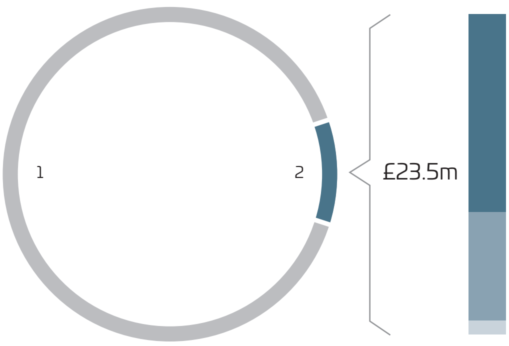
Key audit matter description	Refer to page 69 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 3 (Adjusted performance measures). Trading profit, a non-statutory measure, is used by the group to report the business performance to investors and wider stakeholders. We have identified a key audit matter relating to 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. The non-trading items excluded from trading profit in 2017 represent a net credit of £131 million (2016: net charge of £349 million), which comprises changes in derivatives and other financial instruments, amortisation of non-operating intangible assets and impairment charges. Applying consistent principles in determining which items of profit or loss should be separately presented, or referenced in narrative, is important to avoid distorting the reported result.
How the scope of our audit responded to the key audit matter	We challenged and understood management's rationale for including certain items outside trading profit to provide 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 checked whether 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.
Key observations	We are satisfied that the items excluded from trading profit and the related disclosure of these items in the financial statements are in line with the accounting policy.

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 financial statements	Parent company financial statements
Materiality	£23.5 million (2016: £25.0 million)	£22.3 million (2016: £22.3 million)
Basis for determining materiality	Materiality was determined as approximately 5.5% 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, ("Adjusted PBT").	Materiality was based on net assets capped at the component materiality level which supports our group audit opinion to reflect aggregation risk. Net assets total £2.2 billion. Component materiality represents 1% of net assets.
Rationale for the benchmark applied	We determine materiality using Adjusted PBT as it provides us with a consistent year on year basis for determining materiality. As a public company we consider profit is most aligned to the interests of the users of the financial statements.	The entity is non-trading and its financial position comprises intercompany investments, receivables and payables, therefore net assets is considered an appropriate basis.



1 **Adjusted PBT £427 million**
2 **Group materiality**
- Group materiality £23.5 million
- Component materiality range £4 million to £9 million for trading entities and £22 million for GKN plc.
- Audit & Risk Committee reporting threshold £1 million

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £1 million (2016: £1 million) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. 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 restructured to recognise three separate segments operating principally in two markets, being the aerospace and automotive markets. The three segments are:

> GKN Aerospace, mainly located in the UK, US, Sweden and the Netherlands;

> GKN Driveline, mainly located in Europe and North America as well as a material joint venture in China; and

> GKN Powder Metallurgy, mainly located in North America as well as sites in Europe and Asia Pacific.

Each division consists of a number of reporting units, and manages operations on a geographical and product basis. There are 236 reporting units in total, each of which is responsible for maintaining their own accounting records and controls and using an integrated consolidation system to report to UK head office.

Our audit was scoped using the detailed understanding of the Group we gained in the prior period as well as our understanding of operational activities in the year, commercial markets and geographies the Group operates in. We also considered the controls exercised by management at a business, divisional and group level. In the prior year we performed detailed on site audit procedures at 78 reporting units. This enabled us to gain a detailed understanding of the Group in our first year. Given the nature of the Group and its systems we continue to be of the view that high coverage is required to gain sufficient assurance to provide an opinion on the Group financial statements. In the current year, building on the information obtained in the prior year, we focused our component audit teams on testing account balances, classes of transaction and disclosures that presented risks of material misstatement in a particular business rather than performing full scope audits in all locations.

In line with our expectations for our recurring audit, from year two onwards, we performed full scope audits at a lower number of reporting units in 2017 (55) compared to 2016 (71). Together these businesses represented 44% (2016: 68%) of the Group's revenue. We requested component auditors to perform specified audit procedures on certain account balances and transactions at a further 48 (2016: 47) reporting units. These units represented a further 42% (2016: 20%) of the Group's revenue. A full audit was also performed at the SDS joint venture in China, which represented 96% (2016: 86%) of the share of post-tax earnings of equity accounted investments.

Following the identification of the accounting adjustments in Aerospace North America, we expanded our scope in the US to perform audit work at three businesses (two Aerospace, one Powder Metallurgy) which were not originally in scope. To introduce additional unpredictability into our procedures we also added two additional businesses in Driveline Europe. Given the focus of management, and their advisors, on the Aerospace North American businesses extending the coverage of group reporting to account balances, transactions and components outside of this sub-segment was deemed an appropriate response to ensure that the adjustments were limited to that market.

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.

The Group engagement team visited 23 locations based on significance and/or risk characteristics, as well as on a rotational basis to ensure coverage across the Group. We 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 on-going 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 and fraud risk assessment 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.

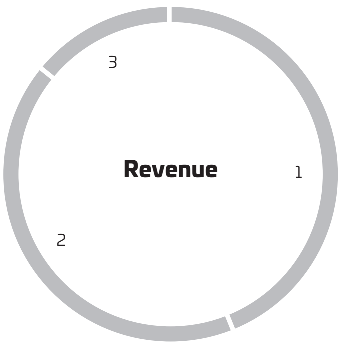
We increased this interaction during the period November 2017 to February 2018 reflecting the changing pressures in the Group including the November balance sheet review, and one call where the Audit & Risk Committee chairman provided her perspectives and addressed queries raised by local audit teams.

The group audit team participated in every audit close meeting of full scope entities, reviewed the component auditor work papers and discussed the detailed findings of the audit with the component team.

The parent company is located in Redditch and audited directly by the group audit team.

Coverage

As set out in the chart below we performed audit work on site at locations which together contributed 86% of Group revenue.



1 **Full audit scope** (44%)
2 **Specified audit procedures** (42%)
3 **Review at group level** (14%)

Other information

We have nothing to report in respect of these matters.

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

> *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

> *Audit & Risk Committee reporting* – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee; or

> *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

> 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 Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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 in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were appointed at the Annual General Meeting on 5 May 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 December 2016 to 31 December 2017.

Consistency of the audit report with the additional report to the Audit & Risk Committee

Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

Ian Waller

Ian Waller *(Senior statutory auditor)*
for and on behalf of Deloitte LLP
Statutory Auditor
London, UK
26 February 2018

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	**2017 £m**	2016 £m
Sales	2	**9,671**	8,822
Trading profit	2,4	**568**	684
Change in value of derivative and other financial instruments	4	**364**	(154)
Amortisation of non-operating intangible assets arising on business combinations	4	**(100)**	(103)
Gains and losses on changes in Group structure	4	**(2)**	(9)
Acquisition-related restructuring charges	4	**–**	(31)
Impairment charges	4	**(131)**	(52)
Operating profit		**699**	335
Share of post-tax earnings of equity accounted investments	13	**80**	73
Interest payable		**(86)**	(86)
Interest receivable		**10**	7
Other net financing charges		**(45)**	(37)
Net financing costs	5	**(121)**	(116)
Profit before taxation		**658**	292
Taxation	6	**(149)**	(48)
Profit after taxation for the year		**509**	244
Profit attributable to non-controlling interests		**6**	2
Profit attributable to owners of the parent		**503**	242
		509	244
Earnings per share – pence	7		
Continuing operations – basic		**29.3**	14.1
Continuing operations – diluted		**29.1**	14.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017 £m**	2016 £m
Profit after taxation for the year		**509**	244
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency variations – subsidiaries			
Arising in year		**(214)**	671
Reclassified in year	4	**(3)**	2
Currency variations – equity accounted investments			
Arising in year	13	**(4)**	22
Net investment hedge changes in fair value			
Arising in year	20	**55**	(177)
Taxation	6	**3**	(14)
		(163)	504
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plans			
Subsidiaries	24	**291**	(396)
Taxation	6	**(64)**	63
		227	(333)
Other comprehensive income for the year		**64**	171
Total comprehensive income for the year		**573**	415
Total comprehensive income attributable to non-controlling interests		**4**	6
Total comprehensive income attributable to owners of the parent		**569**	409
		573	415

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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 2017		**173**	**298**	**330**	**981**	**881**	**(402)**	**(134)**	**2,127**	**35**	**2,162**
Profit for the year		**–**	**–**	**–**	**503**	**–**	**–**	**–**	**503**	**6**	**509**
Other comprehensive income/(expense):											
Remeasurement of defined benefit plans and related tax		**–**	**–**	**–**	**227**	**–**	**–**	**–**	**227**	**–**	**227**
Currency variations and related tax		**–**	**–**	**–**	**–**	**(204)**	**–**	**–**	**(204)**	**(2)**	**(206)**
Net investment hedge changes in fair value and related tax		**–**	**–**	**–**	**–**	**–**	**43**	**–**	**43**	**–**	**43**
		–	**–**	**–**	**227**	**(204)**	**43**	**–**	**66**	**(2)**	**64**
Total comprehensive income		**–**	**–**	**–**	**730**	**(204)**	**43**	**–**	**569**	**4**	**573**
Share-based payments	10	**–**	**–**	**–**	**4**	**–**	**–**	**–**	**4**	**–**	**4**
Purchase of own shares by Employee Share Ownership Plan Trust	22	**–**	**–**	**–**	**(6)**	**–**	**–**	**–**	**(6)**	**–**	**(6)**
Share options exercised	22	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Dividends paid to equity shareholders	8	**–**	**–**	**–**	**(154)**	**–**	**–**	**–**	**(154)**	**–**	**(154)**
At 31 December 2017		**173**	**298**	**330**	**1,556**	**677**	**(359)**	**(134)**	**2,541**	**39**	**2,580**
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):											
Remeasurement of defined benefit plans and related tax		–	–	–	(333)	–	–	–	(333)	–	(333)
Currency variations and related tax		–	–	–	–	638	–	–	638	4	642
Net investment hedge changes in fair value and related tax		–	–	–	–	–	(138)	–	(138)	–	(138)
		–	–	–	(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

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 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill	11	**492**	588
Other intangible assets	11	**1,179**	1,320
Property, plant and equipment	12	**2,677**	2,670
Equity accounted investments	13	**249**	233
Other receivables and investments	14	**153**	49
Derivative financial instruments	20	**37**	25
Deferred tax assets	6	**374**	557
		5,161	5,442
Current assets			
Inventories	15	**1,431**	1,431
Trade and other receivables	16	**1,748**	1,648
Current tax assets	6	**68**	7
Derivative financial instruments	20	**28**	19
Other financial assets	18	**5**	5
Cash and cash equivalents	18	**421**	411
		3,701	3,521
Total assets		**8,862**	8,963
Liabilities			
Current liabilities			
Borrowings	18	**(38)**	(64)
Derivative financial instruments	20	**(78)**	(206)
Trade and other payables	17	**(2,333)**	(2,186)
Current tax liabilities	6	**(132)**	(142)
Provisions	21	**(80)**	(71)
		(2,661)	(2,669)
Non-current liabilities			
Borrowings	18	**(1,126)**	(842)
Derivative financial instruments	20	**(248)**	(521)
Deferred tax liabilities	6	**(184)**	(227)
Trade and other payables	17	**(485)**	(427)
Provisions	21	**(74)**	(82)
Post-employment obligations	24	**(1,504)**	(2,033)
		(3,621)	(4,132)
Total liabilities		**(6,282)**	(6,801)
Net assets		**2,580**	2,162
Shareholders' equity			
Share capital	22	**173**	173
Capital redemption reserve		**298**	298
Share premium account		**330**	330
Retained earnings		**1,556**	981
Other reserves		**184**	345
Equity attributable to equity holders of the parent		**2,541**	2,127
Non-controlling interests		**39**	35
Total equity		**2,580**	2,162

The financial statements on pages 108 to 162 were approved by the Board of Directors and authorised for issue on 26 February 2018. They were signed on its behalf by:

Anne Stevens, Jos Sclater
Directors

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Notes	**2017 £m**	2016 £m
Cash flows from operating activities			
Cash generated from operations	23	**600**	778
Interest received		**8**	7
Interest paid		**(79)**	(83)
Tax paid		**(113)**	(93)
Dividends received from equity accounted investments	13	**60**	57
		476	666
Cash flows from investing activities			
Purchase of property, plant and equipment		**(442)**	(416)
Receipt of government capital grants		**2**	6
Purchase of intangible assets		**(79)**	(84)
Repayment of government refundable advance		**(8)**	(6)
Proceeds from sale and realisation of fixed assets		**8**	37
Payment of deferred and contingent consideration		**(2)**	(1)
Acquisition of subsidiaries (net of cash acquired)	30	**(25)**	(17)
Costs associated with disposal of subsidiaries		**(2)**	–
Purchase of investment	14	**–**	(5)
Proceeds from disposal of subsidiary, net of cash	4	**6**	151
Equity accounted investments loan settlement		**–**	4
		(542)	(331)
Cash flows from financing activities			
Purchase of own shares by Employee Share Ownership Plan Trust	22	**(6)**	–
Purchase of non-controlling interests	30	**–**	(2)
Proceeds from exercise of share options	22	**1**	1
Proceeds from borrowing facilities		**302**	102
Repayment of other borrowings		**(37)**	(243)
Dividends paid to shareholders	8	**(154)**	(150)
Dividends paid to non-controlling interests		**–**	(2)
		106	(294)
Movement in cash and cash equivalents		**40**	41
Cash and cash equivalents at 1 January		**385**	291
Currency variations on cash and cash equivalents		**(13)**	53
Cash and cash equivalents at 31 December	23	**412**	385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 (EU). 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 2017. 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 2017 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. Monetary 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 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. *These impairment charges can be irregular and significant in nature and as a result adjusted to enable the reader to understand the underlying business performance without the impact of these non-cash items.*

> asset impairment and restructuring charges which arise from events that are significant to any reportable segment. *Asset impairment charges can be irregular and significant in nature and therefore adjusted to enable the reader to understand the underlying business performance without the impact of these non-cash items. Restructuring charges arising as a result of acquisitions are unrelated to the performance of the Group and its continuing operations, and adjusted from management results.*

> amortisation of the fair value of non-operating intangible assets arising on business combinations. *This charge relates to the historical acquisitions, rather than the Group's performance in the year, therefore the unwind of intangibles is excluded from management trading profit.*

> changes in the fair value of derivative financial instruments and material currency translation movements arising on intra-group funding. *Gains and losses related to these items can be volatile in nature and significantly impacted by fair value movements outside management control, therefore adjusted in management results.*

1 Accounting policies and presentation continued

Presentation of the income statement continued

> 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. *These arise as a result of acquisitions and divestments and, given this, are unrelated to the trading performance of the Group, thus included as an adjusting item.*

> 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. *Changes such as these are related to prior acquisitions and the Group adjusts for these when they first occur, therefore for consistency, any revisions to these balances would also be adjusted in management results.*

> significant pension scheme curtailments and settlements. *These are excluded given they are significant in size and irregular in nature, and often driven by factors outside the control of management, including the triennial review.*

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 note 4.

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.

Alternative performance measures

Management use non-GAAP measures, commonly referred to as alternative performance measures (APMs), in the preparation and presentation of the financial information which are not defined or specified under the requirements of IFRS.

The Group uses management measures to provide additional useful information to assess the operating performance on a comparable basis and these are not intended to be a substitute for, or superior to, IFRS measures.

Management measures are consistent with how information is reported to the Board and enables management to chart progress, make decisions and allocate resources based on the same underlying performance of the Group, without volatility arising from significant non-trading items such as impairment charges, portfolio change transactions or change in value of derivatives and other financial instruments. These measures are also used in the setting of certain remuneration targets.

Management measures used comprise:

Management measure: management results

		2017 £m	2016 £m
Management sales are sales of subsidiaries with the Group's share of the sales of equity accounted investments (EAI).	Sales of subsidiaries	**9,671**	8,822
	Sales of EAI	**738**	592
	Management sales	**10,409**	9,414

		£m	£m
Management trading profit is trading profit (defined as operating profit excluding the impact of non-trading items, see note 3) of subsidiaries with the Group's share of the trading of EAI.	Trading profit of subsidiaries	**568**	684
	Trading profit of EAI	**94**	89
	Management trading profit	**662**	773

		£m	£m
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 EAI.	Management trading profit	**662**	773
	Net subsidiary interest	**(76)**	(79)
	Group share of EAI interest	**2**	(1)
	Group share of EAI tax	**(16)**	(15)
	Management profit before tax	**572**	678

		£m	£m
Management trading margin is management trading profit expressed as a percentage of management sales.	Management sales	**10,409**	9,414
	Management trading profit	**662**	773
	Management trading margin	**6.4%**	8.2%

	2017 £m	2016 £m
Management profit after tax	**456**	530
Weighted average number of shares	**1,714.7**	1,712.1
Management earnings per share	**26.6p**	31.0p

Management earnings per share is management profit after tax attributable to owners of the parent divided by the weighted average number of ordinary shares in issue (excluding treasury shares).

These are key internal management metrics used to assess the Group as a whole including its equity accounted investments enabling full view of the overall performance.

Management measure: organic sales growth

Management sales measured both in absolute terms and on an underlying basis (excluding the effects of currency translation, acquisitions and divestments relative to the prior year). Organic sales growth is organic change as a percentage of management sales, currency impact and divestments.

	£m	£m
Group management sales	**9,414**	7,689
Currency impact	**456**	862
Divestments	**(114)**	–
	9,756	8,551
Acquisitions	**27**	654
Organic change	**626**	209
Group management sales	**10,409**	9,414
Organic sales growth	**6.4%**	2.4%

This enables readers to understand the underlying sales growth rate on a comparable basis without the effect of those items mentioned which could impact the rate of growth.

Management measure: organic trading profit growth

Management trading profit measured both in absolute terms and on an underlying basis (excluding the effects of currency translation, acquisitions and divestments relative to the prior year). Organic trading profit growth is organic change as a percentage of prior year management trading profit, currency impact and divestments. In 2017, this excludes the impact of the North American Aerospace Balance Sheet Review.

	£m	£m
Group management trading profit	**773**	679
Currency impact	**43**	89
Divestments	**(12)**	–
	804	768
Acquisitions	**3**	62
North American Aerospace Balance Sheet Review	**(112)**	–
Organic change	**(33)**	(57)
Group management trading profit	**662**	773
Organic trading profit decline	**(4.1)%**	(7.4)%

This enables readers to understand the underlying trading profit growth rate on a comparable basis without the effect of those items mentioned which could impact the rate of growth.

Management measure: operating cash flow

Cash generated from operations adjusted for capital expenditure (tangible and intangible), government capital grants, proceeds from disposal of fixed assets and government refundable advances.

	£m	£m
Cash generated from operations	**600**	778
Capital expenditure	**(521)**	(500)
Government capital grants	**2**	6
Proceeds from fixed asset disposals	**8**	37
Government refundable advances	**(8)**	(6)
Operating cash flow	**81**	315

This measure shows the cash generated by the Group following the inclusion of capital items.

1 Accounting policies and presentation continued

Alternative performance measures continued

Management measure: free cash flow

Operating cash flow including interest, tax, equity accounted investment dividends, special pension payments and amounts paid to non-controlling interests, but excluding dividends paid to GKN shareholders.

	2017 £m	2016 £m
Operating cash flow	**81**	315
Dividends from EAI	**60**	57
Interest	**(71)**	(76)
Tax	**(113)**	(93)
Special pension repayment	**250**	–
Dividends paid to NCI	**–**	(2)
Free cash flow	**207**	201

This measure shows the cash generated and retained by the Group in the year available for distribution to shareholders.

Management measure: management operating cash flow

Operating cash flow adjusted for pension deficit funding and cash flows associated with restructuring charges excluded from management trading profit.

	£m	£m
Operating cash flow	**81**	315
Pension deficit funding	**292**	57
Acquisition-related restructuring	**13**	16
Portfolio change restructuring	**11**	–
Management operating cash flow	**397**	388

This measure allows clarity of operating cash flow excluding the impact of large one-off items in the year.

Management measure: return on average invested capital (ROIC)

Management trading profit as a percentage of average total net assets, which is defined as the net assets of the Group excluding post-employment obligations, tax, borrowings and derivatives throughout the year.

	£m	£m
Management trading profit	**662**	773
Average invested capital	**5,076**	4,823
ROIC	**13.0%**	16.0%

This allows ROIC to be calculated on the operating assets of the business within the control of management.

Management measure: impact of the North American Balance Sheet Review

Given the significance of the £112 million charge booked as a result of the North American Balance Sheet Review, certain management measures have been included to avoid possible distortion of prior year comparisons. The additional 2017 measures are noted below.

	2017 £m
Management trading profit (as adjusted for £112 million)	**774**
Management profit before tax (as adjusted for £112 million)	**684**
Management earnings per share (as adjusted for the after tax effect of the £112 million)	**31.7p**
Aerospace organic trading profit decline (as adjusted for £108 million)	**(20.5)%**

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 segment operate almost exclusively on this basis, and it also covers a high proportion of the Aerospace segment revenues.

Invoices for goods are raised and revenue is recognised, 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 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.

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.

1 Accounting policies and presentation continued

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 not 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
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.

Participation fees
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 on the above 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.

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.

1 Accounting policies and presentation continued

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:

> IFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018).

> IFRS 9 'Financial Instruments' (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 2018 or thereafter are being assessed.

IFRS 15

The Group will adopt IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) for the year ending 31 December 2018 which changes the way that revenue is recognised and expands disclosure for revenue arrangements with customers. The current intention is to adopt this standard using the modified retrospective approach.

Following disclosures in the 2016 Annual Report and Accounts, significant progress has been made during the year on the Group project which has included: developing policies; engaging external advisers; benchmarking initial findings against market announcements; and running focus groups for the Aerospace and Automotive businesses to inform transition considerations with significant involvement from commercial teams. The largest effort has been on reviewing a significant number of contracts and evaluating the implications of transition to IFRS 15. The contracts subject to review have been targeted based on: output from the impact assessment work to cover specific risk factors; complexity of business models in each division; and ensuring that major customers and geographies have been included.

Nothing significant has come from the incremental work that changes the initial views previously communicated and the majority of more complex areas under the new standard continue to be within the Aerospace business. While the timing of revenue recognition will change, there will be no impact on either timing or quantum of cash flows.

The Group's Executive Committee and Audit Committee have been appraised on the implications of IFRS 15 and the wider organisation has been provided with appropriate training to ensure changes are embedded in normal business activity.

Based on the work completed to date, it is expected that the key financial impacts will be the following. All of these are expected to be within Aerospace, with participation fees also impacting Driveline.

> **Non-recurring prices**
> In certain contracts the 'non-recurring' price, which explicitly compensates the Group for specific aspects of a work package (e.g. engineering design and development or capital expenditure), is recovered over a specific number of products. This recovery period is often established using expected volumes or milestones at the time of negotiating a framework agreement. However, similar to the price-down scenario noted below, IFRS 15 considers there to be a 'material right' for the customer where they are able to buy future units at a reduced price. Where there is a single performance obligation for delivery of product and the recovery period of incremental pricing does not match the life of the programme, material rights have been assessed.

> **Over time recognition of revenue**
> Under IFRS 15, it should be assessed whether revenue is recognised at a point in time or over time depending on the contract terms. The vast majority of the Group's revenue will continue to be recognised at the point in time when control has passed, however on specific contracts within Aerospace there is a legal right to compensation for work completed where there is no alternative use for the customer's asset. In these instances revenue would be recognised over time.

> **Material rights to price downs**
> Contractual price downs have been identified in a number of contracts and under the new standard the value of any 'material right' for the customer needs to be recognised over the life of the contract on all relevant products sold. IFRS 15 takes a view that where products sold are substantially the same, a relatively consistent allocation of revenue will apply. Where such price-downs are relevant, they will have the impact of deferring some early invoiced revenue to later units sold. For the majority of such arrangements in the Group, price downs are not considered material.

> **Participation fees**
> Under IFRS 15 the amortisation of participation fees will need to be recorded as a reduction of revenue over the life of the contract to which it relates. This is a change to current accounting as previously these have been amortised through cost of sales.

> **Risk and Revenue Sharing Partnership ('RRSP') contracts**
> While RRSP contracts only affect a small number of businesses in the Group, exclusively in the Aerospace division, the implication of the new accounting standard is likely to be most significant on these revenues.
>
> Due to the nature of RRSP contracts, original equipment 'OE' products sold to engine manufacturers are deeply discounted with more favourable pricing in the aftermarket phase. Where the Group has a contractual right to aftermarket revenue, IFRS 15 requires that the revenue for the contract be allocated to the performance conditions based on their stand-alone selling price and be recognised as control is transferred for the performance obligations. This will result in increased margins recognised during the OE phase of contracts through recognition of contract assets (i.e. unbilled receivables) on the balance sheet. However, revenue allocated to the performance obligations will only be recognised to the point it is probable that there will not be a significant reversal of revenue in the future.

> **Timing of recognition**
> Under IFRS 15, revenue should be recognised when control passes rather than the point of transfer for risks and rewards of ownership. This change will not affect the majority of the Group's sales; however, due to specific arrangements under risk and revenue sharing partnerships it will likely impact certain of those contracts. This change will move the recognition point earlier to despatch from GKN or acceptance at the customer rather than sale of the engine or aeroplane.

IFRS 9

The Group will adopt IFRS 9 'Financial Instruments' (IFRS 9) for the year ending 31 December 2018 which introduces changes to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. Conclusions from the impact assessment show that there will not be a material financial change following the adoption of IFRS 9.

The Group has net investment hedges in place as at 31 December 2017 which are not impacted by the adoption of IFRS 9, and the classification and measurement changes have an immaterial impact on the financial assets and liabilities held. From an impairment perspective, the Group continues to trade with large original equipment manufacturers (OEMs) around the world with stable credit ratings and a strong payment history, and as a result does not expect a material change when applying the expected credit loss model under IFRS 9.

IFRS 16

The Group will adopt IFRS 16 'Leases' (IFRS 16) for the year ending 31 December 2019 which removes the classification of leases as either operating or finance, and replaces it with one model for all leasing arrangements. Lessees will be required to recognise lease assets and lease liabilities on the balance sheet and show depreciation of assets and interest on liabilities separately within the income statement. IFRS 16 will require the Group to recognise the current operating lease portfolio on the balance sheet where relevant. The financial implications of this are currently being assessed and a further update will be provided when conclusions have been reached.

Significant judgements and key 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.

The judgements and estimates that have the most significant effect on the amounts included in the financial statements are described below.

Significant judgements

> Following the North American Balance Sheet Review, a judgement has been taken regarding the presentation and disclosure of the charges identified. No adjustment will be made to the 2016 financial statements. The total value of the adjustment related to prior periods is £22 million, which is not considered to be material and this has been discussed in more detail on page 26.

> The decision taken on which management measures will be included within the annual report and financial statements and the adjustments made to derive those management measures (note 1).

Key estimates

> Assumptions made in the value in use calculations in the AWD eDrive model comprising the pre-tax discount rates, cash flow projections and the long-term growth rates. Estimation was also used in relation to cash flow forecasts in certain Aerospace businesses specifically the reduction of the number of years used prior to the perpetuity calculation (note 11).

> Actuarial assumptions in relation to the defined benefit plans, in particular the discount rates, inflation rates and life expectancies (note 24).

The Group has considered that in the majority of cases the range of possible outcomes within provisions and the potential change from using alternative sources within derivatives and other financial instruments to be narrow, therefore no longer consider these as significant judgements and key estimates.

2 Segmental analysis

The Group's reportable segments in 2017 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 and automotive markets. Automotive is managed according to product groups; driveline and powder metallurgy. Reportable segments derive their sales from the manufacture of products and sale of service. Revenue from royalties is not significant.

(a) Sales

		Automotive		
	Aerospace £m	Driveline £m	Powder Metallurgy £m	Total £m
2017				
Subsidiaries	**3,556**	**4,652**	**1,174**	
Equity accounted investments	**82**	**656**	**–**	
	3,638	**5,308**	**1,174**	**10,120**
Other businesses				**289**
Management sales				**10,409**
Less: equity accounted investments sales				**(738)**
Income statement – sales				**9,671**
2016 – restated*				
Subsidiaries	3,352	4,109	1,032	
Equity accounted investments	71	505	–	
	3,423	4,614	1,032	9,069
Other businesses				345
Management sales				9,414
Less: equity accounted investments sales				(592)
Income statement – sales				8,822

Subsidiary sales comprise £9,016 million (2016: £8,281 million) from the manufacture of product and £655 million (2016: £541 million) from the sale of services.

*As previously announced, following disposal of its Stromag business on 30 December 2016 the Group changed its segments to remove Land Systems for reporting in 2017. The two businesses remaining in the Group that were part of Land Systems have been reported as follows: Wheels & Structures in Other Businesses, and Driveshafts and Aftermarket Services, now renamed Off-Highway Powertrain, in Driveline. For the purpose of comparative information in 2016, Stromag has been included in Other Businesses. There is no change to Aerospace or Powder Metallurgy segmental reporting.

(b) Trading profit

	Aerospace £m	Automotive Driveline £m	Automotive Powder Metallurgy £m	Total £m
2017				
Trading profit before depreciation and amortisation	**330**	**445**	**176**	
Depreciation of property, plant and equipment	**(92)**	**(151)**	**(49)**	
Amortisation of operating intangible assets	**(61)**	**(13)**	**(2)**	
Trading profit – subsidiaries	**177**	**281**	**125**	
Trading (loss)/profit – equity accounted investments	**(2)**	**96**	**–**	
	175	**377**	**125**	**677**
Other businesses				**16**
Corporate and unallocated costs				**(31)**
Management trading profit				**662**
Less: equity accounted investments trading profit				**(94)**
Income statement – trading profit				**568**

During the year, the Group has recorded net charges in the trading profit of Aerospace amounting to £119 million which are set out below.

The results of the overall North American Balance Sheet Review (£108 million) and the initial inventory and other asset write-downs at the Alabama plant (£15 million) total £123 million. This combined charge contains inventory write-downs of £79 million, charges for onerous contracts of £18 million, re-assessment of customer recoveries and claims of £19 million and corrections to fixed asset carrying values of £7 million.

Additionally, the Aerospace trading profit has absorbed the impact of costs of £28 million associated with performance-related claims arising from a risk and revenue sharing partnership within the Engine Systems business. In the year, credits amounting to £32 million arose from programme pricing adjustments; £19 million in the North American Aerostructures business and £13 million in the Engine Systems business.

As highlighted in our Trading Update in November 2017, the Driveline trading profit has borne estimated product warranty charges amounting to £10 million.

Professional fees associated with the North American Balance Sheet Review, £4 million, are charged in corporate and unallocated costs.

	Aerospace £m	Automotive Driveline £m	Automotive Powder Metallurgy £m	Total £m
2016 – restated*				
Trading profit before depreciation and amortisation	464	388	164	
Depreciation of property, plant and equipment	(78)	(128)	(44)	
Amortisation of operating intangible assets	(51)	(12)	(2)	
Trading profit – subsidiaries	335	248	118	
Trading profit – equity accounted investments	4	82	–	
	339	330	118	787
Other businesses				7
Corporate and unallocated costs				(21)
Management trading profit				773
Less: equity accounted investments trading profit				(89)
Income statement – trading profit				684

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 arose in: Aerospace £10 million, Driveline £22 million, Powder Metallurgy £3 million, Other Businesses £2 million and Corporate costs £2 million.

*Restated for the change noted in the segmental information, see note 2(a).

2 Segmental analysis continued

(c) Goodwill, fixed assets and working capital – subsidiaries only

		Automotive		
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	Total £m
2017				
Property, plant and equipment and operating intangible assets	**1,264**	**1,472**	**491**	**3,227**
Working capital	**275**	**93**	**123**	**491**
Net operating assets	**1,539**	**1,565**	**614**	
Goodwill and non-operating intangible assets	**689**	**278**	**48**	
Net investment	**2,228**	**1,843**	**662**	
2016 – restated*				
Property, plant and equipment and operating intangible assets	1,373	1,406	475	3,254
Working capital	319	68	131	518
Net operating assets	1,692	1,474	606	
Goodwill and non-operating intangible assets	868	309	39	
Net investment	2,560	1,783	645	

*Restated for the change noted in the segmental information, see note 2(a).

(d) Fixed asset additions, equity accounted investments and other non-cash items

		Automotive			
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	Other £m	Total £m
2017					
Fixed asset additions					
– property, plant and equipment	**126**	**245**	**74**	**17**	**462**
– intangible assets	**53**	**25**	**1**	**–**	**79**
Equity accounted investments	**21**	**224**	**–**	**4**	**249**
Other non-cash items					
– share-based payments	**1**	**1**	**1**	**1**	**4**
– impairment charges	**131**	**–**	**–**	**–**	**131**
– amortisation of non-operating intangible assets arising on business combinations	**85**	**13**	**2**	**–**	**100**
2016 – restated*					
Fixed asset additions					
– property, plant and equipment	126	214	63	15	418
– intangible assets	56	31	2	–	89
Equity accounted investments	21	208	–	4	233
Other non-cash items					
– share-based payments	1	1	1	2	5
– impairment charges	47	–	–	5	52
– amortisation of non-operating intangible assets arising on business combinations	81	13	–	9	103

*Restated for the change noted in the segmental information, see note 2(a).

(e) Country analysis

	UK £m	USA £m	Germany £m	Other countries £m	Total non-UK £m	Total £m
2017						
Management sales by origin	**1,076**	**3,015**	**1,036**	**5,282**	**9,333**	**10,409**
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	**429**	**1,011**	**371**	**2,786**	**4,168**	**4,597**
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

(f) Other sales information

Subsidiary segmental sales gross of inter segment sales are: GKN Aerospace £3,557 million (2016: £3,352 million), GKN Driveline* £4,684 million (2016: £4,140 million) and GKN Powder Metallurgy £1,180 million (2016: £1,036 million). Inter segment transactions take place on an arm's-length basis using normal terms of business.

In 2017 and 2016, no customer accounted for 10% or more of subsidiary sales or management sales.

Management sales by product line are: GKN Aerospace – aerostructures 49% (2016: 50%), engine components and sub-systems 37% (2016: 36%), wiring and special products 9% (2016: 9%) and services 5% (2016: 5%). GKN Driveline* – CVJ systems 60% (2016: 56%), all-wheel drive and eDrive systems 32% (2016: 35%) and other goods 8% (2016: 9%). GKN Powder Metallurgy – sintered components 83% (2016: 85%) and metal powders 17% (2016: 15%).

*Restated for the change noted in the segmental information, see note 2(a).

(g) Reconciliation of segmental property, plant and equipment and operating intangible assets to the balance sheet

	2017 £m	2016 restated* £m
Segmental analysis – property, plant and equipment and operating intangible assets	**3,227**	3,254
Segmental analysis – goodwill and non-operating intangible assets	**1,015**	1,216
Goodwill	**(492)**	(588)
Other businesses	**98**	99
Corporate assets	**8**	9
Balance sheet – property, plant and equipment and other intangible assets	**3,856**	3,990

*Restated for the change noted in the segmental information, see note 2(a).

(h) Reconciliation of segmental working capital to the balance sheet

	2017 £m	2016 restated* £m
Segmental analysis – working capital	**491**	518
Other businesses	**15**	13
Corporate items	**(16)**	(22)
Accrued interest	**(31)**	(25)
Restructuring provisions	**(3)**	(10)
Equity accounted investment funding	**(8)**	(10)
Deferred and contingent consideration	**(4)**	(6)
Government refundable advances	**(84)**	(96)
Balance sheet – inventories, trade and other receivables, trade and other payables and provisions	**360**	362

*Restated for the change noted in the segmental information, see note 2(a).

3 Adjusted performance measures

(a) Reconciliation of reported and management performance measures

	2017			
	As reported £m	**Equity accounted investments £m**	**Adjusting and non-trading items £m**	**Management basis £m**
Sales	**9,671**	**738**	**–**	**10,409**
Trading profit	**568**	**94**	**–**	**662**
Change in value of derivative and other financial instruments	**364**	**–**	**(364)**	**–**
Amortisation of non-operating intangible assets arising on business combinations	**(100)**	**–**	**100**	**–**
Gains and losses on changes in Group structure	**(2)**	**–**	**2**	**–**
Acquisition-related restructuring charges	**–**	**–**	**–**	**–**
Impairment charges	**(131)**	**–**	**131**	**–**
Operating profit	**699**	**94**	**(131)**	**662**
Share of post-tax earnings of equity accounted investments	**80**	**(94)**	**–**	**(14)**
Interest payable	**(86)**	**–**	**–**	**(86)**
Interest receivable	**10**	**–**	**–**	**10**
Other net financing charges	**(45)**	**–**	**45**	**–**
Net financing costs	**(121)**	**–**	**45**	**(76)**
Profit before taxation	**658**	**–**	**(86)**	**572**
Taxation	**(149)**	**–**	**39**	**(110)**
Profit after tax for the year	**509**	**–**	**(47)**	**462**
Profit attributable to non-controlling interests	**(6)**	**–**	**–**	**(6)**
Profit attributable to owners of the parent	**503**	**–**	**(47)**	**456**
Earnings per share – pence	**29.3**	**–**	**(2.7)**	**26.6**
	2016			
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

Basic and management earnings per share use a weighted average number of shares of 1,714.7 million (2016: 1,712.1 million). Also see note 7.

(b) Summary of management performance measures by segment

	2017			2016 – restated*		
	Sales £m	**Trading profit £m**	**Margin**	Sales £m	Trading profit £m	Margin
GKN Aerospace	**3,638**	**175**	**4.8%**	3,423	339	9.9%
GKN Driveline	**5,308**	**377**	**7.1%**	4,614	330	7.2%
GKN Powder Metallurgy	**1,174**	**125**	**10.6%**	1,032	118	11.4%
Other businesses	**289**	**16**		345	7	
Corporate and unallocated costs	**–**	**(31)**		–	(21)	
	10,409	**662**	**6.4%**	9,414	773	8.2%

*Restated for the change noted in the segmental information, see note 2.

4 Operating profit

The analysis of the additional components of operating profit is shown below:

(a) Trading profit

	2017 £m	2016 £m
Sales by subsidiaries	**9,671**	8,822
Operating costs		
Change in stocks of finished goods and work in progress	**33**	68
Raw materials and consumables	**(4,398)**	(3,850)
Inventories recognised as an expense	**(4,365)**	(3,782)
Staff costs (note 9)	**(2,457)**	(2,309)
Redundancy and other employee-related amounts	**(1)**	(43)
Depreciation of property, plant and equipment	**(302)**	(263)
Amortisation of operating intangible assets	**(78)**	(67)
Operating lease rentals payable	**(75)**	(68)
Impairment of trade receivables	**(6)**	(5)
Amortisation of government capital grants	**2**	2
Net exchange differences on foreign currency transactions	**(50)**	(25)
Other costs	**(1,771)**	(1,578)
	(9,103)	(8,138)
Trading profit	**568**	684

(i) EBITDA is subsidiary trading profit before depreciation and amortisation charges included in trading profit. EBITDA was £948 million (2016: £1,014 million).
(ii) Research and development expenditure in subsidiaries was £201 million (2016: £186 million), net of customer and grant funding of £61 million (2016: £59 million).

4 Operating profit continued

(a) Trading profit continued

Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	2017 £m	2016 £m
Fees payable to the Group's auditors for the audit of the parent company	**(0.4)**	(0.4)
Fees payable to the Group's auditors and their associates for other services to the Group:		
– Audit of the financial statements of subsidiaries	**(6.9)**	(4.5)
Total audit fees payable to the Group's auditors	**(7.3)**	(4.9)
– Audit-related assurance services	**(0.8)**	(0.2)
Total fees for other services	**(0.8)**	(0.2)
Total fees payable to the Group's auditors and their associates	**(8.1)**	(5.1)

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.

(b) Change in value of derivative and other financial instruments

	2017 £m	2016 £m
Forward currency contracts (not hedge accounted)	**364**	(135)
Embedded derivatives	**(6)**	4
	358	(131)
Net gains and losses on intra-group funding		
Arising in year	**6**	(23)
	364	(154)

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

	2017 £m	2016 £m
Marketing-related	**(3)**	(4)
Customer-related	**(71)**	(67)
Technology-based	**(26)**	(32)
	(100)	(103)

(d) Gains and losses on changes in Group structure

	2017 £m	2016 £m
Business disposed	**2**	9
Business closures	**(4)**	(18)
	(2)	(9)

On 29 December 2017, the Group sold its GKN Applied Composites AB business for a cash consideration of £7 million before professional fees. The profit on sale of £3 million comprises profit on disposal of net assets including £2 million cash, with no impact from reclassification of previous currency variations from other reserves.

On 14 August 2017, the Group sold its GKN Aerospace Bandy Machining, Inc. business for a cash consideration of £1 million before professional fees. The loss on sale of £1 million comprises £5 million loss on disposal of net assets and £3 million gain from reclassification of previous currency from other reserves.

On 30 December 2016, the Group sold its Stromag business (part of the 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 (£1 million). 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 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 has resulted in a further charge in 2017 of £4 million comprising: transition costs of £2 million and other associated costs of £2 million. In 2016, a reorganisation charge of £12 million was recorded, 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. Cash flows in 2017 amounted to £7 million. There was a further decision in 2016 to curtail operations of a Driveline business with an associated reorganisation charge of £6 million comprising redundancy of £4 million and impairment of goodwill of £2 million. Redundancy cash flows in 2017 amounted to £4 million.

(e) Acquisition-related restructuring charges

	2017 £m	2016 £m
Redundancy and other employee-related amounts	**–**	(27)
Integration and other expenses	**–**	(4)
Restructuring charges	**–**	(31)

In 2016, restructuring charges, separately identified, relate to the acquisition of Fokker Technologies Group B.V. business within Aerospace in 2015. The cash flows related to this totalled £13 million in 2017.

(f) Impairment charges

	2017 £m	2016 £m
Goodwill (note 11a)	**(72)**	(38)
Other intangible assets (note 11b)	**(2)**	–
Property, plant and equipment (note 12)	**(57)**	(14)
	(131)	(52)

5 Net financing costs

	2017 £m	2016 £m
(a) Interest payable and fee expense		
Short-term bank and other borrowings	**(13)**	(12)
Interest on debt repayable within five years	**(61)**	(41)
Interest on debt repayable after five years	**(6)**	(27)
Government refundable advances	**(6)**	(6)
	(86)	(86)
Interest receivable		
Short-term investments, loans and deposits	**4**	7
Tax case interest recoveries (see note 6)	**6**	–
	10	7
Net interest payable and receivable	**(76)**	(79)

Short-term bank and other borrowings includes a finance cost of £7 million (2016: £5 million) for factoring and customer supply chain finance programmes detailed in note 19(g).

	2017 £m	2016 £m
(b) Other net financing charges		
Interest charge on net defined benefit plans	**(47)**	(53)
Fair value changes on cross currency interest rate swaps	**4**	18
Unwind of discounts	**(2)**	(2)
	(45)	(37)

6 Taxation

(a) Tax expense

Analysis of charge in year	2017 £m	2016 £m
Current tax (charge)/credit		
Current year charge	**(113)**	(67)
Utilisation of previously unrecognised tax losses and other assets	**–**	1
Net movement on provisions for uncertain tax positions	**30**	9
Adjustments in respect of prior years	**–**	9
	(83)	(48)
Deferred tax (charge)/credit		
Origination and reversal of temporary differences	**52**	–
Tax on change in value of derivative financial instruments	**(79)**	14
Other changes in unrecognised deferred tax assets	**(51)**	(3)
Adjustments in respect of prior years	**12**	(11)
	(66)	–
Total tax charge for the year	**(149)**	(48)

Analysed as:

	2017 £m	2016 £m
Tax in respect of management profit		
Current tax	**(72)**	(40)
Deferred tax	**(38)**	(104)
	(110)	(144)
Tax in respect of items excluded from management profit		
Current tax	**(11)**	(8)
Deferred tax	**(28)**	104
	(39)	96
Total for tax charge for the year	**(149)**	(48)

Book tax rate

The net movement on provisions for uncertain tax positions of £30 million principally follows successful resolution of disputes in Italy and a release of the provision created in 2015 against the use of previously unrecognised tax losses, partially offset by an increase in provisions for issues currently being audited by the tax authorities.

Management tax rate

The tax charge arising on management profit before tax less the share of post tax earnings of EAI of £492 million (2016: £605 million) was £110 million (2016: £144 million) giving an effective tax rate of 22% (2016: 24%).

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 of £121 million 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.

	2017		2016	
Tax reconciliation	£m	%	£m	%
Profit before taxation	**658**		292	
Less share of post-tax earnings of equity accounted investments	**(80)**		(73)	
Profit before taxation excluding equity accounted investments	**578**		219	
Tax charge calculated at 19.25% (2016: 20%) standard UK corporate tax rate	**(111)**	**(19)**	(44)	(20)
Differences between UK and overseas corporate tax rates	**(16)**	**(3)**	(30)	(13)
Non-deductible and non-taxable items	**(16)**	**(3)**	36	16
Recognition of previously unrecognised tax losses	**–**	**–**	–	–
Utilisation of previously unrecognised tax losses and other assets	**1**	**–**	1	–
Changes in tax rates	**6**	**1**	(17)	(8)
Other changes in deferred tax assets	**(55)**	**(9)**	(1)	–
Tax charge before prior year and adjustment and movement in uncertain tax positions	**(191)**	**(33)**	(55)	(25)
Net movement on provision for uncertain tax positions	**30**	**5**	9	4
Adjustments in respect of prior years	**12**	**2**	(2)	(1)
Total tax charge for the year	**(149)**	**(26)**	(48)	(22)

6 **Taxation** continued

Judgements and estimates continued

Non-deductible and non-taxable items include foreign exchange movements that are not deductible (£14 million charge), impairment of assets which are not deductible for tax purposes (£33 million), partially offset by the benefit of tax incentives in a number of jurisdictions (£25 million). Other changes in deferred tax assets relate to an increase in unrecognised tax losses where it is not considered probable the losses will expire before they are utilised. The rate change primarily relates to the change of rate in the US discussed below.

(b) Tax included in other comprehensive income

Analysis of (charge)/credit in year	**2017 £m**	2016 £m
Deferred tax on post-employment obligations	**(89)**	60
Deferred tax on hedged foreign currency gains and losses	**(12)**	39
Deferred tax on other foreign currency gains and losses on intra-group funding	**–**	(3)
Current tax on post-employment obligations	**25**	3
Current tax on foreign currency gains and losses on intra-group funding	**15**	(50)
	(61)	49

(c) Current tax

	2017 £m	2016 £m
Assets	**68**	7
Liabilities	**(132)**	(142)
	(64)	(135)

(d) Recognised deferred tax

	2017 £m	2016 £m
Assets	**374**	557
Liabilities	**(184)**	(227)
	190	330

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 2017	**325**	**177**	**229**	**(391)**	**(10)**	**330**
Businesses disposed	**–**	**–**	**–**	**–**	**–**	**–**
Included in the income statement	**1**	**(60)**	**(75)**	**63**	**5**	**(66)**
Included in other comprehensive income	**(89)**	**–**	**(12)**	**–**	**–**	**(101)**
Currency variations	**3**	**7**	**(6)**	**23**	**–**	**27**
At 31 December 2017	**240**	**124**	**136**	**(305)**	**(5)**	**190**
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

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 £46 million relating to derivatives (2016: £139 million).

(e) Unrecognised deferred tax assets

Deferred tax assets that have not been recognised are shown below.

	2017			2016		
	Tax value £m	**Gross £m**	**Expiry period**	Tax value £m	Gross £m	Expiry period
Tax losses – with expiry: national	**146**	**584**	**2018-2027**	120	474	2017-2026
Tax losses – with expiry: local	**10**	**341**	**2018-2037**	8	277	2017-2036
Tax losses – without expiry	**53**	**262**		50	258	
Total tax losses	**209**	**1,187**		178	1,009	
Other temporary differences	**7**	**28**		15	46	
Unrecognised deferred tax assets	**216**	**1,215**		193	1,055	

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 £49 million (2016: £41 million) would be payable.

(f) Changes in UK tax rate

The effective tax rate for the year was 19.25% following a reduction to the rate on 1 April 2017. A further reduction to 17% from 1 April 2020 has been substantively enacted. UK temporary differences are measured at the rate at which they are expected to reverse.

New legislation became effective in April 2017 which will restrict the use of brought forward losses in the UK. This legislation was substantively enacted on 16 November 2017. 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) Changes in US tax rate

On 22 December 2017, US tax legislation (Tax Cuts and Jobs Act) was passed into law and was therefore substantively enacted for IFRS purposes. The law is wide ranging and includes a number of significant changes. The immediate impact for the Group is the reduction in the main rate of corporate tax from 35% to 21% with effect from 1 January 2018. This has resulted in a reduction in the overall deferred tax assets and liabilities in the US, resulting in a charge to other comprehensive income in respect of pension-related deferred tax assets and derivative financial instruments and a credit to income statement in relation to other deferred tax liabilities.

(h) 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 have 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 2017, the Group agreed a settlement of £4 million with HMRC, which resulted in a gross interest receipt of £4 million and £2 million of restitutional and other charges.

7 Earnings per share

	2017			2016		
	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	**503**	**1,714.7**	**29.3**	242	1,712.1	14.1
Dilutive securities	**–**	**13.5**	**(0.2)**	–	13.9	(0.1)
Diluted	**503**	**1,728.2**	**29.1**	242	1,726.0	14.0

Management basis earnings per share of 26.6p (2016: 31.0p) is presented in note 3 and uses the weighted average number of shares consistent with basic earnings per share calculations. The diluted management basis earnings per share is 26.4p (2016: 30.7p).

8 Dividends

	Paid or proposed in respect of		Recognised		
	2017 pence	2016 pence	2018 £m	**2017 £m**	2016 £m
2015 final dividend paid	**–**	–	–	**–**	99
2016 interim dividend paid	**–**	2.95	–	**–**	51
2016 final dividend paid	**–**	5.9	–	**101**	–
2017 interim dividend paid	**3.1**	–	–	**53**	–
2017 final dividend proposed	**6.2**	–	106	**–**	–
	9.3	8.85	106	**154**	150

The 2017 final proposed dividend will be paid on 14 May 2018 to shareholders who are on the register of members at close of business on 6 April 2018.

9 Employees including Directors

Employee benefit expense	**2017 £m**	2016 £m
Wages and salaries	**(1,961)**	(1,849)
Social security costs	**(370)**	(350)
Post-employment costs	**(122)**	(105)
Share-based payments	**(4)**	(5)
	(2,457)	(2,309)

Redundancy costs are not included in the above table, see note 4(a) for further details.

Average monthly number of subsidiary employees (including Executive Directors)	**2017 Number**	2016 restated* Number
By business		
GKN Aerospace	**16,230**	16,729
GKN Driveline	**25,346**	24,183
GKN Powder Metallurgy	**7,121**	6,739
Other businesses	**2,717**	3,510
Corporate	**232**	220
Total	**51,646**	51,381

*Restated for the change noted in the segmental information, see note 2.

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	**2017 £m**	2016 £m
Salaries and short-term employee benefits	**5.9**	7.7
Post-employment benefits	**1.0**	1.1
Termination benefits	**1.1**	–
Share-based and medium-term incentives and benefits	**0.2**	0.6
	8.2	9.4

The amount outstanding at 31 December 2017 in respect of annual short-term variable remuneration payable in cash was £0.5 million (2016: £2.2 million). Key management participates 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 29.4p (2016: 33.8p). A total of £276,705 in dividends was received by key management in 2017 (2016: £250,493).

10 Share-based payments

The total charge for the year relating to share-based payment plans was £4 million (2016: £5 million) all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £4 million (2016: £5 million). The current year's charge relates to amounts in respect of the Share Incentive and Retention Plan established in 2015 and awards made in 2017 under the Sustainable Earnings Plan and 2017 Sharesave Plan.

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 2017 accounting charge relate to the Sustainable Earnings Plan (SEP):

Sustainable Earnings Plan (SEP)

Awards were made to Directors and certain senior employees in August 2012, March 2013, March 2014, March 2015, March 2016 and March 2017. Awards granted up to 2016 comprised Core and Sustainability Awards subject to performance targets. Core Awards are 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. Awards granted in 2017 comprise a single award subject to a three-year performance period and any vested shares for Directors are subject to a two-year holding period prior to release. There is no provision for retesting performance for any SEP 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 Awards) granted during the year are set out below:

	Shares granted during year	Weighted average fair value at measurement date
2017 SEP awards	7,690,011	£3.51

The fair value of shares awarded under the SEP is calculated as the share price on the grant date.

Sharesave Plan (Sharesave)

All UK resident employees (including Directors) were invited to join the Sharesave. The first awards were granted in August 2017 with an option price of 257.79p per share being the average share price for the three days immediately before the date of grant. Participants can save between £10 and £250 per month for three years and have the option to buy GKN shares at the end of that period at the option price. Sharesave awards are not subject to any performance conditions.

	Shares granted during year	Weighted average fair value at measurement date
2017 Sharesave awards	6,933,410	£0.81

10 Share-based payments continued

Executive Share Option Scheme (ESOS)

The only outstanding share options are under the ESOS and movements over the year to 31 December 2017 are shown below:

	2017		2016	
	Number 000s	Weighted average exercise price pence	Number 000s	Weighted average exercise price pence
Outstanding at 1 January	**1,987**	**140.63**	2,419	140.99
Forfeited	**–**	**–**	(10)	134.60
Exercised	**(379)**	**132.74**	(422)	142.84
Outstanding at 31 December	**1,608**	**142.48**	1,987	140.63
Exercisable at 31 December	**1,608**	**142.48**	1,987	140.63

For options outstanding at 31 December, the range of exercise prices and weighted average contractual life is shown in the following table:

	2017		2016	
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	**1,259**	**2.11**	1,588	3.08
195p to 220p	**349**	**3.25**	399	4.25

The weighted average share price during the year for options exercised over the year was 336.8p (2016: 295.1p).

Liabilities in respect of share-based payments were not material at either 31 December 2017 or 31 December 2016. There were no vested rights to cash or other assets at either 31 December 2017 or 31 December 2016.

11 Goodwill and other intangible assets

(a) Goodwill

	2017 £m	2016 £m
Cost		
At 1 January	**924**	840
Businesses acquired	**5**	4
Businesses disposed	**(1)**	(74)
Currency variations	**(52)**	154
At 31 December	**876**	924
Accumulated impairment		
At 1 January	**336**	249
Charge for the year	**72**	40
Currency variations	**(24)**	47
At 31 December	**384**	336
Net book amount at 31 December	**492**	588

The carrying value of goodwill at 31 December comprised:

Reportable segment	Business		2017 £m	2016 £m
GKN Aerospace	Aerostructures	North America	**37**	41
	Engine Systems	North America and Europe	**45**	50
	Engine Products – West	North America	**–**	79
	Fokker	Europe	**126**	121
GKN Driveline	Driveline – CVJ	Global	**73**	78
	Driveline – AWD eDrive	Global	**123**	130
GKN Powder Metallurgy	Hoeganaes	North America	**26**	28
			430	527
Other businesses not individually significant to the carrying value of goodwill			**62**	61
			492	588

During 2017, a decision was taken to amend the cash generating unit (CGU) structure within Driveline from being considered on a regional basis to product streams. This reflects the change in management structure following reorganisation within the division in 2016. Following testing on both bases, no impairment was required.

Impairment charges of £72 million (2016: £38 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. In 2016, a further £2 million impairment charge was recorded following the decision to curtail operations of a business in GKN Driveline, which was recorded as an adjusting and therefore non-trading item within the line 'gains and losses on changes in group structure', see note 4(d) for further details.

11 Goodwill and other intangible assets continued

(b) Other intangible assets

	2017						
				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 2017	**685**	**201**	**127**	**72**	**729**	**335**	**2,149**
Businesses acquired	**–**	**–**	**–**	**1**	**8**	**–**	**9**
Additions	**67**	**4**	**8**	**–**	**–**	**–**	**79**
Disposals	**(31)**	**–**	**(5)**	**–**	**–**	**–**	**(36)**
Currency variations	**(21)**	**(17)**	**(3)**	**2**	**(26)**	**(22)**	**(87)**
At 31 December 2017	**700**	**188**	**127**	**75**	**711**	**313**	**2,114**
Accumulated amortisation							
At 1 January 2017	**180**	**44**	**102**	**12**	**370**	**121**	**829**
Charge for the year							
Charged to trading profit	**58**	**10**	**10**	**–**	**–**	**–**	**78**
Non-operating intangible assets	**–**	**–**	**–**	**3**	**71**	**26**	**100**
Impairment	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Disposals	**(28)**	**–**	**(5)**	**–**	**–**	**–**	**(33)**
Currency variations	**(3)**	**(4)**	**(4)**	**–**	**(22)**	**(8)**	**(41)**
At 31 December 2017	**207**	**52**	**103**	**15**	**419**	**139**	**935**
Net book amount at 31 December 2017	**493**	**136**	**24**	**60**	**292**	**174**	**1,179**
	2016						
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

Impairment charges of £2 million have been recorded in the Income Statement as an adjusting and therefore non-trading item within the line 'impairment charges' see note 11(c) for details.

Development costs of £135 million (2016: £148 million), £10 million (2016: £12 million) and £10 million (2016: £12 million) in respect of three aerospace programmes are being amortised on a units of production basis. There are other intangible assets of £253 million (2016: £296 million) in respect of four programmes with a remaining amortisation period of up to 20 years (2016: 21 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 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 £131 million (2016: £52 million) has been recorded in the Income Statement as an adjusting and therefore non-trading item within the line 'impairment charges' in respect of seven CGUs all within the Aerospace division.

CGU	Impairment charge	Rationale	Remaining recoverable amount	Pre-tax discount rate	Sensitivity
Engine Products – West, North America	£88 million – Goodwill (£72 million) – Property, plant and equipment (£14 million) – Intangible assets (£2 million)	Performance in the year behind previously agreed forecasts	£32 million	10% (2016: 13%)	Most sensitive to a 5% reduction in operating cash flows, which would have increased the impairment charge by £3 million
St. Louis, North America	£24 million – Property, plant and equipment (£24 million)	Loss of key business in the year and lower than expected margins on certain contracts	£7 million	10% (2016: 13%)	Most sensitive to a 5% reduction in operating cash flows, which would have increased the impairment charge by £4 million
Cincinnati, North America	£5 million – Property, plant and equipment (£5 million)	Conclusion of key programmes in 2017 and 2018, which have not been replaced, coinciding with operational issues	£0 million	10% (2016: 13%)	–
Astech, North America	£9 million – Property, plant and equipment (£9 million)	Loss of key business in the year and operational issues	£0 million	10% (2016: 13%)	–

There were further impairment charges in three other Aerospace businesses totalling £5 million, comprising only property, plant and equipment.

Significant judgements, assumptions and estimates

All CGUs' recoverable amounts were measured using value in use. Detailed forecasts for the next five years in Automotive CGUs, and ten years in the majority of Aerospace CGUs have been used which are based on approved annual budgets and strategic projections representing the best estimate of future performance. During the year, the number of years used in detailed forecasts when projecting operating cash flows in two Aerospace businesses was reduced to five. The reduction to five years from ten years reflected change in programme mix which reduced the Group's ability to forecast accurately beyond five years. The impact of not changing this judgement would have reduced the impairment charge by £28 million, due to the removal of cash flows which management is forecasting to be in excess of the long-term growth rate in the period 2023-2027. Operating cash flow projections covering the next ten years continue to be used in the majority of Aerospace CGUs as they incorporate the anticipated timing of volumes on current programmes. Management considers forecasting over varying periods more appropriately reflect the length of business cycle of those CGUs' programmes.

Key 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 assumption within forecast operating cash flow is operating profit which comprises 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 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 maintenance.

11 Goodwill and other intangible assets continued

(c) Impairment testing continued

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.

Aerospace: UK 9% (2016: 9%), Europe 9% (2016: 9%) and North America 10% (2016: 13%).

Driveline: North and South America 12%-24% (2016: 16%-26%), Europe 9%-13% (2016: 10%-13%) and Japan and Asia Pacific region countries 10%-21% (2016: 12%-21%). In 2017, the rate used in CVJ was 14% and in AWD eDrive 12%.

Powder Metallurgy: Europe 11% (2016: 11%), North America 12% (2016: 16%) and South America 24% (2016: 26%).

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:

Aerospace: UK 3% (2016: 3%), Europe 3% (2016: 3%) and North America 3% (2016: 3%).

Driveline: North and South America 3%-5% (2016: 3%-5%), Europe 2%-4% (2016: 2%-4%) and Japan and Asia Pacific region countries 2%-9% (2016: 2%-9%). In 2017, the rate used in CVJ was 4% and in AWD eDrive 3%.

Powder Metallurgy: Europe 3% (2016: 3%) and North America 3% (2016: 3%).

Sensitivity of results to changes in estimations

The impairment review performed showed significant headroom on CGUs that were not impaired, therefore it is not considered that any reasonably possible changes would have generated an impairment charge. However, the CGU listed below has the potential to be impacted by reasonably possible changes in key assumptions which, when changed in isolation, would eliminate headroom in the model and when changed in combination could result in a material impairment within the next year. Sensitivity analysis has been undertaken to determine the movement required on these key assumptions which would lead to an impairment charge.

		Growth in operating profit^		Discount rates		Long-term growth rates	
CGU	Headroom	Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
Driveline – AWD eDrive	£227m	15%	6%	11.6%	14.9%	3.0%	(1.9)%

^This represents the compound annual growth rate between 2018 and 2022. Operating profit in 2018 assumes one-off items and launch costs incurred in 2017 do not reoccur.

12 Property, plant and equipment

	2017				
	Land and buildings £m	**Plant and machinery £m**	**Other tangible assets £m**	**Capital work in progress £m**	**Total £m**
Cost					
At 1 January 2017	**993**	**5,110**	**184**	**307**	**6,594**
Businesses acquired	**2**	**5**	**–**	**–**	**7**
Additions	**22**	**186**	**7**	**247**	**462**
Disposals	**(2)**	**(77)**	**(5)**	**–**	**(84)**
Businesses disposed	**(1)**	**(8)**	**–**	**–**	**(9)**
Transfers	**4**	**212**	**7**	**(223)**	**–**
Currency variations	**(32)**	**(161)**	**(7)**	**(12)**	**(212)**
At 31 December 2017	**986**	**5,267**	**186**	**319**	**6,758**
Accumulated depreciation and impairment					
At 1 January 2017	**356**	**3,434**	**134**	**–**	**3,924**
Charge for the year					
Depreciation charged to trading profit	**31**	**260**	**11**	**–**	**302**
Impairment charges	**12**	**44**	**1**	**–**	**57**
Disposals	**(1)**	**(76)**	**(3)**	**–**	**(80)**
Businesses disposed	**(1)**	**(7)**	**(1)**	**–**	**(9)**
Currency variations	**(14)**	**(94)**	**(5)**	**–**	**(113)**
At 31 December 2017	**383**	**3,561**	**137**	**–**	**4,081**
Net book amount at 31 December 2017	**603**	**1,706**	**49**	**319**	**2,677**

	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					
Depreciation charged to trading profit	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

12 Property, plant and equipment continued

Included within other tangible assets at net book amount are fixtures, fittings and computers £46 million (2016: £47 million) and commercial vehicles and cars £3 million (2016: £3 million). The net book amount of assets under finance leases is £4 million (2016: £3 million) comprising £3 million related to land and buildings and £1 million related to plant and machinery.

Impairment charges of £57 million (2016: £18 million) have been recorded in the Income Statement as an adjusting and therefore non-trading item within the line 'impairment charges' see note 11(c) for further details.

13 Equity accounted investments

Group share of results

	2017 £m	2016 £m
Sales	**738**	592
Operating costs	**(644)**	(503)
Trading profit	**94**	89
Net financing costs	**2**	(1)
Profit before taxation	**96**	88
Taxation	**(16)**	(15)
Share of post-tax earnings	**80**	73

Group share of net book amount

	2017 £m	2016 £m
At 1 January	**233**	195
Share of post-tax earnings	**80**	73
Dividends paid to the Group	**(60)**	(57)
Currency variations	**(4)**	22
At 31 December	**249**	233

	2017 £m	2016 £m
Non-current assets	**166**	171
Current assets	**376**	326
Current liabilities	**(283)**	(259)
Non-current liabilities	**(10)**	(5)
	249	233

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 Driveline, Shanghai GKN HUAYU Driveline Systems Co Limited (SDS), with 100% of sales of £1,159 million (2016: £870 million), trading profit of £181 million (2016: £153 million), an interest charge of £1 million (2016: £1 million) and a tax charge of £29 million (2016: £26 million) leaving retained profit of £153 million (2016: £126 million). Net assets of £348 million (2016: £341 million) comprise non-current assets of £224 million (2016: £236 million), current assets of £445 million (2016: £384 million), current liabilities of £321 million (2016: £279 million) and non-current liabilities of nil (2016: nil). During 2017, SDS paid a dividend to the Group of £59 million (2016: £54 million). Further information about SDS can be found in note 5 to the GKN plc company financial statements.

14 Other receivables and investments

	2017 £m	2016 £m
Investments	**8**	7
Amounts recoverable under employee benefit plans and indirect taxes	**16**	18
Other receivables	**129**	24
	153	49

In 2016, the Group acquired a 19.8% share in Nanjing FAYN Piston Ring Co. Ltd., a business based in China, for £5 million.

15 Inventories

	2017 £m	2016 £m
Raw materials	**538**	535
Work in progress	**523**	566
Finished goods	**370**	330
	1,431	1,431

Inventories of £149 million (2016: £58 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 £79 million (2016: £2 million).

16 Trade and other receivables

	2017 £m	2016 £m
Trade receivables	**1,399**	1,360
Amounts owed by equity accounted investments	**18**	11
Other receivables	**232**	187
Prepayments	**47**	36
Indirect taxes recoverable	**52**	54
	1,748	1,648
Provisions for doubtful debts against trade receivables		
At 1 January	**(11)**	(11)
Charge for the year		
Additions	**(6)**	(5)
Unused amounts reversed	**4**	5
Amounts used	**1**	2
Currency variations	**–**	(2)
At 31 December	**(12)**	(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	**78**	80
31 to 60 days overdue	**26**	16
61 to 90 days overdue	**7**	7
More than 90 days overdue	**24**	19

There is no provision against other receivable categories.

17 Trade and other payables

	2017		2016	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Amounts owed to suppliers and customers	**(1,755)**	**(105)**	(1,586)	(38)
Amounts owed to equity accounted investments	**(11)**	**–**	(13)	–
Accrued interest	**(31)**	**–**	(25)	–
Government refundable advances	**(11)**	**(73)**	(13)	(83)
Deferred and contingent consideration	**(4)**	**–**	(6)	–
Payroll taxes, indirect taxes and audit fees	**(120)**	**–**	(113)	–
Amounts due to employees and employee benefit plans	**(236)**	**(47)**	(274)	(57)
Government grants	**(4)**	**(12)**	(2)	(14)
Customer advances and deferred income	**(161)**	**(248)**	(154)	(235)
	(2,333)	**(485)**	(2,186)	(427)

Non-current amounts owed to suppliers and customers fall due within two years. Government refundable advances are forecast to fall due for repayment between 2018 and 2055. The movement in government refundable advances is attributable to principal repayments (£8 million), interest payments (£6 million), currency impact (£4 million) and increased by interest charges (£6 million).

During 2017, £2 million of deferred and contingent consideration was paid in relation to milestone payments following the acquisition of Sheets Manufacturing Inc during 2015 (£1 million) and Hoeganaes Bazhou in 2016 (£1 million).

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 £52 million (2016: £76 million), two to five years £90 million (2016: £83 million) and over five years £106 million (2016: £76 million).

18 Net borrowings

(a) Analysis of net borrowings

	Notes	Current Within one year £m	Non-current One to two years £m	Non-current Two to five years £m	Non-current More than five years £m	Non-current Total £m	Total £m
2017							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	i	**–**	**–**	**(447)**	**–**	**(447)**	**(447)**
£350 million 6¾% 2019 unsecured bond	i	**–**	**(349)**	**–**	**–**	**(349)**	**(349)**
£300 million 3⅜% 2032 unsecured bond	i	**–**	**–**	**–**	**(296)**	**(296)**	**(296)**
Unsecured committed bank borrowings							
European Investment Bank	i	**(16)**	**(16)**	**–**	**–**	**(16)**	**(32)**
2019 Committed Revolving Credit Facility		**–**	**–**	**–**	**–**	**–**	**–**
Other (net of unamortised issue costs)		**(2)**	**(2)**	**(6)**	**(2)**	**(10)**	**(12)**
Finance lease obligations	iii	**(1)**	**(1)**	**(3)**	**(4)**	**(8)**	**(9)**
Bank overdrafts		**(9)**	**–**	**–**	**–**	**–**	**(9)**
Other short-term bank borrowings		**(10)**	**–**	**–**	**–**	**–**	**(10)**
Borrowings		**(38)**	**(368)**	**(456)**	**(302)**	**(1,126)**	**(1,164)**
Bank balances and cash		**257**	**–**	**–**	**–**	**–**	**257**
Short-term bank deposits	ii	**164**	**–**	**–**	**–**	**–**	**164**
Cash and cash equivalents	iv	**421**	**–**	**–**	**–**	**–**	**421**
Other financial assets – bank deposits		**5**	**–**	**–**	**–**	**–**	**5**
Net borrowings (excluding cross currency interest rate swaps)		**388**	**(368)**	**(456)**	**(302)**	**(1,126)**	**(738)**
Cross currency interest rate swaps		**–**	**(76)**	**(75)**	**–**	**(151)**	**(151)**
Net debt		**388**	**(444)**	**(531)**	**(302)**	**(1,277)**	**(889)**
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)

18 Net borrowings continued

(a) Analysis of net borrowings continued

Unsecured capital market borrowings include: an unsecured £350 million (2016: £350 million) 6¾% bond maturing in 2019 less unamortised issue costs of £1 million (2016: £1 million) and an unsecured £450 million (2016: £450 million) 5⅜% bond maturing in 2022 less unamortised issue costs of £3 million (2016: £4 million) and a new unsecured £300 million 3⅜% bond maturing in 2032 less unamortised issue costs of £4 million.

Unsecured committed bank borrowings include £32 million (2016: £48 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 £12 million (2016: £15 million) drawn against a KfW amortising unsecured facility which attracts a fixed interest rate of 1.65%. On 22 June 2017, the Group repaid the third of five annual instalments of £16 million on the EIB facility. There were no drawings (2016: nil) at the year end against the Group's 2019 Committed Revolving Credit Facilities of £800 million (2016: £800 million). Unamortised issue costs on the 2019 Committed Revolving Credit Facilities were £2 million (2016: £3 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% (2016: 0.2%). Deposits at both 31 December 2017 and 31 December 2016 had a maturity date of less than one month.

(iii) Finance lease obligations gross of finance charges fall due as follows: £2 million within one year (2016: £1 million), £6 million in one to five years (2016: £1 million) and £7 million in more than five years (2016: £5 million).

(iv) £10 million (2016: £13 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

	2017		2016	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings, other financial assets and cash and cash equivalents				
Other borrowings	**(1,136)**	**(1,232)**	(856)	(970)
Finance lease obligations	**(9)**	**(9)**	(3)	(3)
Bank overdrafts and other short-term bank borrowings	**(19)**	**(19)**	(47)	(47)
Bank balances and cash	**257**	**257**	236	236
Short-term bank deposits and other financial assets	**169**	**169**	180	180
	(738)	**(834)**	(490)	(604)
Trade and other payables				
Government refundable advances	**(84)**	**(100)**	(96)	(122)
Deferred and contingent consideration	**(4)**	**(4)**	(6)	(6)
	(88)	**(104)**	(102)	(128)

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 2017. 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.

(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 £1 million and £2 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)	(22)	1

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 2017. 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:

	2017			2016		
	Borrowings £m	**Cash and bank deposits £m**	**Total £m**	Borrowings £m	Cash and bank deposits £m	Total £m
Sterling	**(1,123)**	**179**	**(944)**	(841)	190	(651)
US dollar	**(6)**	**57**	**51**	(4)	63	59
Euro	**(16)**	**31**	**15**	(26)	21	(5)
Others	**(19)**	**159**	**140**	(35)	142	107
	(1,164)	**426**	**(738)**	(906)	416	(490)

(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 2017, 98% (2016: 96%) of the Group's gross borrowings were subject to fixed interest rates.

As at 31 December 2017, £164 million (2016: £175 million) was in bank deposits and £5 million was on deposit with banks on the Isle of Man (2016: £5 million).

19 Financial risk management continued

(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 and automotive 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.

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 on 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 each major segment is as follows:

	2017 %	2016 restated* %
GKN Aerospace	**68**	65
GKN Driveline	**59**	59
GKN Powder Metallurgy	**21**	28

*Restated for the change noted in the segmental information, see note 2.

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 £1,547 million (2016: £1,557 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 £30 million (2016: £53 million), however, the Group is not exposed to mark-to-market risk for forward foreign currency contracts at 31 December 2017 as all counterparties were in a liability position (2016: 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.

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 2017 and 2016 were as follows:

	2017 £m	2016 £m
EBITDA	**948**	1,014
Net interest payable and receivable	**(76)**	(79)
EBITDA to net interest payable and receivable ratio	**12.5 times**	12.8 times

	2017 £m	2016 £m
Net debt	**889**	704
EBITDA	**948**	1,014
Net debt to EBITDA ratio	**0.9 times**	0.7 times

Net debt for the year ended 31 December 2017 using average exchange rates was £914 million (2016: £626 million) which results in a net debt to EBITDA ratio of 1.0 times (2016: 0.6 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 2017. In addition, the Group's European Investment Bank unsecured facility (£32 million) is repayable in two remaining equal annual instalments of £16 million in June 2018 and June 2019. Committed facilities are provided through 14 banks.

The Group also maintains £75 million of uncommitted facilities, provided by three banks. There were no drawings against these facilities at 31 December 2017.

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
2017					
Borrowings (note 18)	**(38)**	**(368)**	**(456)**	**(302)**	**(1,164)**
Contractual interest payments and finance lease charges	**(60)**	**(59)**	**(104)**	**(104)**	**(327)**
Government refundable advances	**(9)**	**(7)**	**(28)**	**(105)**	**(149)**
Deferred and contingent consideration	**(4)**	**–**	**–**	**–**	**(4)**
Derivative financial instruments liabilities – receipts	**1,158**	**1,006**	**1,232**	**58**	**3,454**
Derivative financial instruments liabilities – payments	**(1,212)**	**(1,144)**	**(1,390)**	**(63)**	**(3,809)**
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)

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.

19 Financial risk management continued

(f) Categories of financial assets and financial liabilities

	Loans and receivables £m	Amortised cost £m	Derivative financial assets £m	Derivative financial liabilities £m	Total £m
2017					
Other receivables	**129**	**–**	**–**	**–**	**129**
Trade and other receivables	**1,649**	**–**	**–**	**–**	**1,649**
Derivative financial instruments	**–**	**–**	**65**	**(326)**	**(261)**
Cash and cash equivalents	**421**	**–**	**–**	**–**	**421**
Other financial assets – bank deposits	**5**	**–**	**–**	**–**	**5**
Borrowings	**–**	**(1,164)**	**–**	**–**	**(1,164)**
Trade and other payables	**–**	**(1,990)**	**–**	**–**	**(1,990)**
Provisions	**–**	**(20)**	**–**	**–**	**(20)**
	2,204	**(3,174)**	**65**	**(326)**	**(1,231)**
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)

Included within financial assets and financial liabilities above are items classified as held for trading. These totalled £65 million (2016: £44 million) within financial assets and £175 million (2016: £513 million) as financial liabilities. The remaining balances relate to derivatives that are designated and effective as hedging instruments carried at fair value.

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 13, 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.

There is no discounted contingent element of deferred and contingent consideration as at 31 December 2017 (2016: £1 million). Therefore, all financial assets and liabilities together with calculations for fair value less costs of disposal were categorised as Level 2.

(g) Working Capital Management

A limited number of Group trade receivables are subject to non-recourse factoring and customer supply chain finance arrangements, from seven banks. As at 31 December 2017, the facilities totalled £248 million (2016: £258 million), with drawings of £189 million (2016: £209 million).

The Group also has a limited supply chain finance programme for its suppliers from five banks. As at December 2017, total facilities were £150 million (2016: £101 million), with drawings of £94 million (2016: £73 million). These amounts are included within amounts owed to suppliers and customers in note 17.

20 Derivative financial instruments

(a) The balances at 31 December comprise:

	2017					2016				
	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	**23**	**25**	**(89)**	**(76)**	**(117)**	2	11	(293)	(202)	(482)
Embedded derivatives	**14**	**3**	**(8)**	**(2)**	**7**	23	8	(14)	(4)	13
Cross currency interest rate swaps	**–**	**–**	**(151)**	**–**	**(151)**	–	–	(214)	–	(214)
	37	**28**	**(248)**	**(78)**	**(261)**	25	19	(521)	(206)	(683)

(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 2017	**(482)**	**13**	**(214)**	**(683)**
Credit/(charge) to 'change in value of derivative and other financial instruments'	**364**	**(6)**	**–**	**358**
Credit to 'other net financing charges'	**–**	**–**	**4**	**4**
Cash paid	**–**	**–**	**9**	**9**
Charge to 'interest payable'	**–**	**–**	**(8)**	**(8)**
Credit to equity	**1**	**–**	**58**	**59**
At 31 December 2017	**(117)**	**7**	**(151)**	**(261)**

Net investment hedging

In addition to the £58 million credit (2016: £160 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 £3 million charge (2016: £17 million charge) from foreign exchange movements on loans designated as net investment hedges which includes a £1 million credit relates to forward currency contract instruments. This £55 million credit (2016: £177 million charge) is recorded in other comprehensive income.

21 Provisions

	Contract provisions £m	Warranty £m	Claims and litigation £m	Employee obligations £m	Other £m	Total £m
At 1 January 2017	**(26)**	**(68)**	**(25)**	**(13)**	**(21)**	**(153)**
Net (charge)/credit for the year:						
Additions	**(20)**	**(28)**	**(9)**	**(4)**	**(32)**	**(93)**
Unused amounts reversed	**4**	**17**	**4**	**1**	**4**	**30**
Unwind of discounts	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Amounts used	**1**	**29**	**5**	**4**	**20**	**59**
Currency variations	**1**	**1**	**1**	**–**	**1**	**4**
At 31 December 2017	**(41)**	**(49)**	**(24)**	**(12)**	**(28)**	**(154)**
Due within one year	**(8)**	**(28)**	**(15)**	**(2)**	**(27)**	**(80)**
Due in more than one year	**(33)**	**(21)**	**(9)**	**(10)**	**(1)**	**(74)**
	(41)	**(49)**	**(24)**	**(12)**	**(28)**	**(154)**

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. The primary reason for the increase in 2017 arises from items identified in the North American Balance Sheet Review, as detailed in note 2(b).

Utilisation of the contract provision due in more than one year is estimated as £13 million in 2019 and £20 million from 2020.

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. 2017 additions include the £10 million Driveline warranty charges referred to in note 2(b). 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 £9 million in 2019 and £12 million from 2020.

Claims and litigation

Claims provisions are held in the Group's captive insurance company and amount to £10 million (2016: £11 million). Claims provisions and charges are established in accordance with external insurance and actuarial advice.

Legal provisions amounting to £9 million (2016: £6 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 £5 million (2016: £8 million) are provided.

Utilisation of the claims and litigations provision due in more than one year is estimated as £4 million in 2019 and £5 million from 2020.

Employee obligations

Long service non-pension and other employee-related obligations arising primarily in the Group's continental European subsidiaries amount to £12 million (2016: £13 million).

Utilisation of the provision due in more than one year is estimated as £4 million in 2019 and £6 million from 2020.

Other

Other provisions include amounts set aside in respect of the performance-related claims from a revenue and risk sharing partnership as referred to in note 2(b). £22 million of the closing balance relates to this claim. In addition, provisions amounting to £3 million (2016: £10 million) relate to the costs of the 2016 closures noted in 2(d).

Utilisation of the provision due in more than one year is estimated as £nil million 2019 and £1 million from 2020.

22 Share capital

	Issued and Fully Paid	
	2017 £m	2016 £m
Ordinary shares of 10p each	**173**	173

	2017 Number 000s	2016 Number 000s
Ordinary shares of 10p each		
At 1 January	**1,726,104**	1,726,104
At 31 December	**1,726,104**	1,726,104

At 31 December 2017, there were 8,625,886 ordinary shares of 10p each, with a total nominal value of £1 million, held as treasury shares (2016: 11,629,654 ordinary shares of 10p each, with a total nominal value of £1 million). A total of 3,003,768 (2016: 539,274) shares were transferred out of treasury during 2017 to satisfy the exercise of awards by participants under the Company's share incentive schemes. The remaining treasury shares, which represented 0.5% (2016: 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 2017, the GKN Employee Share Ownership Plan Trust ('the Trust') held 3,624,368 ordinary shares (2016: 2,013,467). 1,759,996 shares were purchased by the Trust during 2017 (2016: no shares were purchased) at a cash cost of £6 million (2016: nil). During the year, a total of 149,095 (2016: 505,157) 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 (2016: £1 million).

23 Cash flow reconciliations

Cash generated from operations	2017 £m	2016 £m
Operating profit	**699**	335
Adjustments for:		
Depreciation, impairment and amortisation of fixed assets		
Charged to trading profit		
Depreciation	**302**	263
Amortisation	**78**	67
Amortisation of non-operating intangible assets arising on business combinations	**100**	103
Impairment charges	**131**	52
Change in value of derivative and other financial instruments	**(364)**	154
Gains and losses on changes in Group structure	**2**	9
Amortisation of government capital grants	**(2)**	(2)
Net profits on sale and realisation of fixed assets	**(2)**	(3)
Charge for share-based payments	**4**	5
Movement in post-employment obligations	**(300)**	(75)
Change in inventories	**(57)**	(78)
Change in receivables	**(258)**	(151)
Change in payables and provisions	**267**	99
	600	778
Movement in net debt		
Movement in cash and cash equivalents	**40**	41
Net movement in other borrowings and deposits	**(268)**	141
Movement on finance leases	**(6)**	–
Movement on cross currency interest rate swaps	**63**	(145)
Movement on other net investment hedges	**1**	(17)
Amortisation of debt issue costs	**(2)**	(2)
Currency variations	**(13)**	47
Movement in year	**(185)**	65
Net debt at beginning of year	**(704)**	(769)
Net debt at end of year	**(889)**	(704)
Reconciliation of cash and cash equivalents		
Cash and cash equivalents per balance sheet	**421**	411
Bank overdrafts included within 'current liabilities – borrowings'	**(9)**	(26)
Cash and cash equivalents per cash flow	**412**	385

			Non-cash movements				
	At 1 January 2017	Cash flows	Acquisition and disposals	Currency movements	Fair value changes	Lease movements	**At 31 December 2017**
Long-term borrowings	**(840)**	(278)	–	–	–	–	**(1,118)**
Short-term borrowings	**(63)**	29	(3)	–	–	–	**(37)**
Lease liabilities	**(3)**	–	–	–	–	(6)	**(9)**
Cross currency interest rate swaps	**(214)**	–	–	–	63	–	**(151)**
Total liabilities from financing activities	**(1,120)**	(249)	(3)	–	63	(6)	**(1,315)**
Cash and cash equivalents	**411**	21	2	(13)	–	–	**421**
Other financial assets – bank deposits	**5**	–	–	–	–	–	**5**
Net debt	**(704)**	(228)	(1)	(13)	63	(6)	**(889)**

24 Post-employment obligations

Post-employment obligations as at the year end comprise:		2017 £m	2016 £m
Pensions	– funded	**(743)**	(1,285)
	– unfunded	**(675)**	(662)
Medical	– funded	**(39)**	(37)
	– unfunded	**(47)**	(49)
		(1,504)	(2,033)

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 2017. 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				
	GKN2 %	GKN3 %	Americas %	Europe %	ROW %
2017					
Rate of increase in pensionable salaries (past service)	**n/a**	**n/a**	**n/a**	**2.50**	**–**
Rate of increase in payment and deferred pensions	**3.00**	**3.00**	**n/a**	**1.75**	**n/a**
Discount rate (past service)	**2.60**	**2.40**	**3.60**	**1.70**	**0.50**
Inflation assumption (past service)	**3.20**	**3.15**	**n/a**	**1.75**	**n/a**
Rate of increase in medical costs:					
Initial/long-term	**5.4/5.4**		**6.5/5.0**	**n/a**	**n/a**
2016					
Rate of increase in pensionable salaries (past/future service)	4.30/4.25	n/a	n/a	2.50	–
Rate of increase in payment and deferred pensions	3.20	3.30	n/a	1.75	n/a
Discount rate (past/future service)	2.60/2.70	2.45	4.10	1.60	0.50
Inflation assumption (past/future service)	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

In prior years, there were separate assumptions for past and future service in relation to the UK pension scheme. However, following the closure of GKN2 to future accrual from 1 July 2017, this is no longer relevant.

The UK schemes each use a duration-specific discount rate derived from the LCP Treasury Model, 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 Europe and the US is consistent with the prior year.

24 Post-employment obligations continued

(a) Defined benefit schemes – assumptions and estimates continued

Key assumptions and estimates continued

During the year, the Group has taken the decision to change the model used in deriving the discount rates used in post-employment obligation valuations. Previously, gilt yields were used to extrapolate AA rated corporate bond yields to durations where no deep market in corporate bonds existed.

The current year approach looks at a number of different factors to set discount rates and is intended to remove the distortions inherent in the gilt yield curve resulting from high demand from institutional investors. This change increased the discount rate by 0.1% and remains consistent with the requirements of IAS 19.

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 2016 improvements and a 1.25% 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 22.0 years and a female aged 65 lives for a further 24.6 years, while a male aged 40 is expected to live a further 24.8 years from age 65 and a female aged 40 is expected to live a further 26.5 years from age 65. For GKN2 a male aged 65 lives for a further 22.3 years and a female aged 65 lives for a further 25.1 years, while a male aged 40 is expected to live a further 24.2 years from age 65 and a female aged 40 is expected to live a further 27.0 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 20.7 years (female 22.7 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 22.3 years once attaining 65 years (female 24.2 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 2017 is set out below:

	UK	Americas	Europe	ROW
	Liabilities £m	Liabilities £m	Liabilities £m	Liabilities £m
Discount rate +1%	478	39	102	2
Discount rate -1%	(622)	(48)	(132)	(1)
Rate of inflation +1%	(525)	(1)	(89)	–
Rate of inflation -1%	407	–	74	–
Life expectancy +1 year	(122)	(10)	(25)	–
Life expectancy -1 year	124	10	23	–
Health cost trend +1%	(2)	(2)	–	–
Health cost trend -1%	2	1	–	–

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.

Key estimates

It has been determined that the key estimates within the calculation of the defined benefit plans are discount rates, the rates of inflation and life expectancies. It is reasonably probable that a change in these could occur within the next year that could materially change the value of the defined benefit plans. Sensitivity analysis has been undertaken in the above table to illustrate the impact of a 1% or one-year increase and decrease in these metrics.

Pension partnership interest

During the year, the Group has paid £30 million (2016: £30 million) to the UK pension schemes through its pension partnership arrangement and this is included within the amount of contributions/benefits paid.

Funding update and closure of GKN2 to future accrual

During the year, the Group's two UK defined benefit pension schemes completed their triennial funding valuations as at 5 April 2016 for GKN2 and 31 December 2016 for GKN3.

The outcome of these discussions resulted in a lump sum contribution of £250 million paid in October 2017 to GKN2, and annual contributions of £6 million until 2022 to GKN3. These contributions along with investment outperformance is expected to close the deficits on the Trustee's funding basis by April 2022 for GKN3 and June 2031 for GKN2.

During the year, a decision was also taken to close GKN2 to future accrual and following a consultation process with the scheme members, the closure took place effective 30 June 2017. UK pension benefits are now provided on a defined contribution basis.

(b) Defined benefit schemes – reporting

The amounts included in operating profit are:

	2017 £m	2016 £m
Current service cost and administrative expenses	**(43)**	(51)
Settlements/curtailments	**–**	5
	(43)	(46)

The amounts recognised in the balance sheet are:

	2017					
	UK £m	Americas £m	Europe £m	ROW £m	Total £m	2016 £m
Present value of unfunded obligations	**(16)**	**(40)**	**(662)**	**(4)**	**(722)**	(711)
Present value of funded obligations	**(3,293)**	**(321)**	**(38)**	**(31)**	**(3,683)**	(3,902)
Fair value of plan assets	**2,618**	**224**	**34**	**25**	**2,901**	2,580
Net obligations recognised in the balance sheet	**(691)**	**(137)**	**(666)**	**(10)**	**(1,504)**	(2,033)

The triennial funding valuations for the UK defined benefit pension schemes were completed during the year. Following the completion of these valuations, in order to fund the deficits, the Company agreed to make a lump sum contribution of £250 million to GKN2 and annual contributions of £6 million to GKN3 until 2022 in addition to the distributions from the UK pension partnership.

The contribution for deficit funding expected to be paid by the Group during 2018 to the UK schemes is £6 million. In addition, a distribution of £30 million is expected to be made from the UK pension partnership to GKN2 in the first half of 2018, which brings the total expected UK cash requirement for 2018 to £36 million. The expected 2018 contribution to overseas schemes is £35 million.

Cumulative remeasurement of defined benefit plan differences recognised in equity are as follows:

	2017 £m	2016 £m
At 1 January	**(1,469)**	(1,073)
Remeasurement of defined benefit plans	**291**	(396)
At 31 December	**(1,178)**	(1,469)

24 Post-employment obligations continued

(b) Defined benefit schemes – reporting continued

Movement in schemes' obligations (funded and unfunded) during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2017	**(3,514)**	**(375)**	**(688)**	**(36)**	**(4,613)**
Current service cost	**(24)**	**(1)**	**(11)**	**(2)**	**(38)**
Employee contributions	**–**	**(1)**	**–**	**–**	**(1)**
Administrative expenses	**(4)**	**(1)**	**–**	**–**	**(5)**
Interest	**(89)**	**(15)**	**(11)**	**–**	**(115)**
Remeasurement of defined benefit plans	**174**	**(22)**	**13**	**–**	**165**
Benefits and administrative expenses paid	**148**	**21**	**27**	**2**	**198**
Currency variations	**–**	**33**	**(30)**	**1**	**4**
At 31 December 2017	**(3,309)**	**(361)**	**(700)**	**(35)**	**(4,405)**
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)

Movement in schemes' assets during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2017	**2,293**	**227**	**37**	**23**	**2,580**
Interest	**58**	**9**	**1**	**–**	**68**
Employee contributions	**–**	**1**	**–**	**–**	**1**
Remeasurement of defined benefit plans	**102**	**21**	**–**	**3**	**126**
Contributions by Group	**308**	**7**	**–**	**2**	**317**
Benefits paid	**(143)**	**(21)**	**(5)**	**(2)**	**(171)**
Currency variations	**–**	**(20)**	**1**	**(1)**	**(20)**
At 31 December 2017	**2,618**	**224**	**34**	**25**	**2,901**
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

Remeasurement gains and losses in relation to schemes' obligations are as follows:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
2017					
Experience gains and losses	**10**	**(3)**	**4**	**–**	**11**
Changes in financial assumptions	**64**	**(20)**	**9**	**–**	**53**
Change in demographic assumptions	**100**	**1**	**–**	**–**	**101**
	174	**(22)**	**13**	**–**	**165**
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)

The fair values of the assets in the schemes were:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 31 December 2017					
Equities (including hedge funds)	**507**	**106**	**–**	**14**	**627**
Diversified growth funds	**824**	**–**	**–**	**–**	**824**
Bonds – government	**464**	**50**	**–**	**–**	**514**
Bonds – corporate	**315**	**62**	**–**	**8**	**385**
Property	**127**	**–**	**–**	**–**	**127**
Cash, derivatives and net current assets	**214**	**6**	**–**	**–**	**220**
Other assets	**167**	**–**	**34**	**3**	**204**
	2,618	**224**	**34**	**25**	**2,901**
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

As at 31 December 2017, the equities in the UK asset portfolio were split 26% domestic (2016: 27%); 74% foreign (2016: 73%), while bond holdings were 100% domestic (2016: 97%) and 0% foreign (2016: 3%). The equivalent proportions for the US plans were: equities 40%/60% (2016: 41%/59%); bonds 87%/13% (2016: 89%/11%).

24 Post-employment obligations continued

(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:

		2017 years	2016 years
UK	GKN2	**19**	19
	GKN3	**11**	11
US		**12**	12
Germany		**17**	18

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 (i.e. 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	GKN2	–	–	–	53	10,070	1,583	72	7,843	1,161
	GKN3	–	–	–	56	2,913	58	80	9,490	490
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. 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 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 £84 million (2016: £62 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 2017 or 31 December 2016.

In the case of certain businesses, performance bonds and customer finance obligations have been entered into in the normal course of business.

There is a known risk that future delivery schedule commitments, negotiated as part of the performance related claims settlement noted in note 2(b), may not be met and as such further penalties be levied on the risk and revenue sharing partnership. The Group's programme share of these potential penalties is not reliably quantifiable.

26 Operating lease commitments – minimum lease payments

The minimum lease payments which the Group is committed to make at 31 December are:

	2017		2016	
	Property £m	**Vehicles, plant and equipment £m**	Property £m	Vehicles, plant and equipment £m
Payments under non-cancellable operating leases:				
Within one year	**54**	**21**	46	21
Later than one year and less than five years	**159**	**41**	154	37
After five years	**207**	**19**	218	8
	420	**81**	418	66

27 Capital expenditure

Contracts placed against capital expenditure sanctioned at 31 December 2017 which are not provided by subsidiaries amounted to £227 million property, plant and equipment, £31 million intangible assets (2016: £195 million property, plant and equipment, £24 million intangible assets), and the Group's share not provided by equity accounted investments amounted to £3 million property, plant and equipment, nil intangible assets (2016: £8 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 2017 totalled £43 million (2016: £44 million). The amount due at the year end in respect of such sales was £18 million (2016: £11 million). Purchases by subsidiaries from equity accounted investments in 2017 totalled £16 million (2016: £10 million). The amount due at the year end in respect of such purchases was £3 million (2016: £3 million).

At 31 December 2017, a Group subsidiary had £8 million payable to equity accounted investments companies in respect of unsecured financing facilities bearing interest at one month LIBOR plus ⅛% (2016: £10 million).

29 Subsidiaries and other undertakings

The subsidiary and other undertakings of the GKN Group at 31 December 2017 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, unless where indicated otherwise.

30 Business combinations

On 31 May 2017, the Group purchased the entire equity shareholding of Tozmetal Ticaret ve Sanayi Anonim Şirketi (Tozmetal), a Turkey-based sintering business, to broaden the division's manufacturing footprint. The acquired company has since been renamed GKN Sinter Istanbul Metal Sanayi Ve Ticaret Anonim Şirketi. The consideration of £26 million comprised a cash payment only. The fair value of net assets acquired comprised: property, plant and equipment of £7 million, inventory of £2 million, receivables of £6 million, cash of £1 million, payables of £4 million, intangible assets of £9 million and goodwill of £5 million. This has been included in Powder Metallurgy for segmental reporting.

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 goodwill of £4 million. Bazhou is included in Powder Metallurgy for segmental reporting.

During 2016, the Group also 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 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Investment in subsidiaries	3	**3,611**	3,607
Current assets			
Amounts owed by subsidiaries		**18**	17
Total assets		**3,629**	3,624
Current liabilities			
Amounts owed to subsidiaries		**(1,431)**	(2,148)
Net assets		**2,198**	1,476
Capital and reserves			
Share capital	4	**173**	173
Capital redemption reserve		**298**	298
Share premium account		**330**	330
At 1 January		**675**	813
Profit and total comprehensive income for the year attributable to the owners		**871**	6
Other changes in retained earnings		**(149)**	(144)
Retained earnings		**1,397**	675
Total equity		**2,198**	1,476

The financial statements on pages 163 to 171 were approved by the Board of Directors and authorised for issue on 26 February 2018.
They were signed on its behalf by:

Anne Stevens, Jos Sclater
Directors

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Total equity £m
At 1 January 2017	**173**	**298**	**330**	**675**	**1,476**
Profit for the year	**–**	**–**	**–**	**871**	**871**
Share-based payments	**–**	**–**	**–**	**4**	**4**
Dividends paid to equity shareholders	**–**	**–**	**–**	**(154)**	**(154)**
Proceeds from exercise of share options	**–**	**–**	**–**	**1**	**1**
At 31 December 2017	**173**	**298**	**330**	**1,397**	**2,198**
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

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 following exemptions:

> IAS 7, 'Statement of Cash Flows'.

> IFRS 7, 'Financial Instruments Disclosures'.

> Requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of the group.

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.

Profit after taxation for the year was £871 million (2016: £6 million) including dividend income received of £877 million (2016: nil).

Auditors' remuneration for audit services to the Company was £0.4 million (2016: £0.4 million).

3 Fixed asset investments

Cost and net book amount	£m
At 1 January 2017	**3,607**
Additions – share-based payments	4
At 31 December 2017	**3,611**

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 2017 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	Registered office
Transmisiones Homocineticas Argentinas SA (49%)	Ordinary B[1]	Avenida Del Libertador 602, 4' Piso, Buenos Aires, Argentina
Unidrive Pty Ltd (60%)	Ordinary	45-49 McNaughton Road, Clayton Victoria 3168, Australia
GKN Service Austria GmbH	Ordinary	Slamastrasse 32, Postfach 36, 1230 Wien, Austria
Société Anonyme Belge de Constructions Aéronautiques (43.57%)	Ordinary	Chaussée de Haecht 1470, B – 1130 Brussels, Belgium
GKN Aerospace Transparency Systems do Brasil Ltda	Quota capital	Av. Alfredo Ignácio Noqueira Penido, 335 – Sala 1103 – Edifício Madison Power, São José dos Campos, SP, 12246-000, Brazil
GKN do Brasil Limitada	Quota capital	Rua Joaquim Silveira 557, Parque Sao Sebastiao, 91060-320 Porto Alegre, RS, Brazil
GKN Sinter Metals Ltda	Quota capital	Av. da Emancipacao no. 4.500, CEP 13.184-542, Bairro Santa Esmeralda, Hortolandia, Sao Paulo, Brazil
GKN Brasil Equipamentos Ltda	Quota capital	Av. Sargento Geraldo Santana, 154, 04674-225, Sao Paulo, SP, Brazil
Fokker Elmo Canada Inc	Common stock	1635 rue Blueberry Forest, Saint-Lazare Québec, J7T2J9, Canada
GKN Sinter Metals St Thomas Ltd	Common stock	199 Bay Street, Suite 2800, Commerce Court West, Toronto ON M5L1A9, Canada
Fokker Elmo (Langfang) Electrical Systems Co. Ltd	Registered investment	No 71 Xiangyuan Road, Langfang Economic & Technical Development Zone, Langfang, China
GKN (Bazhou) Metal Powder Company Limited (60%)	Registered investment	On the north of 1500 meters, Wuping Dong Road, Shengfang Town, Bazhou City, Hebei Province, China
GKN China Holding Co Ltd	Registered investment	Suite 1105-1110 LJZ Plaza, 1600 Century Avenue, Pudong, Shanghai, 200122, China
GKN Danyang Industries Company Limited	Registered investment	18 North Shitan Road, North Industrial Park, Development Zone, Danyang, Jiangsu, China
GKN HUAYU Driveline Systems (Chongqing) Co. Ltd (9%)	Registered investment[2]	No. 1 Cuigu, Northern New Zone, Chongqing, 401122, China
GKN (Lianyungang) Company Limited	Registered investment	928 JingDu Road, Donghai Economic Development Zone, Jiangsu, 222300, China
GKN Power Solutions (Liuzhou) Company Limited	Registered investment	No. 7 Liutai Road, Liuzhou, Guangxi, 545007, China
GKN Sinter Metals Yizheng Co Ltd	Registered investment	Room 101, Xiwu Building, Yangzhou (Yizheng) Automotive Industrial Park, Jiangsu, China
GKN (Taicang) Co Ltd	Registered investment	188 East Guangzhou Road, Taicang Economic Development Area, Jiangsu Province, China
GKN Zhongyuan Cylinder Liner Company Limited (59%)	Registered investment	Xiguo Industrial Zone, Mengzhou City, Henan Province, 454750, China
Nanjing FAYN Piston Ring Company Limited (19.79%)	Registered investment	17 Zhongshan Road, Yong Yang County, Lishui District, Nanjing, China
Shanghai GKN Driveline Sales Co Ltd (49%)	Registered investment	898 Kangshen Road, Pudong, Shanghai, China
Shanghai GKN HUAYU Driveline Systems Company Limited (50%)	Registered investment	950 KangQiao Road, Pudong New Area, Shanghai, China
Transejes Transmisiones Homocineticas de Colombia SA (49%)	Ordinary	Calle 32 No. 15 – 23 Barrio Rincon de Girón, Girón Santander, Colombia
GKN Walterscheid Service & Distribution A/S	Ordinary	Baldershøj 11, 2635 Ishøj, Denmark
GKN Wheels Nagbol A/S	Ordinary	Nagbølvej 31, 6640 Lunderskov, Denmark
Automotive Group Services SARL	Ordinary	20 rue Lavoisier, 95300 Pontoise, France
GKN Automotive SAS	Ordinary	100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy, France
GKN Driveline Ribemont SARL	Ordinary	7 rue de la Briqueterie, 02240 Ribemont, France
GKN Driveline SA (99.99%)	Ordinary	100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy, France
GKN Freight Services EURL	Ordinary	100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy, France

Name	Class of shares held/interest	Registered office
GKN Service France SAS	Ordinary	8 rue Panhard et Levassor, Ecoparc des Cettons, 78570, Chanteloup-les- Vignes, France
NHIndustries SAS (5.5%)	Ordinary	765 rue Albert Einstein, CS 70402, 13591 Aix-en-Provence Cedex 3, France
GKN Aerospace Deutschland GmbH	Ordinary	Brunhamstr. 21, 81249, Munich, Germany
GKN Driveline Deutschland GmbH	Ordinary	Carl-Legien-Strasse 10, 63073 Offenbach am Main, Germany
GKN Driveline International GmbH	Ordinary	Hauptstrasse 130, 53797 Lohmar, Germany
GKN Driveline Trier GmbH	Ordinary	Hafenstrasse 41, 54293 Trier, Germany
GKN Freight Services GmbH	Ordinary	Heinrich-Krumm Strasse 1-3, 63073 Offenbach am Main, Germany
GKN Gelenkwellenwerk Kaiserslautern GmbH	Ordinary	Opelkreisel 1-9, 67663 Kaiserslautern, Germany
GKN Powder Metallurgy Holding GmbH	Ordinary	Krebsoege 10, 42477 Radevormwald, Germany
GKN Service International GmbH	Ordinary	Nussbaumweg 19-21, 51503 Roesrath, Germany
GKN Sinter Metals Components GmbH	Ordinary	Pennefeldsweg 11-15, 53177, Bonn, Germany
GKN Sinter Metals Engineering GmbH	Ordinary	Krebsoege 10, 42477 Radevormwald, Germany
GKN Sinter Metals Filters GmbH Radevormwald	Ordinary	Dahlienstrasse 43, 42477 Radevormwald, Germany
GKN Sinter Metals GmbH, Bad Bruckenau	Ordinary	Industriestr. 1, 97769 Bad Brückenau, Germany
GKN Sinter Metals GmbH, Bad Langensalza	Ordinary	Am Fliegerhorst 9, 99947 Bad Langensalza, Germany
GKN Walterscheid Getriebe GmbH	Ordinary	Alte Bautzener Strasse 1-3, 02689 Sohland/Spree, Germany
GKN Walterscheid GmbH	Ordinary	Hauptstrasse 150, 53797 Lohmar, Germany
Hoeganaes Corporation Europe GmbH	Ordinary	Peterstrasse 69, 42499 Hueckeswagen, Germany
Drivetech Accessories Limited	Ordinary	E-249, Rama Market, Munirka, New Delhi, 110 067, India
Fokker Elmo SASMOS Interconnection Systems Limited (49%)	Ordinary	Block 2A No. 311, NPR Complex. Survey No 197, Hoody Village, K R Puram Hobli, Whitefield Road, Bangalore – 560048, Karnataka, India[3]
GKN Driveline (India) Limited (97.03%)	Ordinary	270, Sector-24, Faridabad 121 005, Haryana, India
GKN Sinter Metals Private Limited	Ordinary	146 Mumbai Pune Road, Pimpri, Pune 411 018, India
GKN Driveline Beshel Private Joint Stock Company (59.99%)	Ordinary	N° 9, Yas Alley Fath St, Sadr Express Way, 1939753151 Tehran, Islamic Republic of Iran
Ipsley Insurance Limited	Ordinary	Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man
GKN Driveline Brunico SpA	Ordinary	Via dei Campi della Rienza 8, 39031 Brunico, BZ, Italy
GKN Driveline Firenze SpA	Ordinary	Via Fratelli Cervi 1, 50013 Campi Bisenzio, FI, Italy
GKN Italia SpA	Ordinary	Via dei Campi della Rienza 8, 39031 Brunico, BZ, Italy
GKN Service Italia SpA	Ordinary	Via Giosuè Carducci 133, Cologno Monzese 20093, MI, Italy
GKN Sinter Metals SpA	Ordinary	Via Delle Fabbriche 5, 39031 Brunico, BZ, Italy
GKN Wheels Carpenedolo SpA	Ordinary	Viale Santa Maria 76, 25013 Carpenedolo, BS, Italy
GKN Driveline Japan Ltd	Ordinary	2388 Ohmiya-cho, Tochigi City, 328-8502 Tochigi, Japan
GKN Driveline Tochigi Holdings KK	Ordinary	2388 Ohmiya-cho, Tochigi City, 328-8502 Tochigi, Japan
Matsui-Walterscheid Ltd (40%)	Common stock	21-15 Azusawa 2-chome, Itabashi-ku, Tokyo 174, Japan[4]
GKN Finance Limited	Ordinary	13 Castle Street, St Helier, JE4 5UT, Jersey
GKN Driveline Korea Limited	Common stock	Foreign Investors Industrial Park, 2 Ro, 3 Kongdan, Subuk- gu, Choongnam-do, 330-220, Republic of Korea
GKN Driveline Malaysia Sdn Bhd (68.42%)	Ordinary	2445 Lorong Perusahaan Enam B, Kawasan Perindustrian Prai 13600 Prai, Penang, Malaysia
FAE Aerostructures SA de CV	Ordinary	Tabalaopa #8301, Parque Industrial, Chihuahua, Mexico
GKN Aerospace San Luis Potosi S. de R.L. de C.V.	Fixed equity	Av. CFE No. 709, Parque Industrial Millennium, San Luis Potosi S.L.P 78395, Mexico
GKN Driveline Celaya SA de CV (99.85%)	Ordinary	Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110, Mexico
GKN Driveline Mexico Services SA de CV (98%)	Ordinary	Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110, Mexico
GKN Driveline Mexico Trading SA de CV (98%)	Ordinary	Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110, Mexico
GKN Driveline Villagran SA de CV (98%)	Ordinary	Carretera Alterna Celaya Villagrán Km 11, Col. El Pintor, Villagrán, Guanajuato, C.P. 38260, Mexico
Business Park Aviolanda B.V. (20%)	Ordinary	Aviolandalaan 37, 4631 RP, Hoogerheide, Netherlands
Cooperative Delivery of Retrokits (CDR) V.O.F. (50%)	Registered investment	A General Partnership with a registered office of Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fabriek Slobbengors Beheer B.V. (49%)	Ordinary	Markt 22, 3351 PB, Papendrecht, Netherlands
Fabriek Slobbengors C.V. (49%)	Registered investment	Markt 22, 3351 PB, Papendrecht, Netherlands
Fokker Aerospace B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Aerostructures B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands

5 Subsidiaries and other undertakings continued

Name	Class of shares held/interest	Registered office
Fokker Aircraft Services B.V.	Ordinary	Aviolandalaan 31, 4631 RP, Hoogerheide, Netherlands
Fokker (CDR) B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Elmo B.V.	Ordinary	Aviolandalaan 33, Hoogerheide, 4631 RP, Netherlands
Fokker Engineers & Contractors B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Landing Gear B.V.	Ordinary	Grasbeemd 28, 5705 DG, Helmond, Netherlands
Fokker Procurement Combination B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Services B.V.	Ordinary	Hoeksteen 40, 2132 MS, Hoofddorp, Netherlands
Fokker Techniek BV	Ordinary	Aviolandalaan 31, 4631 RP, Hoogerheide, Netherlands
Fokker Technologies Group B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Technologies Holding B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Technology B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
GKN Aerospace Netherlands B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
GKN Service Benelux BV	Ordinary	Haarlemmerstraatweg 153-157, 1165 MK Halfweg, Netherlands
GKN UK Holdings BV	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Hoofdkantoor Slobbengors Beheer B.V. (49%)	Ordinary	Markt 22, 3351 PB, Papendrecht, Netherlands
Kantoor Industrieweg C.V. (49%)	Registered investment	Markt 22, 3351 PB, Papendrecht, Netherlands
Structural Laminates Industries B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
GKN Aerospace Norway AS	Ordinary	Kirkegårdsveien 45, 3616 Kongsberg, Norway
Kongsberg Technology Training Centre AS (50%)	Ordinary	Kirkegårdsveien 45, 3616 Kongsberg, Norway
Kongsberg Terotech AS (33.33%)	Ordinary	Kirkegårdsveien 45, 3616 Kongsberg, Norway
GKN Driveline Polska Sp z o o	Ordinary	Ul. B. Krzywoustego 31 G, 56-400 Oleśnica, Poland
GKN Service Polska Sp. z o.o	Ordinary	Al. Katowicka 33, 05-830, Nadarzyn, Poland
FOAR S.R.L. (49%)	Ordinary	Str. Condorilor 9, 600302, Bacau, Romania
Fokker Engineering Romania S.R.L.	Ordinary	Pipera Boulevard, No. 1/VII, Nord City Tower, Etaj 4, Voluntari Ilfov, Romania
Hoeganaes Corporation Europe SA	Ordinary	33 Urziceni Street, Buzau, 120226, Romania
GKN Driveline Togliatti LLC	Ordinary	Sovetskaya Street, 1a, Office 3, Podstepki Village, 445143, Stavropol Region, Samara Oblast, Russian Federation
GKN Engineering (RUS) LLC	Ordinary	Office 21K, Building 19, Leninskaya Sloboda Street, 115280, Moscow, Russian Federation
Fokker Services Asia Pte Ltd	Ordinary	1800 West Camp Road, Seletar Aerospace Park, Singapore
GKN Driveline Singapore Pte Ltd	Ordinary	10 Eunos Road 8, #13-06, Singapore Post Centre, 408600, Singapore
GKN Driveline Slovenija d o o	Ordinary	Rudniska cesta 20, Zrece 3214, Slovenia
GKN Sinter Metals Cape Town (Pty) Limited	Ordinary	3 Dorbyl Road, Sacks Circle, Bellville, Western Cape, 7530, South Africa
GKN Ayra Servicio, SA	Ordinary	Pol. Ind. Can Salvatella, Avenida Arrahona 54-56, 08210 Barbera del Valles, Barcelona, Spain
GKN Driveline Vigo, SA	Ordinary	Avenida de Citroen s/n, 36210 Vigo, Spain
GKN Driveline Zumaia, SA	Ordinary	Sagarbidea 2, 20750 Zumaia, Spain
Stork Prints Iberia SA	Ordinary	Polígono Industrial s/n, Maçanet de la Selva, 17412 Girona, Spain
GKN Aerospace Sweden AB	Ordinary	SE- 461 81, Trollhättan, Sweden
GKN Driveline Köping AB	Ordinary	SE – 731 36, Köping, Sweden
GKN Driveline Service Scandinavia AB	Ordinary	Alfred Nobels allé 110, 14621, Tullinge, Sweden
GKN Shafts and Services AB	Ordinary	Alfred Nobels allé 110, 14621, Tullinge, Sweden
GKN Sweden Holdings AB	Ordinary	SE- 461 81, Trollhättan, Sweden
Industrigruppen JAS AB (20%)	Ordinary	581 88 Linköping, Sweden
Taiway Limited (36.25%)	Common stock	14 Kwang Fu Road, Hsin-Chu Industrial Park, Hukou, Hsin Chu 30351, Taiwan
GKN Aerospace Transparency Systems (Thailand) Limited	Ordinary	9/21 Moo 5, Phaholyothin Road Klong 1, Klong Luang, Patumthanee, 12120, Thailand
GKN Driveline (Thailand) Limited	Ordinary	Eastern Seaboard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng, Rayong 21140, Thailand
GKN Driveline Manufacturing Ltd	Ordinary	Eastern Seaboard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng, Rayong 21140, Thailand
Fokker Elmo Havacilik Sanayi Ve Ticaret Limited Şirketi	Ordinary	Ege Serbest Bölgesi, SADI Sok. No:10, 35410 Gaziemir, Izmir, Turkey

Name	Class of shares held/interest	Registered office
GKN Eskisehir Automotive Products Manufacture and Sales A.S.	Ordinary	Organize Sanayi Bolgesi 20, Cadde No: 17, 26110, Eskisehir, Turkey
GKN Sinter Istanbul Metal Sanayi Ve Ticaret Anonim Şirketi	Ordinary	Yakuplu Mah. Haramidere Sanayi Sitesi, J Blok, No. 106-107-108, Beylikdüzü, Istanbul, Turkey
Alder Miles Druce Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
A. P. Newall & Company Limited	Ordinary	15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA, United Kingdom
Ball Components Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Birfield Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
British Hovercraft Corporation Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Chassis Systems Limited (50%)	Ordinary	Hadley Castle Works, Telford, Shropshire, TF1 6AA, England
F.P.T. Industries Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
FAD (UK) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Firth Cleveland Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Aerospace Services Limited	Ordinary	Ferry Road, East Cowes, Isle of Wight, PO32 6RA, England
GKN Aerospace Transparency Systems (Kings Norton) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Aerospace Transparency Systems (Luton) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Automotive Limited	Ordinary and preference	PO Box 4128, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0WR, England
GKN AutoStructures Limited	Ordinary	Hadley Castle Works, Telford, Shropshire, TF1 6AA, England
GKN Birfield Extrusions Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Bound Brook Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Building Services Europe Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN CEDU Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Composites Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Computer Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Countertrade Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Defence Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Defence Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Driveline Birmingham Limited	Ordinary	Chester Road, Erdington, Birmingham, B24 0RB, England
GKN Driveline UK Limited	Ordinary	PO Box 4128, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0WR, England
GKN Driveline Mexico (UK) Limited	Ordinary	PO Box 4128, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0WR, England
GKN Driveline Service Limited	Ordinary	Unit 5, Kingsbury Business Park, Kingsbury Road, Minworth, Sutton Coldfield, B76 9DL, England
GKN Enterprise Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Euro Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN EVO eDrive Systems Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Export Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Fasteners Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Finance (UK) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Firth Cleveland Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Freight Services Limited	Ordinary and cumulative preference	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Group Pension Trustee (No.2) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Group Pension Trustee Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Group Services Limited	Ordinary and redeemable preference	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Hardy Spicer Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Holdings plc (held directly by GKN plc)	Ordinary and deferred	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Hybrid Power Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Industries Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
G.K.N. International Trading (Holdings) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England

5 Subsidiaries and other undertakings continued

Name	Class of shares held/interest	Registered office
GKN Investments LP	Ordinary	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 are consolidated by the Group, as such advantage has been taken of the exemption set out in regulation 7 of the Partnerships (Accounts) Regulations 2008
GKN Marks Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN OffHighway Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Overseas Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Pistons Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
G.K.N. Powder Met. Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Quest Trustee Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sankey Finance Limited	Ordinary and deferred	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sankey Limited	Ordinary	Hadley Castle Works, Telford, Shropshire, TF1 6AA, England
GKN SEK Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Service UK Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sheepbridge Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sheepbridge Stokes Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sinter Metals Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sinter Metals Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Technology Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Thompson Chassis Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Trading Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN UK Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN U.S. Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN USD Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Ventures Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Aerospace (Avonmouth) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Aerospace Advanced Materials Limited	Ordinary and convertible preference	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Aerospace Aviation Support Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Aerospace Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Design Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Overseas Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Wheels Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Guest, Keen and Nettlefolds, Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Laycock Engineering Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
P.F.D. Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Raingear Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Rigby Metal Components Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Rzeppa Limited	Ordinary and redeemable preference	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Sheepbridge Stokes Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Westland Group plc	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Westland Group Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Westland System Assessment Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Aerotron AirPower Inc	Common stock	456 Aerotron Parkway, LaGrange, 30240 GA, USA
Fokker Aerostructures Inc	Common stock	GTH Corporate Services LLC, 1201 Pacific Ave Ste 2100, Tacoma WA 98401, USA
Fokker Elmo Inc	Common stock	CT Corporation Systems, 1201 Peachtree St NE, Atlanta GA 30361, USA

Name	Class of shares held/interest	Registered office
GENIL, Inc	Ordinary	CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
GKN Aerospace Aerostructures, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Camarillo, Inc	Ordinary	CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
GKN Aerospace Chem-tronics Inc	Ordinary	CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
GKN Aerospace Cincinnati, Inc	Ordinary	CSC-Lawyers Incorporating Service, 50 West Broad Street, Suite 1300, Columbus OH 43215, USA
GKN Aerospace Florida, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Monitor, Inc	Ordinary	Corporation Service Company, 80 State Street, Albany NY 12207, USA
GKN Aerospace Muncie, Inc	Ordinary	Corporation Service Company, 251 East Ohio Street, Suite 500, Indianapolis IN 46204, USA
GKN Aerospace New England, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Newington LLC	Membership interest (no share capital)	Principal place of business is 179 Louis Street, Newington CT 06111, USA
GKN Aerospace North America, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Precision Machining, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Services Structures Corporation	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace South Carolina, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Transparency Systems Inc	Common stock	CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
GKN Aerospace US Holdings LLC	Membership interest (no share capital)	Principal place of business is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Aerospace, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN America Corp	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Armstrong Wheels, Inc	Ordinary	Corporation Service Company, 505 5th Avenue, Suite 729, Des Moines IA 50309, USA
GKN Driveline Bowling Green, Inc	Common stock	CSC – Lawyers Incorporating Service, 50 West Broad Street, Suite 1300, Columbus OH 43215, USA
GKN Driveline Newton LLC	Membership interest (no share capital)	Principal place of business is 1848 GKN Way, Newton NC 28658, USA
GKN Driveline North America, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Freight Services, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN North America Investments Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN North America Services, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Ohio Inc	Common stock	CSC – Lawyers Incorporating Service, 50 West Broad Street, Suite 1300, Columbus OH 43215, USA
GKN Rockford Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Sinter Metals, LLC	Membership interest (no share capital)	Principal place of business is 2200 North Opdyke Road, Auburn Hills MI 48326, USA
GKN Walterscheid, Inc	Ordinary	Illinois Corporation Service Company, 801 Adlai Stevenson Drive, Springfield IL 62703, USA
GKN Westland Aerospace, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
Hoeganaes Corporation	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
Hoeganaes Specialty Metal Powders LLC (70%)	Membership interest (no share capital)	Principal place of business is 1001 Taylors Lane, Cinnaminson NJ 08077, USA
XIK LLC	Membership interest (no share capital)	Principal place of business is 2715 Davey Road, Suite 300, Woodridge, Illinois, 60517-5064, USA
GKN Driveline Uruguay SA	Ordinary	Arq. Baldomiro, 2408, Montevideo, Uruguay
Hadfields Holdings Limited (37.5%)	Ordinary	30 Millbank, London, SW1P 4WY

1 The Group owns 100% of the Ordinary Class B shares with a total ownership of 49% in the company.
2 The Group owns 9% directly with a total effective ownership of 34.5%
3 The company's last financial year ended 31 March 2017
4 The company's last financial year ended 31 March 2017

GROUP FINANCIAL RECORD

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Consolidated income statements					
Sales	**9,671**	**8,822**	**7,231**	**6,982**	**7,136**
Trading profit	**568**	**684**	**609**	**612**	**597**
Change in value of derivative and other financial instruments	**364**	**(154)**	**(122)**	**(209)**	**26**
Amortisation of non-operating intangible assets arising on business combinations	**(100)**	**(103)**	**(80)**	**(69)**	**(75)**
Gains and losses on changes in Group structure	**(2)**	**(9)**	**(1)**	**24**	**12**
Reversal of inventory fair value adjustment arising on business combinations	**–**	**–**	**(12)**	**–**	**–**
Impairment charges	**(131)**	**(52)**	**(71)**	**(69)**	**–**
Restructuring charges	**–**	**(31)**	**–**	**–**	**–**
Operating profit	**699**	**335**	**323**	**289**	**560**
Share of post-tax earnings of continuing joint ventures	**80**	**73**	**59**	**61**	**52**
Net financing costs	**(121)**	**(116)**	**(137)**	**(129)**	**(128)**
Profit before taxation from continuing operations	**658**	**292**	**245**	**221**	**484**
Taxation	**(149)**	**(48)**	**(43)**	**(47)**	**(77)**
Profit for the year	**509**	**244**	**202**	**174**	**407**
Profit attributable to non-controlling interests	**(6)**	**(2)**	**(5)**	**(5)**	**(12)**
Profit attributable to equity shareholders	**503**	**242**	**197**	**169**	**395**
Earnings per share – pence	**29.3**	**14.1**	**11.8**	**10.3**	**24.2**
Dividend per share – pence	**9.3**	**8.85**	**8.7**	**8.4**	**7.9**
Management performance measures[1]					
Sales	**10,409**	**9,414**	**7,689**	**7,456**	**7,594**
Trading profit	**662**	**773**	**679**	**687**	**661**
Profit before taxation	**572**	**678**	**603**	**601**	**578**
Earnings per share – pence	**26.6**	**31.0**	**27.8**	**29.0**	**28.7**

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Consolidated balance sheets					
Non-current assets					
Intangible assets (including goodwill)	**1,671**	**1,908**	**1,856**	**1,442**	**1,476**
Property, plant and equipment	**2,677**	**2,670**	**2,200**	**2,060**	**1,945**
Equity accounted investments	**249**	**233**	**195**	**174**	**179**
Deferred tax assets	**374**	**557**	**388**	**407**	**225**
Other non-current assets	**190**	**74**	**63**	**60**	**104**
	5,161	**5,442**	**4,702**	**4,143**	**3,929**
Current assets					
Inventories	**1,431**	**1,431**	**1,170**	**971**	**931**
Trade and other receivables	**1,748**	**1,648**	**1,311**	**1,226**	**1,142**
Cash and cash equivalents and other financial assets	**426**	**416**	**304**	**322**	**184**
Other (including assets held for sale)	**96**	**26**	**22**	**18**	**53**
	3,701	**3,521**	**2,807**	**2,537**	**2,310**
Current liabilities					
Borrowings	**(38)**	**(64)**	**(137)**	**(43)**	**(27)**
Trade and other payables	**(2,333)**	**(2,186)**	**(1,757)**	**(1,611)**	**(1,485)**
Current income tax liabilities	**(132)**	**(142)**	**(121)**	**(125)**	**(135)**
Other current liabilities (including liabilities associated with assets held for sale)	**(158)**	**(277)**	**(229)**	**(127)**	**(66)**
	(2,661)	**(2,669)**	**(2,244)**	**(1,906)**	**(1,713)**
Non-current liabilities					
Borrowings	**(1,126)**	**(842)**	**(867)**	**(877)**	**(889)**
Deferred tax liabilities	**(184)**	**(227)**	**(157)**	**(223)**	**(178)**
Other non-current liabilities	**(733)**	**(948)**	**(719)**	**(350)**	**(274)**
Provisions	**(74)**	**(82)**	**(78)**	**(112)**	**(119)**
Post-employment obligations	**(1,504)**	**(2,033)**	**(1,558)**	**(1,711)**	**(1,271)**
	(3,621)	**(4,132)**	**(3,379)**	**(3,273)**	**(2,731)**
Net assets	**2,580**	**2,162**	**1,886**	**1,501**	**1,795**
Net debt	**(889)**	**(704)**	**(769)**	**(624)**	**(732)**

1 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 2018

Ex-dividend date for 2017 final dividend	5 April 2018
2017 final dividend record date	6 April 2018
Final date for receipt of DRIP mandates	20 April 2018
Annual general meeting	3 May 2018
2017 final dividend payable	14 May 2018
Ex-dividend date for 2018 interim dividend[1]	9 August 2018
2018 interim dividend record date[1]	10 August 2018
2018 interim dividend payable[1]	17 September 2018

Annual general meeting

The annual general meeting (AGM) will be held on Thursday 3 May 2018 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.

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
PO Box 505000
Louisville, KY 40233-5000

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.

1 Please note that these dates are provisional and may be subject to change.
2 Lines are open 8.30 am to 5.30 pm, Monday to Friday, excluding UK bank holidays.

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 2017

	Shareholders		Shares	
Holdings	Number	%	Number	%
1–500	5,342	29.0	1.1	0.1
501 to 1,000	3,044	16.5	2.3	0.1
1,001 to 5,000	6,978	37.8	16.5	1.0
5,001 to 50,000	2,383	12.9	29.5	1.7
50,001 to 100,000	142	0.8	10.3	0.6
100,001 to 500,000	273	1.5	63.5	3.7
500,001 to 1,000,000	79	0.4	48.9	2.8
above 1,000,000	207	1.1	1,545.3	90.0
	18,448	100	1,717.4	100
Shareholder type				
Individuals	15,706	85.1	43.1	2.5
Institutions	1,251	6.8	1,501.6	87.4
Other corporates	1,491	8.1	172.7	10.1
	18,448	100	1,717.4	100

In addition, GKN held 8,625,886 ordinary shares in treasury as at 31 December 2017.

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.

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 https://www.fca.org.uk/consumers/report-scam-unauthorised-firm.
> 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
> consider getting independent professional advice before making any investment decision, particularly if the type of investment is unfamiliar to you.

Confirmation of profit estimate

On 14 February 2018 the Group gave a 'profit estimate' for the purpose of Rule 28 of the City Code on Takeovers and Mergers for management trading profit (excluding the impact of the 2017 £112 million charge arising from the North American Balance Sheet Review – £774 million), management EBITDA (excluding the impact of the 2017 £112 million charge arising from the North American Balance Sheet Review – £1,183 million) and management operating cash flow (£397 million). It is reported that none of these numbers (either the totals as presented above, or by segment as further disclosed in the RNS) were changed as a result of the finalisation of the 2017 financial statements.

CONTACT INFORMATION

GKN

GKN plc

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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.

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(+44 121 415 7039 from outside UK)

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1 Lines are open 8.30 am to 5.30 pm, Monday to Friday, excluding UK bank holidays.

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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