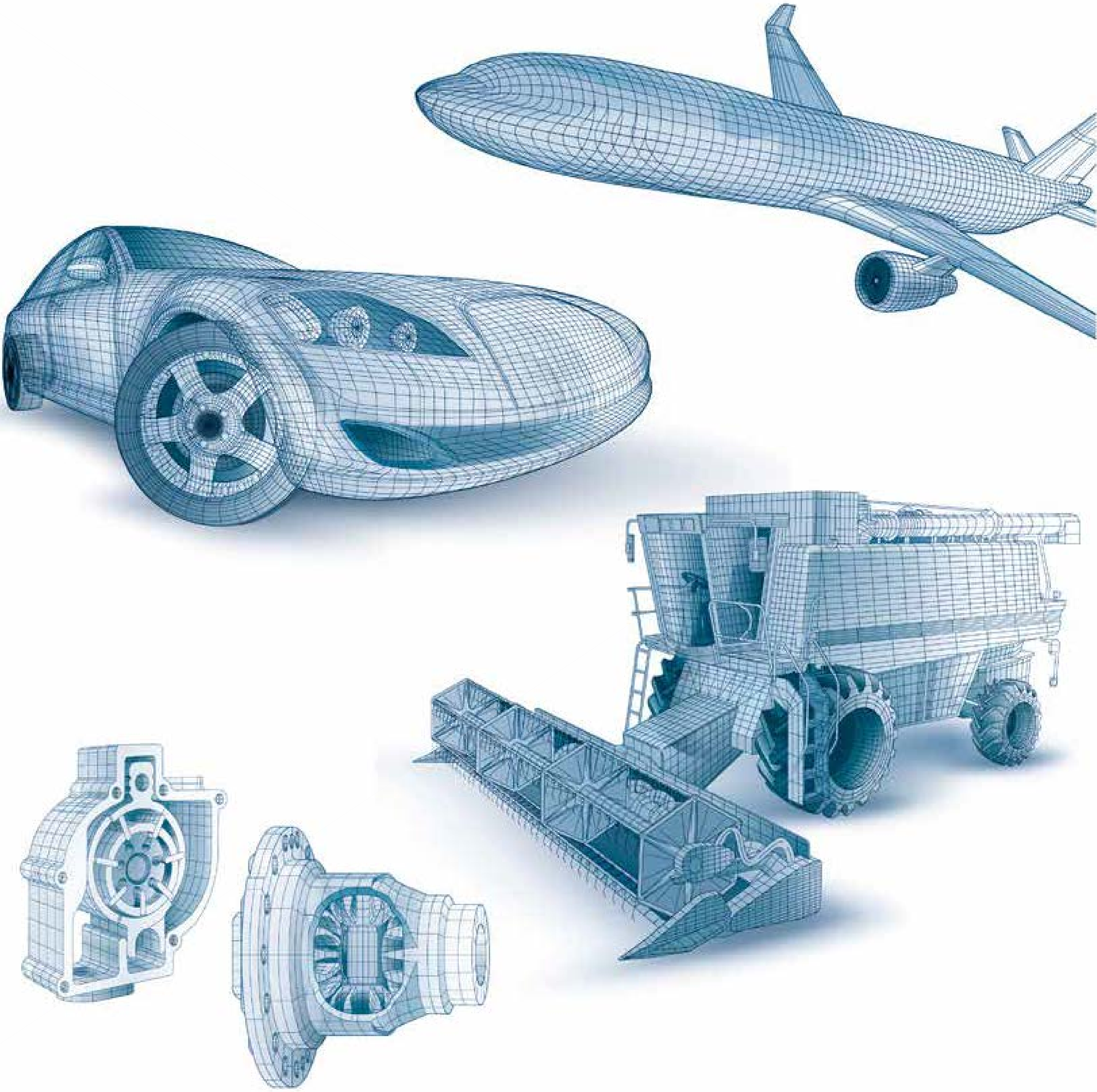
GKN PLC

Annual Report and Accounts 2015



ENGINEERING > THAT MOVES THE WORLD

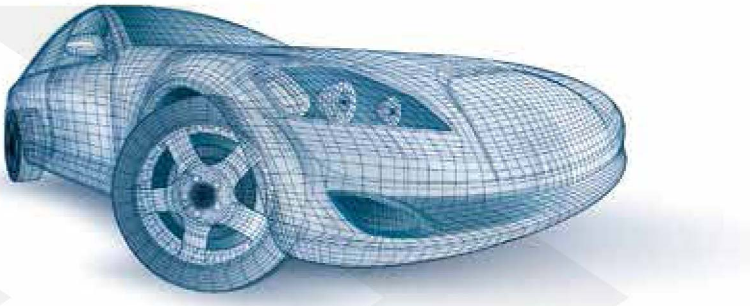
GKN IS A GLOBAL ENGINEERING BUSINESS

Visit our website for more information www.gkn.com

Every day we drive the wheels of hundreds of millions of cars, we help thousands of aircraft to fly, we deliver the power to move earth and harvest crops, and we make essential components for industries that touch lives across the globe.

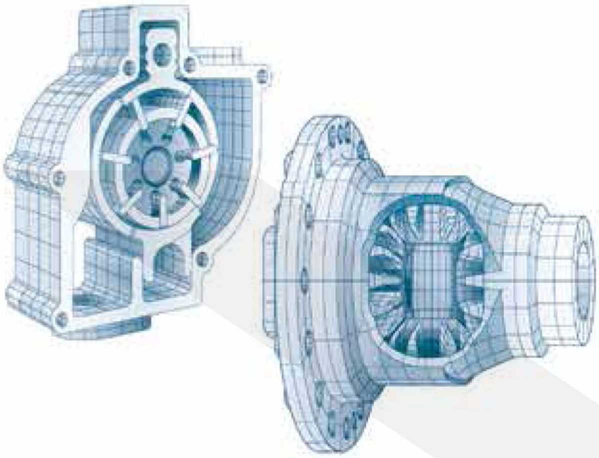
GKN Aerospace

A leading tier one supplier of aerostructures, engine products and systems, and electrical wiring systems to the global aerospace industry.
Read more about GKN Aerospace on pages 16 to 21



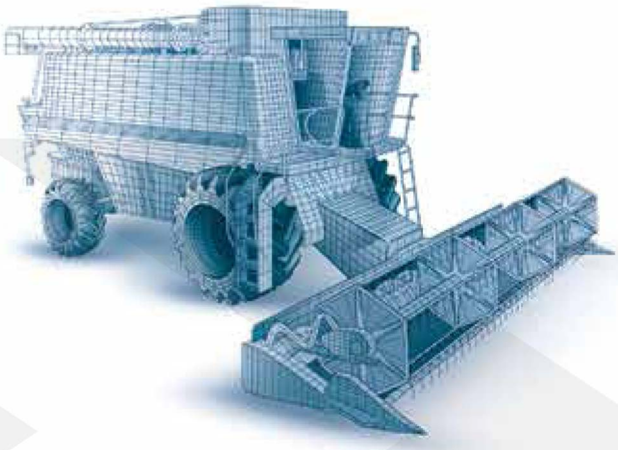
GKN Driveline

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 to 25



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 26 to 29



GKN Land Systems

A global supplier of power management products and services for agricultural, construction and industrial equipment.
Read more about GKN Land Systems on pages 30 to 33

GKN AT A GLANCE

GKN is a global engineering business – we design, manufacture and service systems and components for original equipment manufacturers around the world.

We focus on innovation and delivering exceptional customer service to create a strong business with significant opportunities for growth.

Employees

56,100

Countries

34

Markets

3

Engineering that moves the world

Leading technology delivers a big win with Boeing

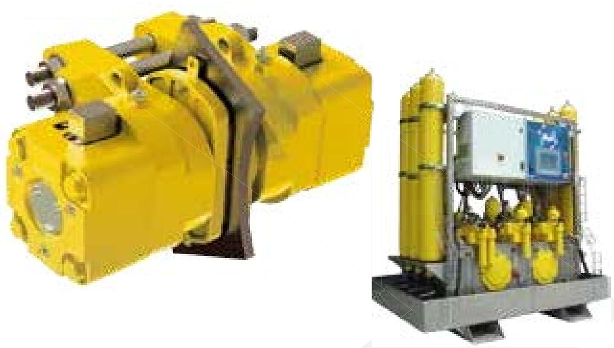
In June 2015, we won a contract to supply inlet lip skins for the Boeing 737 MAX and 777X and components and subassemblies for the 787 Dreamliner.
Read more on page 17

Meeting the future needs of all-wheel drive

GKN Driveline has become the first tier one supplier to deliver a complete all-wheel drive (AWD) system for a vehicle manufacturer.
Read more on page 23

GKN differential gear in production for Ford

The Ford F-series is using GKN forged powder metallurgy gears which are lighter and stronger than commercially available wrought forged gears.
Read more on page 27



Winning new business through global co-operation

Co-operation between our GKN Land Systems facilities in China and France brought us a £2.3 million contract in Taicang, China.
Read more on page 30

GLOBAL FOOTPRINT

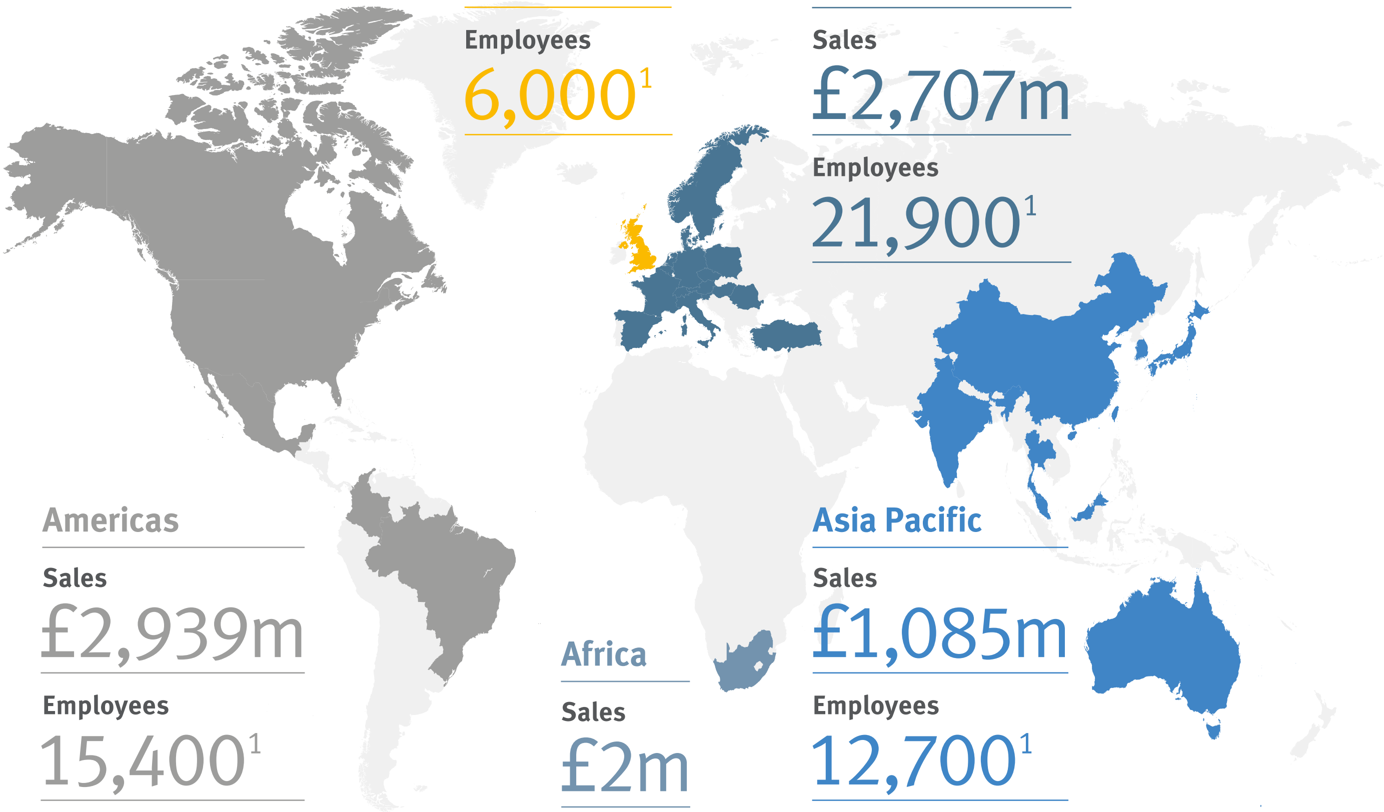
GKN is a global business with manufacturing facilities, service centres and offices in more than 30 countries across five continents. This strong global footprint enables us to serve an international customer base and creates a platform from which we can access growth markets.

We operate close to and in partnership with our customers to help optimise our positions in major supply chains and to enable us to develop new technologies.

Top ten customers

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

A global engineering company



UK

Sales
£956m

Employees
6,000[1]

Europe
(excluding UK)

Sales
£2,707m

Employees
21,900[1]

Americas

Sales
£2,939m

Employees
15,400[1]

Africa

Sales
£2m

Employees
100[1]

Asia Pacific

Sales
£1,085m

Employees
12,700[1]

1 Including subsidiaries and joint ventures.

Visit www.gkn.com/ourlocations for more information

HIGHLIGHTS OF THE YEAR

Delivered on our expectations

- Sales increased 2% organically
- Trading margin unchanged at 9.2% excluding Fokker
- Total dividend increased 4% to 8.7 pence per share
- Free cash flow of £370 million (2014: £234 million) with the benefit of customer advances
- Acquisition of Fokker completed 28 October 2015; integration proceeding well

Statutory basis

Sales

£7,231m

2014: £6,982m

Earnings per share

11.8p

2014: 10.3p

Profit before tax

£245m

2014: £221m

Management basis[1]

Sales

£7,689m

2014: £7,456m

Earnings per share

27.8p

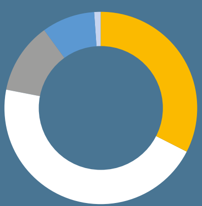
2014: 29.0p

Profit before tax

£603m

2014: £601m

Management sales



£7,689m

- **GKN Aerospace:** £2,500m
- **GKN Driveline:** £3,548m
- **GKN Powder Metallurgy:** £906m
- **GKN Land Systems:** £693m
- **Other businesses:** £42m

Management trading profit

£679m[2]

- **GKN Aerospace:** £273m
- **GKN Driveline:** £290m
- **GKN Powder Metallurgy:** £109m
- **GKN Land Systems:** £24m

1 See page 36 for details on measurement and reporting of performance on a management basis.
2 Including corporate costs and other businesses.

CONTENTS

Pages 56 to 98 comprise the Directors' report.

CHAIRMAN'S STATEMENT

Strategic progress against our core objectives

Mike Turner CBE
Chairman

While economic uncertainty continues, our business proved to be resilient with a pleasing set of results. GKN Aerospace's acquisition of Fokker and the outperformance of our automotive businesses against their markets helped ensure continued progress against our strategic objectives.

Our strategy

We have a clear strategy which is serving us well. Our overarching strategic objective is to sustain growth above the market and the Board continues to shape the Group's strategic activities with a view to delivering that objective.

During the year, we approved the acquisition of Fokker Technologies Group B.V. and the associated debt and equity funding. The acquisition of Fokker will add more than 20% to GKN Aerospace's sales and is closely aligned to our strategic objectives: it strengthens our leadership position in aerostructures to number two, allows us to access new technologies and extends our global footprint in aerospace with sites in China, Turkey, Mexico and the Netherlands. The successful integration of Fokker will be an important objective for GKN Aerospace in 2016 but our people are experienced in this area.

I am confident that our enlarged GKN Aerospace division is well positioned for success. During the year, GKN Aerospace won new business with a total contract value of more than $3.5 billion and strengthened both its position with Boeing and its relationship with Airbus.

GKN Driveline secured some £880 million of additional annualised sales in new and replacement business on important global automotive platforms, achieved a 5% organic increase in sales and maintained its profit margin above 8%.

GKN Powder Metallurgy increased its margin to 12% and entered into an agreement to form a joint venture in China, a key step towards becoming the first Chinese supplier of international grade powdered metal. GKN Land Systems showed determination and had a reasonable year given difficult markets.

8.7p

Total dividend per share

9.2%

Group trading margin (excluding the impact of Fokker)

Dividend

In light of our performance during the year, we have again increased our dividend and are recommending a final dividend of 5.8 pence per share, making a total of 8.7 pence per share for the year, an increase of approximately 4% over the prior year.

Board changes

Andrew Reynolds Smith stepped down from the Board in September 2015 to take up the role of Chief Executive at Smiths Group plc. We thank Andy for his contribution to the Group and wish him well for the future.

We take succession planning very seriously and work hard to ensure that we have a strong talent pipeline. We were pleased to be able to fill Andy's role with an internal successor. Phil Swash, latterly Chief Executive GKN Land Systems, took over as Chief Executive GKN Driveline from September 2015. Adam Walker assumed executive responsibility for GKN Land Systems, in addition to his role as Group Finance Director, which will further strengthen Adam's operational experience. Both Phil and Kevin Cummings, Chief Executive GKN Aerospace, were subsequently appointed to the Board in January 2016, having been members of the Executive Committee since October 2014. Their extensive operational experience and in-depth knowledge of the Group's markets will be a great asset to the Board.

People

Our people are key to the successful execution of our strategy and we will continue to identify, retain and develop talent at all levels in GKN. In a year that contained many external challenges, GKN employees have worked very hard to deliver a satisfying set of results and I would like to take this opportunity to thank them for their hard work and perseverance.

Risk

I reported last year that we continued to develop our risk management processes and systems. In 2015 we made further significant progress. During the year the Board expanded the remit of the Audit Committee to include greater responsibility for the review of risk management systems and controls. The Committee subsequently reviewed three of our main operational risks across all divisions: product quality, programme management and contract management. These reviews represented a significant step forward in our approach and enabled us to develop further our risk management processes. We also spent more time reviewing our strategic risks as well as discussing and setting the risk appetite for the Group.

Culture

I reported last year that we had revised our Code of Conduct to reinforce our tone from the top and ensure that our employees know the behaviour that is expected of them. We worked hard to ensure that the Code is engaging and easy to understand. I am pleased to report that the Code was communicated to all GKN employees during the year and was very well received. We continue to drive home our key message – that in GKN we do the right thing.

This year we will continue to emphasise all that is good about GKN's strong culture, reminding our people what is important to us and what makes GKN such an enduring and successful company.

Summary

2015 was a pleasing year. We outgrew our automotive markets and made aerospace acquisitions which position us well for the future. As always, we worked hard on continuous improvement and cost control across the Group. GKN entered 2016 as a stronger company.

Looking ahead

Political and economic uncertainty is likely to have an effect closer to home in 2016 as the debate continues on the UK's potential exit from the European Union. However, with a clear strategy and sustained focus on operational excellence and technology, I am confident that GKN will continue to show its resilience.

Mike Turner CBE
Chairman

Factors influencing change in our markets

The world's population is expected to reach over nine billion by 2050, an increase of more than two billion from 2015, with growth mainly in urban areas.

Population growth and urbanisation, along with increased affluence, are driving change across our markets – increased demand for flights and larger aircraft; more and different cars on the roads; increasing pressure on agriculture to feed the world; and the development of infrastructure in cities. All of these influence our product development and offer significant growth opportunities for GKN.

There is also a continual drive to improve the fuel efficiency of aircraft, cars and other vehicles, while at the same time increasing manufacturing efficiency and product safety. Demand for fuel-efficient solutions remains high due to concerns over CO_2 emissions and increasing concerns over air quality. In automotive and agricultural markets, advanced electric and hybrid alternatives are replacing traditional mechanical power.

GKN has specific expertise in electric and hybrid vehicle technology and electrically driven machinery which help our customers meet this challenge.

Manufacturers increasingly require lightweight designs and materials. Composite aerostructures and engine components are already relatively common on new platforms, while in the automotive industry, components are continually being designed to reduce weight and size. Development work is under way in both sectors to increase the opportunities for lightweight materials. GKN has significant know-how in lightweight materials and increasingly in advanced production technologies that offer the opportunity to optimise product design.

9.7bn

Global population by 2050[1]

Automotive market[3]

Car and light vehicle production (rounded millions of units)	2015	Growth (%)[4]
Europe	**20.9**	3.9
North America	**17.5**	3.0
Brazil	**2.3**	(21.6)
Japan	**8.8**	(5.1)
China	**23.7**	4.9
India	**3.8**	5.6
Others	**11.6**	(1.8)
Total	**88.6**	1.4

1 UN World Population Prospects, The 2015 Revision.
2 Source: Teal.
3 Source: IHS Automotive.
4 Growth is derived from unrounded production figures.
5 Freedonia Group, World Agricultural Equipment Market, 2014.
6 UN World Urbanisation Prospects, The 2014 Revision.

Aerospace

1,397

Airbus and Boeing deliveries in 2015[2]

12,583

Airbus and Boeing commercial backlog[2]

Automotive[3]

88.6m

Light vehicle production in 2015

15.9%

Expected growth in global vehicle production 2015-2020

Land systems

$208bn

Global demand for agricultural equipment in 2018[5]

2.5bn

Growth in world urban population by 2050[6]

Key market drivers	Recent trends	Outlook
• Continued growth in air passenger traffic. • Development of lightweight materials that improve aircraft efficiency. • Worldwide defence budgets. • Environmental impact reduction programmes. • Increasing products demand in emerging markets together with increasing need for technological capability requires a global manufacturing and sourcing strategy.	• Development of new generation aircraft and aero engines that are quieter and more fuel efficient. • Cost pressures intensify as a new generation of aircraft completes its development cycle and enters production. • Commercial aircraft sales backlog at the principal OEMs is at an historically high level. • Production rates for many commercial single aisle aircraft and the new generation of twin aisle aircraft are rising in response to increased demand. • Global competition among aircraft manufacturers and supply chain continues to develop. • Focus on robustness of supply chain from OEMs and willingness to insource if necessary. • Military market continues to shrink as F-35 still in initial ramp-up phase and established programmes tail off.	• Growth in the commercial aerospace market is expected to continue in the medium term but this will be offset in the short term by a further decline in the military sector. • World aircraft production is expected to grow at 2% per annum over the next five years. • Airbus and Boeing forecast a global demand of between 31,000 and 38,000 large commercial aircraft over the next 20 years.
• Increased affluence in developing markets. • Demand for more fuel-efficient vehicles and lower tailpipe emissions. • Increasing demend for electrification in vehicles. • Demand for personal mobility in emerging markets. • Customer and consumer focus on quality and safety. • Move by OEMs towards vehicle platforms that support larger build volumes.	• Global light vehicle production increased by 1.4% in 2015 to 88.6 million. • China's production growth eased as a result of market uncertainty. • Production in Europe increased by 4% due to recovery in Western Europe, which was partially offset by a collapse in Russia and the rest of Eastern Europe. • North America's output increased, boosted particularly by the build of light trucks. • The fastest production growth in 2015 was in India due to market recovery. • Japan's production declined in 2015 due to weak demand following sales tax changes. • Brazil was affected by continuing economic problems resulting in low domestic demand.	• External forecasts indicate that global vehicle production in 2016 will increase 3.1% to 91.4 million vehicles. • The fastest growth is expected in India at 8.9%, with China increasing 5.4% and North America 4.1%. Europe is expected to grow at a slower rate, 1.5%. • Brazil is expected to decline by 12.7% in 2016.
• Demand for more efficient agricultural equipment to improve yields and meet an increased demand for food as populations grow. • Regulatory and economic pressures to increase energy efficiency and reduce CO_2 emissions. • Infrastructure development and global demand for commodities. • Need for significantly increased safety, operational efficiency and reliability.	• Low commodity prices have impacted most land systems markets during 2015. • The global agricultural equipment market declined in 2015 impacting Europe and, more significantly, the Americas. • The construction equipment market in China almost halved in 2015. • Industrial markets saw growth in renewables, while crane and marine applications saw a decline.	• Agricultural equipment markets are expected to weaken in Europe in 2016, with a further decline in the Americas and a slowdown in growth in China. • Construction markets are expected to decline due to overcapacity and high stock levels. • Most industrial markets are expected to remain flat or fall slightly; wind energy markets are expected to grow.

OUR STRATEGIC FRAMEWORK

Sustaining above market growth

We aim to create long-term, sustainable shareholder value in the form of steadily growing earnings and dividends through the delivery of growth in sales and profits, and a strong return on invested capital.

Our five strategic objectives

Leading in our chosen markets

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

Leveraging a strong global presence

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

Differentiating ourselves through technology

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

Driving operational excellence

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

Sustaining above market growth

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

Supporting our strategy

Our business model highlights how we combine our advanced engineering value chain in global markets with our strong core competencies and clear values to deliver strong financial performance.

Our key strengths

Global markets

Aerospace: a leading global tier one supplier to the industry.

Automotive: a global business serving the world's leading vehicle manufacturers.

Land systems: a leading supplier of power management products and services.

Read more on pages 4 and 5

Strong core competencies

Industry know-how: identifying future technology requirements to deliver market-leading solutions.

Engineering capability: investing in technology and developing and maintaining a diverse range of engineering talent.

Strong customer relationships: delivering innovation and exceptional service to build and maintain strong relationships.

Read more in our divisional case studies

Doing the right thing

By our people: providing a safe working environment; respecting rights; developing our people; speaking up if things aren't right.

As a business: building a high performance business supported by honest and proper conduct.

In our world: protecting the environment; supporting communities; open communication.

Read more on pages 48 to 55

Our value chain

Designing new products and solutions: through investment in technology, together with an understanding of market trends and customer needs.

Winning new business: offering value through strong engineering capability, global footprint and innovative solutions.

Sourcing materials and products: a reliable source of key raw materials and components from a well developed, cost effective supply chain.

Applying lean manufacturing: efficient and cost effective processes that add value throughout the manufacturing chain.

Delivering high quality products: that meet customers' needs.

Delivering strong financial returns

Our financial goals are based on a balanced approach between sales growth, margin and return on invested capital (ROIC).

Read more on page 9

Continued growth

Nigel Stein
Chief Executive

I was pleased with our performance in 2015. We continued to grow and delivered profit before tax in line with our plans, despite more challenging conditions in some of our markets. We kept our focus on technology and operational excellence which underpin our position as leaders in our markets, at the same time taking some significant steps forward in pursuit of our strategy. I am confident that as we enter 2016, GKN is an even better business than it was a year ago.

Acquisition of Fokker

The most significant development was the acquisition of the leading Dutch aerospace company Fokker in October 2015. The acquisition is covered extensively later in this report. The business brings excellent technology which complements our own in aerostructures and gives us capability in new areas such as electrical wiring and landing gear. Fokker has an impressive facility in China that will help boost GKN Aerospace's activity in this important region, and it has good positions on successful programmes such as the Lockheed Martin F-35 and the Airbus A350 platforms where output is growing.

Fokker's strength is based on the quality of its people who are an excellent addition to the GKN team. I am confident that Fokker will prove an important complement to the Group. After extensive planning, the integration process is now under way.

Performance against our markets

Our strategy is aimed at outgrowing our markets on an organic basis, and in 2015 GKN Driveline and GKN Powder Metallurgy achieved that, overcoming difficult market conditions in China and Brazil through strong growth in Europe. GKN Driveline's sales grew by 5% organically, comfortably ahead of the growth in global car production (1.4%), with margins moving slightly ahead.

GKN Aerospace is in a period of transition, with some of our newer commercial programmes ramping up and mature military programmes winding down. In 2015, commercial aircraft sales increased by 6% while military sales declined 9%. Overall, sales in GKN Aerospace increased 2% organically. The switch from mature to new programmes put

£7,689m

Management sales (including the impact of Fokker)

£603m

Management profit before tax (including the impact of Fokker)

margins under pressure, and it took concerted management effort together with some help from one-off items to hold profits broadly level with 2014.

GKN Powder Metallurgy had a very good year, growing profits by 6% organically and taking its margin to 12%. Through their operational excellence and skill in developing hard to make 'Design for PM' components, the team succeeded in securing a record level of new orders.

GKN Land Systems gave a creditable performance, with organic sales down by 6% in very tough market conditions. The team worked hard to address falling sales by cutting costs, and the results reflect the impact of an £11 million restructuring charge.

Financial summary

We measure long-term financial success using three key metrics: growth above market; margin improvement within an 8% to 10% range; and return on invested capital (ROIC) at around 20% before tax, delivering increasing cash flow and dividend growth.

Against that framework our performance in 2015 was respectable. In summary, and ignoring the two months' impact of Fokker:

- Group sales grew organically by 2%, with growth above the market in both automotive businesses. GKN Aerospace's growth was slightly below the overall market. GKN Land Systems, with its differing markets, is hard to measure, but its results certainly compare favourably with most of its peers.
- Group margin held steady at 9.2% in spite of the headwind from lower profits in GKN Land Systems.
- ROIC moved up slightly, heading towards the 20% target.
- Cash flow and dividend both increased.

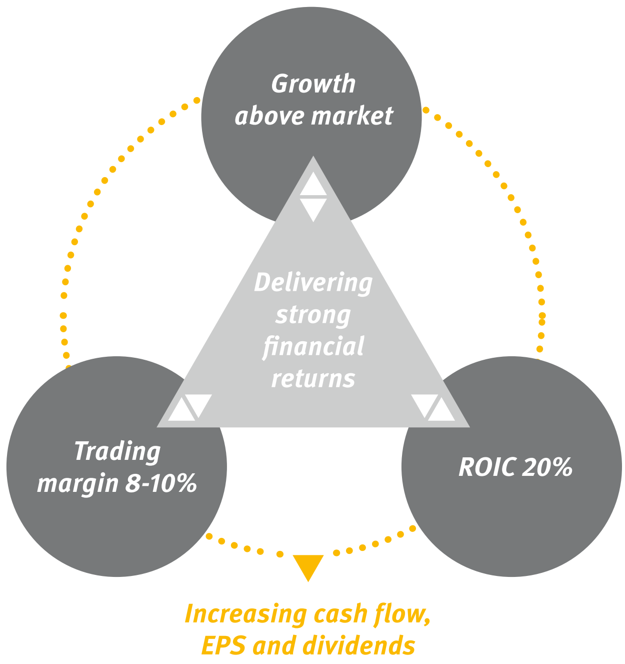
Strategic progress

Avoiding accidents at work is a top priority for all GKN employees. I was pleased with our good performance this year – shown in our KPIs on page 12 – however we will look for even further improvement in 2016.

Being the best at what we do is part of our philosophy. Harnessing new technology is an important part of our aim to move ahead of our competitors and consolidate our market-leading positions.

Our financial goals

To deliver sustainable shareholder value over the long term, our financial goals are based on a balanced approach between sales growth, margin and return on invested capital (ROIC). Our automotive businesses outperformed the market in 2015; at 9.2% Group trading margin exceeded our minimum target of 8%, while we continued to make progress on ROIC at 17.8%. Further details are set out in the Group Finance Director's review on pages 14 and 15.



As well as new aerospace technology gained through the addition of Fokker, during the year we acquired Sheets Manufacturing Inc. which provides us with the opportunity to manufacture innovative lip skin products on an industrial scale. The lip skin technology offers weight reduction and improved aerodynamics, and will be used on the Boeing 737 MAX and other Boeing aircraft.

Additive manufacturing (AM), or the 3D printing of metallic components, is increasingly seen as an important new process for most of our markets. We are developing our position in AM and were pleased that GKN Aerospace proved successful in winning its first production orders for parts, which will be used on military aircraft. GKN Powder Metallurgy is now supplying aerospace certified titanium powder from our US-based pilot plant for new AM parts.

GKN Driveline's leading technology was demonstrated when its eDrive axle project won a prestigious Automotive News PACE award, considered to be the industry benchmark for automotive innovation. eDrive axles are a second electrically driven axle which provide all-wheel drive (AWD) capability as well as improved fuel efficiency. GKN Driveline is the leader in that market with more units on the road than our competitors. eDrive today is a relatively small part of our business, but it is expected to grow as vehicles become increasingly electrified.

GKN Land Systems made progress with a new industrial shaft monitoring service and innovative wheel profiles.

The progress of the past year could not have been delivered without the tremendous efforts of the whole GKN team around the world. I thank them sincerely for their hard work and commitment.

Looking ahead

Looking to the future, I am confident that GKN's strategy – which is set out in more detail on pages 6 and 7 of this report – will bring continuing success.

As regards the outlook for 2016:

- Aerospace markets generally remain in transition as some aircraft programmes run down and others ramp up. The overall market will be slightly down, according to external forecasts. Against that backdrop, GKN Aerospace's 2016 organic sales are expected to be broadly flat, although the results will benefit from the contribution of Fokker. In the medium term, our strong commercial order book supports continuing growth for GKN Aerospace.
- In automotive, external forecasts predict growth in global light vehicle production of around 3% with increases in China, North America, Europe and India, while Brazil is expected to show a further sharp decline. Against this background, GKN Driveline and GKN Powder Metallurgy are expected to continue to grow organically above the market.
- GKN Land Systems' sales are expected to fall further due to softer agricultural and construction equipment markets.

Although the economic backdrop is uncertain and some of our markets remain challenging, 2016 is expected to be a year of good growth, helped by the contribution from Fokker.

Nigel Stein

Nigel Stein
Chief Executive

Group strategic progress

The acquisition of Fokker strengthened GKN's progress against all of our strategic objectives.

Strategic objective	Progress
Leading in our chosen markets	• Organic wins across the Group and strong sales performances in the automotive businesses.
Leveraging a strong global presence	• Further strengthening capacity in Mexico (GKN Aerospace), US (GKN Driveline) and China (GKN Powder Metallurgy and GKN Land Systems).
Differentiating ourselves through technology	• Acquired Sheets Manufacturing Inc. to provide GKN Aerospace with unique new technology. • Strong progress in eDrive and eAxle developments. • Continued to develop strong position in additive manufacturing across GKN.
Driving operational excellence	• Further strengthened the 'Voice of the Customer' programme, aimed at improving GKN performance. • Quality and process excellence programmes across the business.

Sustaining above market growth

Continuing to make progress

This year we conducted a review of our KPIs to ensure they are consistent with the key measures monitored by our Board, and reflected elsewhere in the annual report. We have also linked each indicator with the relevant strategic or other objective.

Strategic objectives

Leading in our chosen markets

Leveraging a strong global presence

Differentiating ourselves through technology

Driving operational excellence

Sustaining above market growth

Delivering strong financial returns

Doing the right thing

For definitions/methods of calculation, see pages 36 to 37.

Sales growth

Target
To achieve long-term growth rates at both Group and divisional level (in absolute terms and on an underlying basis) in excess of the growth in our major automotive, aerospace and land systems markets.

2015 performance
Group management sales increased by 3% on an absolute basis and grew by 2% on an organic basis.[1]

£7,689m

2015	£7,689m
2014	£7,456m
2013	£7,594m
2012	£6,904m
2011	£6,112m

Trading margin

Target
To achieve an overall Group trading margin of between 8% and 10%.

2015 performance
The Group trading margin of 8.8% remains within the target range, and, excluding the impact of Fokker, was in line with last year at 9.2%.[1]

8.8%

2015	8.8%
2014	9.2%
2013	8.7%
2012	8.0%
2011	7.7%

Earnings per share (EPS)

Target
To achieve absolute growth in EPS each year and in the longer term, recognising the nature and cyclicality of our major markets, to achieve above market growth relative to our end markets.

2015 performance
Management EPS decreased by 4% to 27.8 pence, due to a higher tax rate and the impact of Fokker.

27.8p

2015	27.8p
2014	29.0p
2013	28.7p
2012	26.3p
2011	22.6p

Return on average invested capital (ROIC)

Target
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).

2015 performance
Group ROIC of 17.8% reflects improved trading profit in GKN Driveline which was offset by restructuring charges in GKN Land Systems.[1]

17.8%[2]

2015	17.8%
2014	17.7%
2013	17.3%
2012	18.0%
2011	18.3%

1 For divisional contribution to each of these KPIs, see key financial results tables on pages 18, 24, 28, and 32.
2 Excludes impact of Fokker.

Free cash flow

Target
To generate positive free cash flow sufficient to cover dividend payments and provide funding resources to support organic and acquisitive earnings growth, and reduce indebtedness.

2015 performance
Free cash flow amounted to £370 million including the benefit of customer advances discussed further on pages 14 and 15.

£370m

2015	**£370m**
2014	£234m
2013	£346m
2012	£225m
2011	£147m

New business wins

Target
Selective new business wins targeted in our chosen markets to help achieve our strategic objectives and financial goals.

2015 performance
During 2015 we have continued to win new business aligned to our strategic goals. Key examples are discussed in the divisional business reviews on pages 16 to 33.

GKN Aerospace[1]

$3.5bn

2015	**$3.5bn**
2014	$3.7bn

GKN Automotive[2]

£1,067m

2015	**£1,067m**
2014	£1,039m

1 Estimated total contract value.
2 Estimated annualised sales value.

R&D as % of sales

Target
Sustainable investment in research and development to support future growth.

2015 performance
R&D expenditure (excluding Fokker) amounted to 4.4% of Group sales, with expenditure highest in GKN Aerospace.

4.4%

2015	**4.4%**
2014	4.3%

Accident frequency rate (AFR) / accident severity rate (ASR)

Target
Continued long-term reduction towards zero accidents.

2015 performance
Our continued commitment to health and safety performance has resulted in a decrease in both AFR and ASR rates. This includes ongoing focus on our *think*SAFE! programme, proactive management of near misses, regular audits and targeted risk assessments.

AFR

13% improvement

2015	**1.20**
2014	1.38

ASR

15% improvement

2015	**39**
2014	46

Energy efficiency

Target
3% year-on-year improvement.

2015 performance
A number of Group-wide energy efficiency projects have helped deliver a 3% improvement in energy efficiency, in line with our 2015 target. This is discussed in more detail in the sustainability report on page 55.

3%

Apprentices

Target
Year-on-year increase in the number of apprentices across the Group.

2015 performance
We continued to expand our recruitment of apprentices with 875 in roles across the Group.

+18

Employee disclosure

Target
Year-on-year increase in the number of calls to the employee disclosure hotline, providing an early indicator of potential issues.

2015 performance
The number of hotline calls increased by 19%, reflecting continued focus on promoting awareness and a growing workforce.

+25

Short-term focus

Management turnover

Target
Voluntary turnover of management employees of less than 5%.

2015 performance
Voluntary turnover continues to be maintained below our target of 5%.

4.1%

Diversity

Target
To achieve a five-year goal of 20% of leadership to be women by 2020 and, in time, 20% from under-represented groups.

2015 performance
Good progress has been made towards our diversity goals, which are discussed further on page 51.

% women in management

12.6%

% leaders from under-represented groups

9.9%

Compliance training

Target
100% of employees within the target audience to complete training.

2015 performance
97% of the target audience have to date completed our online compliance training.

97%

FINANCIAL REVIEW

Moving forward

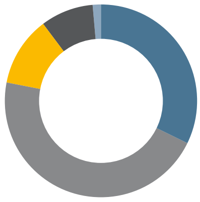
Adam Walker
Group Finance Director

The Group made good progress in 2015 with growth in sales, profit before tax and Group ROIC (before the impact of the Fokker acquisition) – all of which support an increase of 4% in the total dividend.

Group performance

	2015	2014	Change (%) Headline	Organic
Sales (£m)	**7,689**	7,456	3	2
Trading profit (£m)	**679**	687	(1)	–
Trading margin (%)	**8.8**	9.2		
Profit before tax (£m)	**603**	601		
Return on average invested capital (%)	**17.8**	17.7		

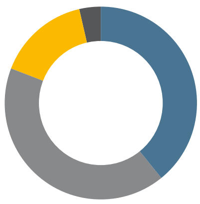
Management sales



£7,689m

- **GKN Aerospace:** £2,500m
- **GKN Driveline:** £3,548m
- **GKN Powder Metallurgy:** £906m
- **GKN Land Systems:** £693m
- **Other businesses:** £42m

Management trading profit



£679m[1]

- **GKN Aerospace:** £273m
- **GKN Driveline:** £290m
- **GKN Powder Metallurgy:** £109m
- **GKN Land Systems:** £24m

1 Including corporate costs and other businesses.

Earnings per share

27.8p

Operating cash flow

£525m

Net debt

£769m

Sales

Management sales increased £233 million (3%) to £7,689 million (2014: £7,456 million). The adverse impact of currency translation on sales was £4 million, including a £250 million increase due to movements in the US dollar and a £174 million decrease due to the Euro. Acquisitions and disposals caused a net £58 million increase in sales, mainly driven by the acquisition of Fokker (sales of £113 million) partly offset by the disposal of the Emitec joint venture in July 2014.

Organic sales growth of £179 million (2%) was achieved with a notably strong performance from GKN Driveline (5% increase). GKN Powder Metallurgy's organic sales were flat due to the pass through of lower raw material surcharges to customers. GKN Aerospace grew 2% organically, being the combination of commercial sales up 6% and military sales decreasing 9%. GKN Land Systems sales reduced 6% organically due to tough agricultural and construction equipment markets.

Trading profit

Management trading profit reduced £8 million to £679 million (2014: £687 million) due to the impact of the Fokker acquisition. There was a £25 million reduction as a result of acquisitions and disposals, including £18 million of costs incurred in relation to Fokker, which were primarily acquisition and restructuring costs. Movements in foreign exchange rates caused an £18 million increase in trading profit. There was a £1 million reduction in organic trading profit as the reduction in GKN Land Systems offset the improvements in GKN Driveline and GKN Powder Metallurgy.

GKN Aerospace's organic profit was £1 million lower overall, with the lower profit caused by rate reductions on some mature programmes such as the C-17 military transporter and A330 wide-body aircraft programme partly offset by £25 million one-off benefits and reducing the start-up losses on the A350 programme.

GKN Driveline had a positive year, delivering an organic increase to trading profit of £8 million, while GKN Powder Metallurgy delivered a £6 million organic increase in trading profit. GKN Land Systems' trading profit reduced £18 million in the year organically, including an £11 million restructuring charge.

Margin

Trading profit margin of 8.8% (2014: 9.2%) was lower due to the inclusion of the Fokker charges; otherwise it would have been unchanged.

Return on invested capital

Group ROIC increased 10 basis points to 17.8% (excluding Fokker which has not been owned for a full 12 month period) (2014: 17.7%), well ahead of the Group's weighted average pre-tax cost of capital of c.12% and moving towards the Group target of 20%.

Taxation

The book tax rate increased to 24% (2014: 22%) as the ability to recognise deferred tax assets diminished.

Interest

Net interest payable for the year was £65 million (2014: £73 million) due to the lower interest charged on a refundable government advance that was repaid during 2014 and a receipt from the UK tax authorities in relation to tax that was previously levied on dividends.

Earnings per share

Management profit before tax increased £2 million to £603 million, which translated into a 4% decrease in earnings per share to 27.8 pence (2014: 29.0 pence), following the increase in the Group tax rate, acquisition costs and new shares issued as part funding for the Fokker acquisition.

Dividend per share

Dividend per share increased 0.3 pence to 8.7 pence (2014: 8.4 pence), a 4% increase.

Pension deficit

The pension deficit for the Group decreased £153 million to £1,558 million (2014: £1,711 million) following changes in the discount rates used and further contributions.

Cash flow

Operating cash flow increased £140 million to £525 million (2014: £385 million). This improvement was primarily driven by a net cash inflow from movements in working capital of £70 million (2014: £33 million outflow), primarily influenced by a customer advance payment, in addition to the absence of the £38 million repayment of a government advance in 2014.

£m	2015	2014
Trading profit (subs)	**609**	612
Depreciation and amortisation	**261**	252
Working capital	**70**	(33)
Capital expenditure	**(411)**	(403)
Repayment of principal on gov. advance	**–**	(38)
Other	**(4)**	(5)
Operating cash flow	**525**	385
Non-operating cash flows	**(155)**	(151)
Free cash flow	**370**	234

Free cash flow increased by £136 million to £370 million (2014: £234 million) as higher tax payments of £111 million (2014: £68 million) were more than offset by lower interest payments of £54 million (2014: £83 million), higher dividends received from joint ventures of £55 million (2014: £44 million), and improvements in working capital.

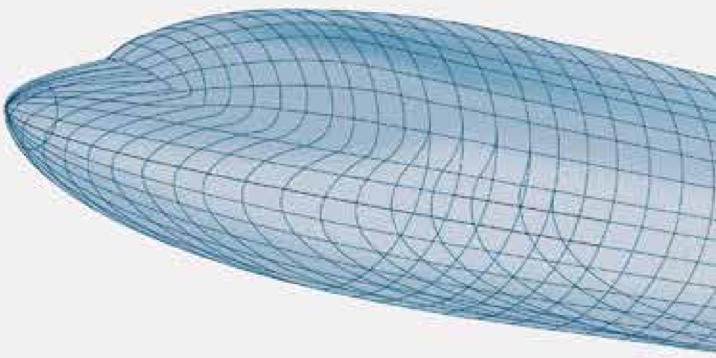
Movement in net debt

Overall net debt increased to £769 million (2014: £624 million) primarily due to the Fokker acquisition.

See pages 34 to 37 for other financial information

A period of transition

GKN Aerospace is a leading global tier one supplier of airframe and engine structures, landing gear, electrical interconnection systems, transparencies, and aftermarket services. It supplies products and services to a wide range of commercial and military aircraft and engine prime contractors, and other tier one suppliers.



What we do

Products

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

Key strategic activities

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

- Supporting our customers by delivering on our strong positions on existing programmes
- Growth on existing platforms and on selective new high-growth and long-running platforms through the application of technology and cost-effective solutions
- Developing new technologies for future commercial and military aircraft, to enhance capabilities, improve fuel efficiency, reduce emissions and minimise the environmental impact of aviation
- Strengthening our current market leadership positions and expanding into adjacent markets with similar product technologies and manufacturing capabilities
- Expanding our global footprint to serve more customers around the world.

STATE-OF -THE-ART *The highest level of technology and products we deliver to customers today.*

EMERGING *Where GKN know-how in advanced technologies and continuous investment is changing the status quo.*

FUTURE *Where we are creating technology that will help shape tomorrow's world.*

FUTURE

GKN Aerospace nominated for Clean Sky 'best project' award

GKN Aerospace's innovative response to a customer design challenge is believed to be the first air intake design (ensures smooth air flow into the engine) to integrate both ice protection and noise reduction technology. Airbus wanted to explore an air intake design for future single aisle aircraft. The GKN-led solution, which uses a composite structure to increase environmental performance and fuel efficiency, was short-listed for a European Clean Sky Initiative award.
See more at www.gkn.com

GKN Aerospace's quieter, rugged lightning and ice protected air intake developed through the SIPAL programme

EMERGING

AM takes off

GKN Aerospace has taken the lead in additive manufacturing (AM) technology and the first AM parts certified for flight have now been delivered. AM technologies allow components to be built up in layers by depositing material, rather than subtracting it. Offering low waste and almost total design freedom, AM breaks the constraints of traditional manufacturing, allowing more complex parts to be created using a single process. Eventually, AM is expected to lower the weight and cost of some products by as much as 60%.

See more at www.gkn.com

GKN-designed additively manufactured Kruger rib

Boeing's first 737 MAX takes off from Renton Field in Renton, Washington. (Boeing photo by Matthew Thompson)

STATE-OF -THE-ART

Leading technology delivers a big win with Boeing

In June 2015, GKN Aerospace was awarded a contract to supply new engine inlet lip skin technology for the Boeing 737 MAX and 777X, as well as components and subassemblies for the 787 Dreamliner. The one-piece 737 MAX inlet lip skins are lighter weight and incorporate a laminar flow surface to reduce drag and improve aerodynamic performance, resulting in reduced fuel consumption.

See more at www.gkn.com

Kevin Cummings
Chief Executive
GKN Aerospace

The overall aerospace market remained positive in 2015 driven by a growing commercial aircraft market partly offset by a declining military market. The division's commercial sales were 75%, with military representing 25%. In commercial, both Airbus and Boeing continued to benefit from higher deliveries and a record order backlog, and both have announced plans to increase production levels for single aisle aircraft in the future.

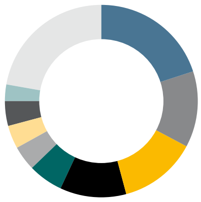
The short-term outlook for wide-body aircraft is mixed, with A330 and Boeing 777 rate reductions projected in advance of their next generation successors, while the A350 continues to ramp-up to full rate production. Military sales are projected to decline in the short term with this sector stabilising over the mid-term as the F-35 continues to ramp up its production rate.

Overall, GKN Aerospace's organic sales were £49 million higher (2%). There was a £111 million (5%) benefit from currency translation and sales from acquisitions amounted to £114 million (5%).

Performance

	2015			*2014*	*Change (%)*	
	GKN base	Fokker related	Total		Headline	Organic
Sales (£m)	2,387	113	2,500	2,226	12	2
Trading profit (£m)	291	(18)	273	277	(1)	0
Trading margin (%)	12.2		10.9	12.4		
Return on average invested capital (%)	18.1			17.7		

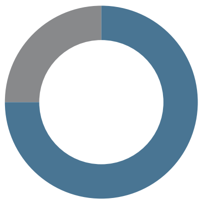
Sales by customer[1]



- **Airbus:** 20%
- **United Technologies:** 13%
- **GE:** 13%
- **Boeing:** 11%
- **Snecma:** 6%
- **Honeywell:** 4%
- **Spirit:** 4%
- **Rolls-Royce:** 4%
- **Lockheed:** 3%
- **Other:** 22%

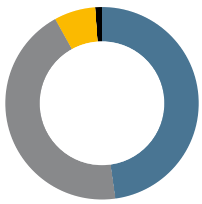
1 Excludes Fokker

Sales by market



- **Commercial:** 75%
- **Military:** 25%

Sales by product



- **Aerostructures:** 48%
- **Engine components and sub-systems:** 44%
- **Special products:** 7%
- **Services:** 1%

16,700
employees

14
countries

62
manufacturing locations

Divisional performance against Group strategy

Our acquisition of Fokker supports GKN Aerospace's performance against all our strategic objectives. For more details, see the Fokker case study on pages 20 and 21.

Strategic objective	Progress
Leading in our chosen markets	• Global number two in aerostructures and in the independent aero engine structures market, and number three in electrical wiring systems. • $3.5 billion new work packages won.
Leveraging a strong global presence	• Invested in composite and metallic manufacturing in Mexico. • Construction completed of a new manufacturing site in Seattle, US, to support the Boeing 737 MAX assembly line. • Construction began of a new, state-of-the-art and fully automated facility in Orangeburg, US, to deliver engine inlet lip skins for the Boeing 737 MAX.
Differentiating ourselves through technology	• Fabricated robotically welded case technology selected for the Pratt & Whitney PurePower PW1900 Geared Turbofan™ engine. • Continued to develop strong positions in additive manufacturing and future wing design. • Acquired Sheets Manufacturing Inc. in the US, which provided unique spin forming capability for the development and production of engine inlet lip skins.
Driving operational excellence	• Improved customer scorecard results across the globe through 'Voice of the Customer' initiative. • Received a number of quality awards from customers, including 'Best performing supplier' from Airbus.

Sustaining above market growth

Trading profit was £273 million (2014: £277 million). There was a favourable currency translation impact of £16 million, the organic reduction in trading profit was £1 million and the reduction in profit from acquisitions was £19 million, including £18 million in relation to Fokker. As highlighted at the half year, GKN Aerospace made further progress on an onerous contract, which resulted in a full year benefit of £22 million, and warranty claims were resolved favourably resulting in a credit of £8 million; partly offset by £5 million of restructuring charges.

Organic commercial aerospace sales were 6% higher, benefiting from stronger orders for the A350, business jets, Boeing 737 and Boeing 787 partly offset by a reduction in A330 production. Military organic sales were 9% lower, primarily due to the ending of the C-17 programme and lower sales for F/A-18 Super Hornet and UH-60 Black Hawk helicopter.

Overall, organic profits in GKN Aerospace held steady year on year. Progress was made on the A350, with units delivered late in the year moving into profit, as planned. Early production of the work that was won following the Sheets acquisition was encouraging. Profits were negatively impacted by the reduction in mature commercial and military programmes.

The integration of Fokker, acquired on 28 October 2015, is proceeding well. It added sales of £113 million. The losses of £18 million included £13 million of deal and integration costs and £5 million of restructuring costs, planned prior to the acquisition by GKN Aerospace. These are separate to the €50 million (£35 million) of restructuring costs which were announced at the time of the acquisition and are expected to be charged in 2016, although excluded from management profits.

During the year, new work packages won exceeded $3.5 billion over their contract lives and a number of important milestones were achieved, including:

- the acquisition of Sheets Manufacturing Inc. on 8 June 2015, a technology leader in the manufacture of aircraft engine inlet lip skins with legacy programme positions on the Boeing 747-8 and KC-46 tanker. This acquisition will support GKN Aerospace on the contract awarded for engine inlet lip skins for the Boeing 737Max and Boeing 777X, and work to assemble the Section 47 floor grid for the Boeing 787
- agreeing a new ($650 million) risk and revenue sharing partnership (RRSP) with Pratt & Whitney covering the supply of components for the PurePower® PW1400-JM Geared Turbofan™ engine for the Irkut MC-21 mid-range, single aisle aircraft
- the Filton facility being awarded 'Accredited Member' status by Airbus, the highest level of recognition by the Airbus supply chain and quality improvement programme (SQIP)
- entering into a strategic partnership with Arcam AB to develop and industrialise one of the most promising new additive manufacturing (AM) processes to meet the needs of the expanding future aerospace market. Production orders were received for AM parts flying on production aircraft.

See pages 6 and 7 for more information on our strategic framework

Fokker acquisition strengthens GKN Aerospace

In October, we completed the acquisition of Fokker Technologies Group B. V. A specialist tier one supplier in aerostructures, electrical wiring systems, landing gear and support services, Fokker operates across the commercial, military and business jet markets. Headquartered in the Netherlands, the business has become an operating division of GKN Aerospace making the combined business the global number two in aerostructures, while adding a new competence as the global number three in electrical wiring systems.

Fokker overview

Fokker Technologies is a global aerospace specialist in aerostructures, electrical systems, landing gear and through-life aircraft support systems. The company has 100 years' heritage in the industry and operates through four principal business units:

- **Fokker Aerostructures:** light-weight aerostructures such as tails, wing components, and fuselage panels
- **Fokker Elmo:** electrical wiring and interconnect systems
- **Fokker Landing Gear:** landing gear technology
- **Fokker Services:** aircraft and parts availability services.

The Fokker business brings around 5,000 colleagues to GKN Aerospace, as well as 21 new locations in nine countries: the Netherlands, US, China, Turkey, India, Canada, Mexico, Romania and Belgium.

How Fokker fits within GKN

GKN Aerospace has the following business units – Aerospace Engine Systems, Aerostructures North America, Aerostructures Europe and Special Products Group. They are all supported by Global Engineering & Technology. Fokker will join GKN Aerospace as a new business unit.

"Fokker is an excellent strategic and cultural fit which supports our growth strategy, strengthening GKN Aerospace's market leadership, manufacturing footprint and technology. This transaction will increase our shipset value on key growth programmes in both the commercial and military markets, and integration is now under way."

Nigel Stein
Chief Executive

Operator working on the Airbus A380 composite outboard flap in Papendrecht

Operator working on Glare® fuselage panel for the Airbus A380 at Fokker in Papendrecht

Bringing new technology with Glare®

Glare® is short for glass-fibre reinforced aluminium – a revolutionary light-weight material, also known as FML (fibre metal laminate). It is a laminate of thin aluminium together with resin epoxy in a sandwich with layers of glass fibre. The material is about 25% lighter than aluminium and has much better fatigue resistance as well as improved impact tolerance.

Fokker worked closely with the Technical University of Delft and the Dutch national aerospace laboratory in developing Glare®, then partnered with Airbus to deliver Glare® on the Airbus A380, reducing weight by almost 25% compared with traditional material. The A380's upper fuselage has a covering of nearly 500m² – 27 Glare® panels up to 11 metres long – while Glare® is also used on the leading edge of the vertical fin and on the horizontal stabiliser.

Operator at Fokker Elmo China

Expanding manufacturing in China

Fokker has been active in China for more than 15 years, having established a joint-venture facility in Langfang in 1997 employing more than 900 people. The Langfang facility supplies advanced wiring systems and electrical panels and boxes to most of the leading commercial aircraft and aircraft engine programmes worldwide for customers including Airbus, Boeing and Rolls-Royce. In 2012, Fokker broadened its portfolio by signing a contract with Shanghai Aircraft Design and Research Institute, a subsidiary of Commercial Aircraft Corporation of China Ltd, to work together on the electrical wiring and interconnection system for China's first commercial regional aircraft, the ARJ21.

Lockheed Martin F-35 Lightning II (photo by Kevin Griffin)

Adding content on Joint Strike Fighter

The Lockheed Martin F-35 Lightning II is a family of single-seat, single-engine, all-weather stealth fifth generation multirole fighters. Fokker has been part of the F-35 programme since 2002, and has designed and manufactured the electrical wiring interconnection systems, flaperons, in-flight opening doors, titanium engine parts and arresting gear for all F-35 aircraft currently flying and in production. Fokker has since been awarded the contract for the drag chute fairing assembly, and the next phase development contract for the composite drag brace. Customers in the F-35 programme are Lockheed Martin, Northrop Grumman, Pratt & Whitney and UTAS.

Sales growth ahead of the market

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

What we do

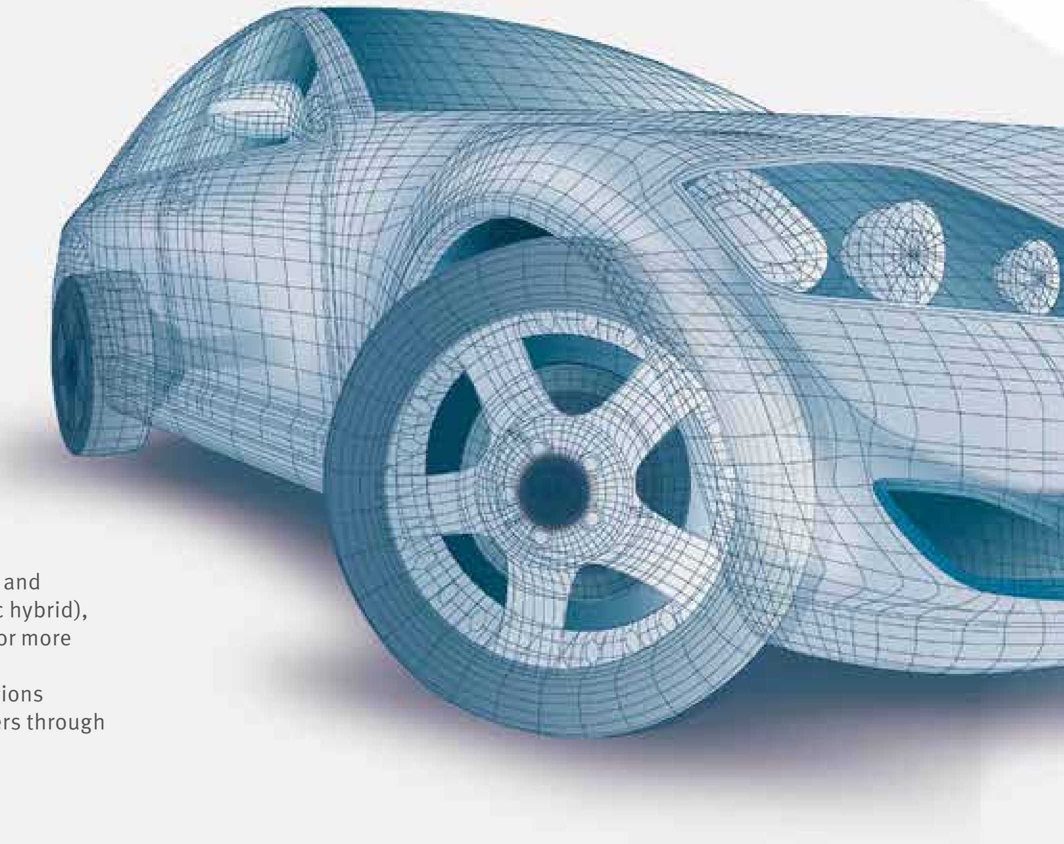
Products

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

Key strategic activities

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

- Providing innovative driveline systems and solutions (including eDrive and electric hybrid), supporting developing market trends for more fuel-efficient vehicles
- Increasing business in high-growth regions
- Serving the needs of strategic customers through a market-leading global footprint.



STATE-OF -THE-ART *The highest level of technology and products we deliver to customers today.*

EMERGING *Where GKN know-how in advanced technologies and continuous investment is changing the status quo.*

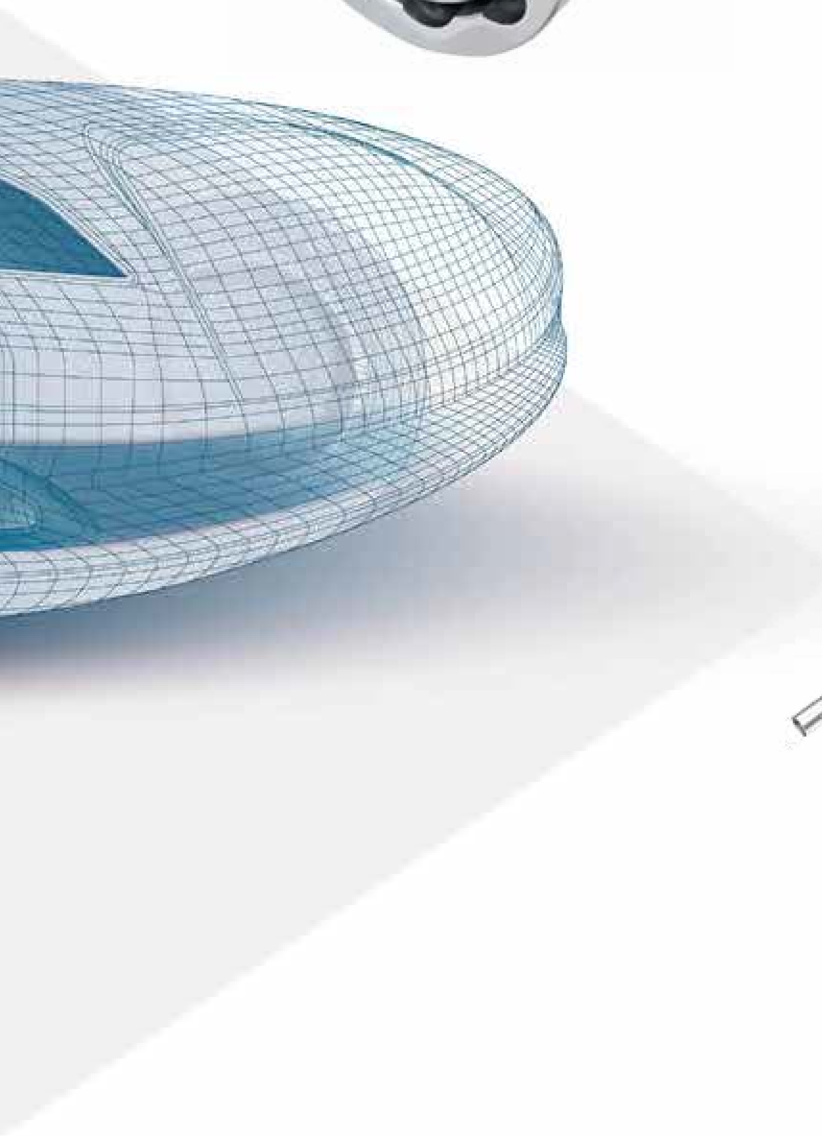
FUTURE *Where we are creating technology that will help shape tomorrow's world.*

STATE-OF-THE-ART

Innovations make vehicles lighter and more efficient

GKN has been pioneering the development of constant velocity jointed (CV jointed) systems for more than 60 years. The latest innovative CV joint, VL3, offers improvements in every area of importance for automakers, including strength, endurance, efficiency and weight, helping to produce a dynamic driving performance and optimising power delivery from the engine to the wheels. The technology has recently been named as an Automotive News 2016 PACE Award finalist.
See more at www.gkn.com

GKN's new lightweight VL3 CV joint



EMERGING

Meeting the future needs of all-wheel drive

Growing demand for all-wheel drive (AWD) is a global trend. Many consumers worldwide want smaller and more fuel-efficient cars that can do everything traditional AWD vehicles can. GKN Driveline has become the first tier one supplier to deliver a complete disconnect AWD system for a vehicle manufacturer – it is the basis for the FIAT® 500X and the Jeep Renegade®, and is now being launched globally.
See more at www.gkn.com

FIAT® 500X

eAxle on the Volvo XC90 T8 Twin Engine

FUTURE

World's first disconnecting eAxle

By 2025, GKN forecasts that 40-50% of vehicles will have some level of electrification, with a greater proportion of hybrids' power delivered from the electric motor. At the IAA Frankfurt Motor Show, GKN Driveline showcased a new eAxle system for the all-new Volvo XC90. It is the world's first disconnecting eAxle on a premium SUV.
See more at www.gkn.com

Phil Swash
Chief Executive
GKN Driveline

Highlights

- Organic sales growth of 5%, significantly ahead of global auto production helped by our broad geographic footprint and increased content per vehicle.
- Trading margin improved to 8.2% (2014: 8.1%).
- Around £880 million of annualised new and replacement business won.

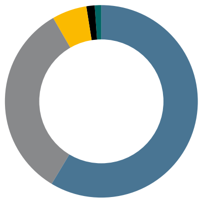
Performance

	2015	2014	Change (%) Headline	Change (%) Organic
Sales (£m)	**3,548**	3,444	3	5
Trading profit (£m)	**290**	280	4	3
Trading margin (%)	**8.2**	8.1		
Return on average invested capital (%)	**19.5**	19.3		

Sales by customer

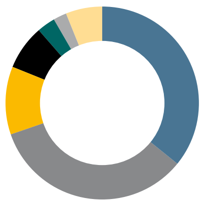
- **Fiat Chrysler:** 14%
- **VW Group:** 13%
- **GM Group:** 11%
- **Ford:** 11%
- **Renault Nissan:** 10%
- **Toyota Group:** 7%
- **BMW Group:** 5%
- **Tata Group:** 5%
- **Mitsubishi:** 3%
- **Other:** 21%

Sales by product group



- **CV jointed systems:** £2,129m
- **AWD systems:** £1,158m
- **Trans-axle solutions:** £210m
- **eDrive systems:** £28m
- **Other:** £23m

Sales by region of origin



- **Europe:** £1,279m
- **North America:** £1,195m
- **China:** £412m
- **Japan:** £265m
- **South America:** £106m
- **India:** £83m
- **Other:** £208m

26,300	23	46
employees	countries	manufacturing locations

Divisional performance against Group strategy

Strategic objective	Progress
Leading in our chosen markets	• Number one in driveline and AWD markets. • £880 million annualised new business won in sideshafts and all-wheel drive products.
Leveraging a strong global presence	• Construction of state-of-the-art research and development facility in Shanghai, plus localisation of key AWD programmes in China. • Ramping up of our new AWD plant in Thailand and expanded facilities in Turkey, China and the US, plus development of new facilities in Poland and Mexico.
Differentiating ourselves through technology	• AWD platform partner with Volvo on the all-new XC90, including both the conventional and plug-in hybrid variants. • Unveiled new eTwinster, which brings true torque vectoring capabilities to electric and hybrid vehicles for the first time. • Developed the new benchmark in constant velocity joint technology, the VL3, which debuted on the BMW 7 Series.
Driving operational excellence	• Developed the GKN Driveline Excellence System to ensure consistency in key processes and standards.

Sustaining above market growth

Organic sales increased by £173 million (5%) compared with global light vehicle production which was up 1%. The adverse effect of currency translation was £69 million (2%). Constant velocity jointed (CVJ) Systems accounted for 60% of sales and non-CVJ sales were 40%.

The organic improvement in trading profit was £8 million reflecting higher volumes in Europe. Profit conversion was limited by lower profitability in Japan and Brazil. The positive impact of currency translation on trading profit was £2 million.

GKN Driveline's market outperformance was mainly in Europe reflecting recent market share gains. A stronger position in premium vehicles, demand for which continued to be positive, and GKN Driveline's broadening product mix, particularly with AWD systems such as for the Fiat® 500X, Jeep Renegade, and Volvo XC90. GKN Driveline performed broadly in line with the market in North America (reflecting its lower content on truck-based platforms) and slightly below the market in China (recognising its greater exposure to global brands, which performed less strongly than domestic producers, and negative pricing).

The Americas operations were impacted by the Brazil market although capacity there was utilised to support growth in other plants. European plants were running at very high capacity with a strong conversion on the additional sales. In China, after the volatility in the third quarter, the business had a better end to the year.

During the year, around £880 million of annualised sales in new and replacement business was secured and a number of important milestones achieved, including:

- being selected by Volvo Cars to be their development partner on the front-wheel drive, AWD and hybrid drivelines of the all-new Volvo XC90
- becoming the first global tier one supplier to design, develop and manufacture a complete AWD system in China. GKN Driveline supplies the complete AWD to SAIC Motors' new MG GS compact SUV, as well as the front wheel-drive system
- winning an Automotive News PACE award for its two-speed eAxle technology, showcased on the class-redefining BMW i8 plug-in hybrid supercar
- expanding production facilities in Mexico, Turkey, Poland, Thailand and Chongqing, China and opening a state-of-the-art engineering facility at MIRA Technology Park, UK to test and develop the driveline technologies of the future
- GKN Driveline Brazil being awarded Toyota's prestigious South America Supplier Quality Excellence Award for the second year in a row.

See pages 6 and 7 for more information on our strategic framework

GKN POWDER METALLURGY REVIEW

Driving up margins

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

What we do

Products

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

Key strategic activities

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

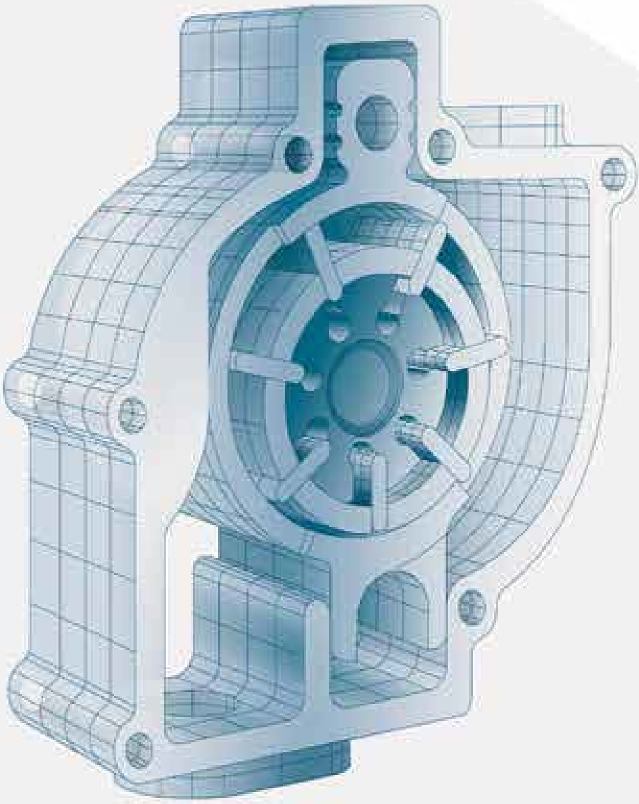
- Developing 'Design for Powder Metallurgy' applications to meet the rapidly developing requirements for high efficiency engines, advanced transmission applications, weight reduction and evolving emissions standards
- Expanding the business in high-growth markets, supporting customers globally
- Enhancing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

STATE-OF -THE-ART *The highest level of technology and products we deliver to customers today.*

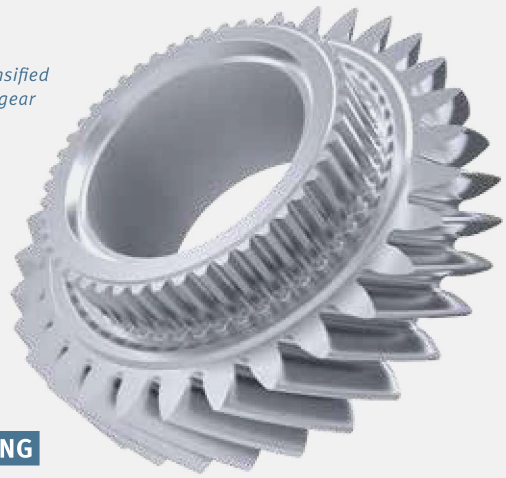
EMERGING *Where GKN know-how in advanced technologies and continuous investment is changing the status quo.*

FUTURE *Where we are creating technology that will help shape tomorrow's world.*

Variable vane oil pump



Partially densified GKN helical gear



EMERGING

Light weight and performance without compromise

As vehicle manufacturers explore opportunities to reduce vehicle weight with new materials, especially in eDrive applications, GKN Powder Metallurgy has developed a process for variable surface densification which allows accurate strengthening of defined areas of the gear. The extended use of powder metallurgy technology will enable vehicle manufacturers to adopt lighter vehicle architectures that still deliver a refined driving experience.

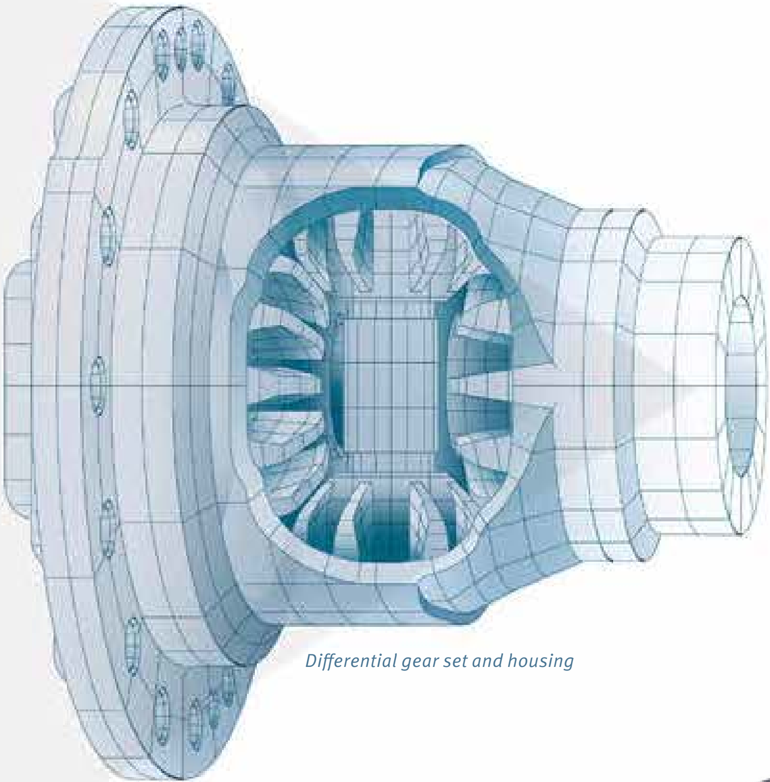
See more at www.gkn.com

STATE-OF-THE-ART

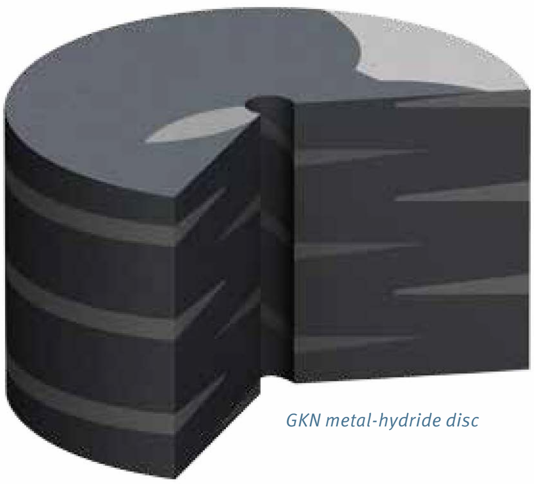
GKN differential gear in production for Ford

GKN Powder Metallurgy is delivering forged powder metallurgy bevel gears with a higher strength to weight ratio than commercially available wrought forged gears. These lighter, stronger gears offer significant benefits, enabling smaller gears to be used in downsized systems while at the same time promising better durability. That's why the Ford F-series is using GKN forged powder metallurgy gears in its open differentials and transmissions. Looking ahead, this technology will be ideal for all hybrid and full electric vehicles with improved life cycle durability.

Forged GKN differential gears for Ford F150, assembly set



Differential gear set and housing



GKN metal-hydride disc

FUTURE

Hydrogen storage: a green solution for renewable energy

The constant drive to cut emissions has seen exploratory work in various energy sources. New fuel cell technology that converts hydrogen into electricity is one such source. GKN Powder Metallurgy is using its powder process expertise to develop safe and stable storage for hydrogen. Using a metal-hydride unit made with powder metallurgy techniques provides the basis of a hydrogen reservoir that stores and then releases the gas when it is needed for charging a fuel cell.


Peter Oberparleiter
Chief Executive
GKN Powder Metallurgy

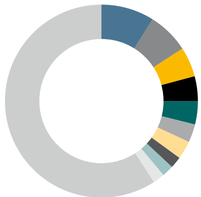
Highlights

- Organic sales growth ahead of the market, before the pass through of lower raw material surcharges.
- Trading margin increased to 12.0% (2014: 11.0%), benefiting partly from the lower surcharges.
- £185 million annualised new and replacement business won.
- Chinese powder production venture agreed subject to approvals, expansion of Chinese sintered parts production facilities and upgrade of North American capacity in progress.

Performance

	2015	2014	Change (%) Headline	Change (%) Organic
Sales (£m)	**906**	916	(1)	0
Trading profit (£m)	**109**	101	8	6
Trading margin (%)	**12.0**	11.0		
Return on average invested capital (%)	**22.3**	21.8		

Sales by customer



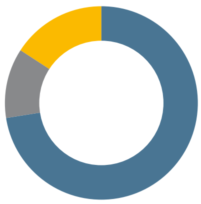
- **Ford:** 9%
- **GM:** 7%
- **Hilite:** 5%
- **Fiat Chrysler:** 4%
- **Schaeffler:** 4%
- **Linamar:** 3%
- **ZF Group:** 3%
- **Borg Warner:** 2%
- **VW Group:** 2%
- **Bosch:** 2%
- **Other:** 59%

Sales by GKN Sinter Metals and Hoeganaes

GKN Sinter Metals sales by region
- **Americas:** £389m
- **Europe:** £297m
- **Rest of world:** £77m

- **Hoeganaes:** £143m

Sales by product type



Sintered components
- **Automotive:** £659m
- **Industrial:** £104m

Hoeganaes
- **Metal powder:** £143m

6,600	9	32
employees	countries	manufacturing locations

Divisional performance against Group strategy

Strategic objective	Progress
Leading in our chosen markets	• Global leader in sintered components. • World's number two manufacturer of metal powder. • £185 million of new business won.
Leveraging a strong global presence	• Relocated to new production facilities in China. • Powder venture in China agreed, pending regulatory approval.
Differentiating ourselves through technology	• Increased success for 'Design for Powder Metallurgy' through unique combination of materials and process. • Continued to develop technically enhanced powders and titanium powder for additive manufacturing. • Leveraged technology partnership to accelerate use of hydrogen storage.
Driving operational excellence	• Continued to roll out advanced compaction presses in the US to improve manufacturing efficiency and capability. • Development of 'My Quality' programme and further implementation of digital data gathering.

Sustaining above market growth

Organic sales were £2 million higher, after the £23 million pass through to customers of lower steel prices and other surcharges. There was an adverse £5 million (1%) impact from currency translation and there was a £7 million decline as a result of the disposal of GKN Sinter Argentina.

Underlying growth (before raw material pass through) was 3%, ahead of global light vehicle production which was up 1%. Underlying sales growth was achieved in North America, China and Europe but sales in Brazil fell sharply due to weaker automotive and industrial markets.

The organic increase in profit was £6 million and there was a £2 million gain from currency translation.

The divisional trading margin was 12.0% (2014: 11.0%), reflecting the move towards higher value 'design for powder metallurgy' parts and a small margin benefit from lower raw material prices passed through to customers.

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

- winning around £185 million of annualised sales in new and replacement business
- its position in China being further enhanced by forming a new venture to produce metal powders, subject to approvals
- development of new technically enhanced powders continuing with a new research titanium atomiser being commissioned at the Powder Innovation Centre, in the US and the attainment of AS9100 Certification for the AncorTi™ range of gas atomised titanium powders for aerospace applications.

See pages 6 and 7 for more information on our strategic framework

Tackling tough markets

GKN Land Systems is a leading supplier of power management products and services. It designs, manufactures and supplies products and services for the agricultural, construction and utility vehicle markets and key industrial segments, offering integrated powertrain solutions and complete in-service support.

What we do

Products

- Electromechanical power management devices such as electromagnetic brakes, flexible couplings, clutches, driveshafts and gear technology.
- Custom-designed wheels for applications in arduous terrains.
- Advanced structures and chassis systems for a variety of vehicle types.
- Aftermarket parts and remanufacturing for passenger cars, commercial trucks, agricultural and construction vehicles, and industry applications.

Key strategic activities

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

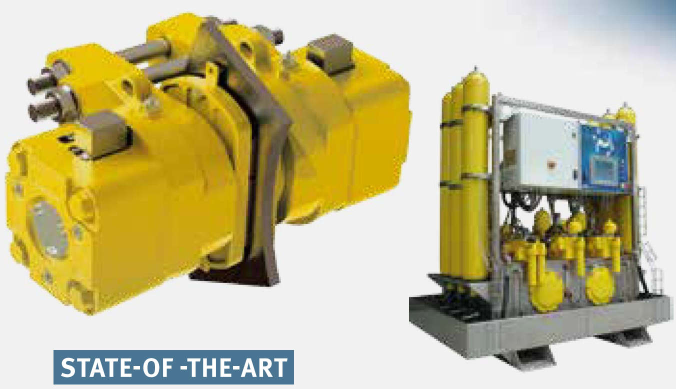
- Leading in high technology power management solutions to the world's OEMs
- Deploying new technologies to increase sales of our electromechanical products and systems
- Positioning our strong brands outside our traditional home markets into new and emerging growth markets
- Providing better customer solutions based on a detailed understanding of their needs and future strategies.

STATE-OF -THE-ART *The highest level of technology and products we deliver to customers today.*

EMERGING *Where GKN know-how in advanced technologies and continuous investment is changing the status quo.*

FUTURE *Where we are creating technology that will help shape tomorrow's world.*

SH32 emergency brakes (left); hydraulic power pump stations (right)

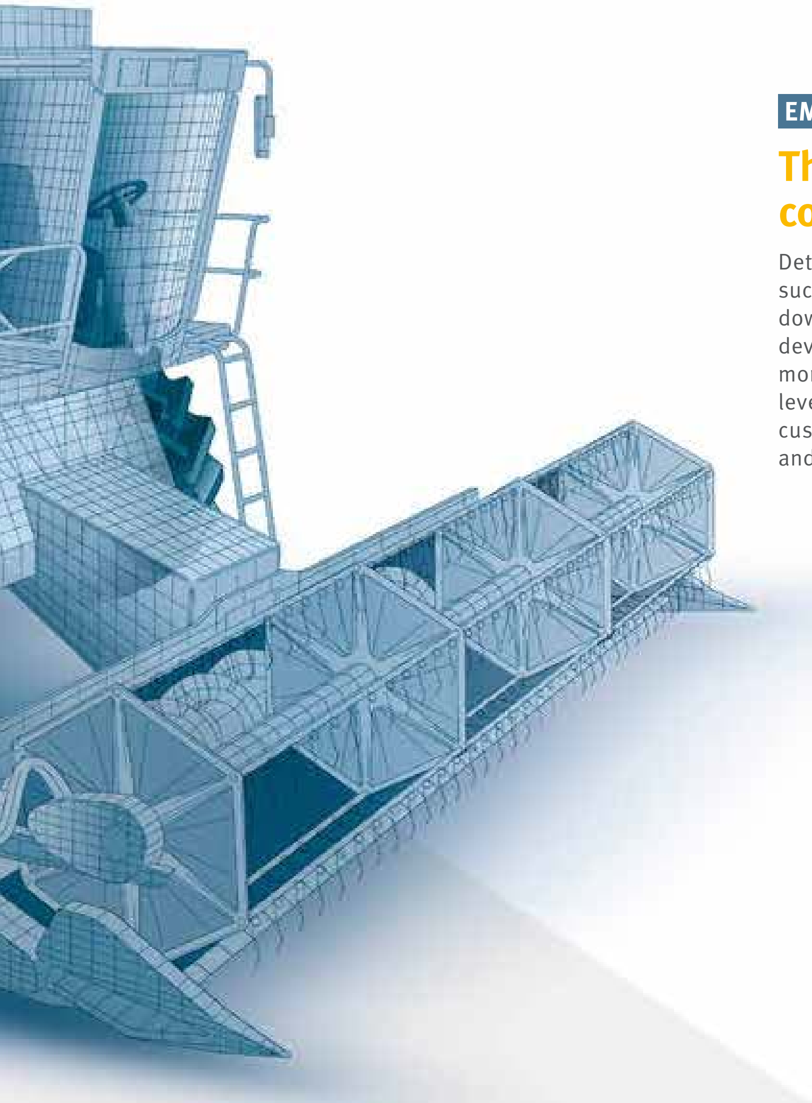


STATE-OF -THE-ART

Winning new business through global co-operation

Co-operation between our GKN Land Systems Stromag facilities in Taicang, China and La Guerche, France enabled us to win a £2.3 million contract in Taicang to supply our SIME hydraulic brake system for a three-level boat lifting system to the Wujiang Gou'pi'tan Hydropower Station.

See more at www.gkn.com



Industrial cardan shaft

EMERGING

Through-life support with automatic condition monitoring technology

Detecting early faults in driveshafts used in industrial plants such as steel and paper mills is crucial in reducing unplanned downtime and minimising costs. GKN Land Systems has developed advanced vibration analysis algorithms and monitoring technology to continuously assess performance levels in industrial application driveshafts, supporting customers by eliminating breakdowns, and cutting service times and spare part costs.

GKN Profi-grip rim

STATE-OF-THE-ART

Designing new products to address changing demands

Growing demand for efficiency in agriculture is driving innovation in larger and higher horsepower farming machinery. This innovation is challenging the tyre and wheel rim interaction so GKN Land Systems, in partnership with customers and tyre manufacturers, has developed the GKN Profi-grip rim, which prevents tyres from slipping from the rim, thereby increasing machine performance, durability and efficiency.

Adam Walker
Chief Executive
GKN Land Systems

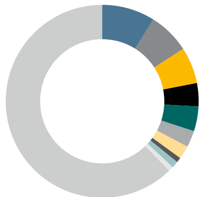
Highlights

- Organic sales down 6% due to challenging agricultural and construction equipment markets.
- Good cost control results in trading margin of 3.5% (2014: 5.7%), including £11 million restructuring charge.
- £110 million annualised new and replacement business won.

Performance

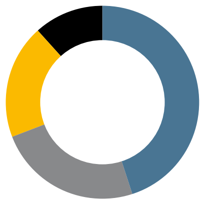
	2015	2014	Change (%) Headline	Change (%) Organic
Sales (£m)	**693**	776	(11)	(6)
Trading profit (£m)	**24**	44	(45)	(43)
Trading margin (%)	**3.5**	5.7		
Return on average invested capital (%)	**7.1**	11.4		

Sales by customer



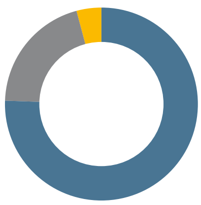
- **John Deere:** 9%
- **Case New Holland:** 7%
- **Tata Group:** 6%
- **Claas:** 4%
- **Caterpillar:** 4%
- **Agco:** 3%
- **JCB:** 2%
- **Toyota Group:** 1%
- **VW Group:** 1%
- **Agritalia/ Carraro:** 1%
- **Other:** 62%

Sales by market



- **Agriculture:** £312m
- **Industrial:** £168m
- **Automotive:** £134m
- **Construction and mining:** £79m

Sales by region of origin



- **Europe:** £524m
- **Americas:** £142m
- **Rest of world:** £27m

5,000	10	23
employees	**countries**	**manufacturing locations**

Divisional performance against Group strategy

Strategic objective	Progress
Leading in our chosen markets	• Maintained strong positions in wheels, shafts, clutches and industrial products. • Secured awards from longstanding customers Caterpillar, John Deere and Liugong. • New customers secured – Kubota (wheels); GE Wind (controls and sensors).
Leveraging a strong global presence	• Invested and expanded product portfolio in Taicang, China.
Differentiating ourselves through technology	• Winning incremental business with new technique of active controlled clutches. • Leveraging outstanding product know-how in synergy driveshafts. • Introducing new process technology to produce hot induction forming wheels.
Driving operational excellence	• Restructuring actions taken to improve efficiency and mitigate the effects of depressed market conditions.

Sustaining above market growth

Sales in GKN Land Systems were lower than the prior year primarily due to a significant decline in agricultural equipment markets. Demand for construction equipment was also weaker while industrial sales were slightly down.

The organic decrease in sales was £44 million (6%) and the adverse impact of currency translation was £39 million (5%).

The organic decrease in trading profit was £18 million, which includes £11 million of restructuring charges. £5 million of the restructuring charges relates to two chassis contracts which end during 2016, reducing sales by £25 million in 2016. The negative impact of currency translation was £2 million (5%).

Trading margin was 5.1% (2014: 5.7%), excluding restructuring charges.

2015 was a year dominated by tough market conditions which impacted trading and necessitated restructuring actions to right size the business for the future. Good progress was made to further develop capabilities and expand the product portfolio in Taicang, China. In addition, new technology such as integrated continuous slip clutches, hot induction forming wheels and synergy driveshafts is winning new business and new services, such as one for condition monitoring industrial shafts, and focus on niche, low capital opportunities with specific customers. During the year around £110 million of annualised sales in new and replacement business was won, helping to ensure GKN Land Systems is outperforming the market.

Other Businesses and corporate costs

GKN's Other Businesses comprise Cylinder Liners (which is a 59% owned venture mainly in China, manufacturing engine liners for the truck market in the US, Europe and China), EVO eDrive Systems (a developer of axial flux motors) and GKN Hybrid Power (a flywheel energy storage and hybrid system manufacturer), acquired on 1 April 2014. During the year, GKN Hybrid Power delivered its innovative fuel-saving solution for 45 buses.

GKN's Other Businesses reported combined sales in the year of £42 million (2014: £94 million). The change reflects a £1 million organic decrease in sales, the £51 million impact from the disposal of Emitec on 31 July 2014 and £2 million adverse currency translation impact more than offsetting the £2 million benefit from acquisitions. Trading profit was £1 million (2014: £5 million profit) reflecting the disposal of Emitec and the start-up costs of GKN Hybrid Power.

Corporate costs, which comprise the costs of stewardship of the Group and operating charges and credits associated with the Group's legacy businesses, were £18 million (2014: £20 million), primarily due to a £7 million past service credit following completion of a Pension Increase Exchange exercise in the UK partly offset by a £5 million charge relating to an environmental matter in a legacy business.

See pages 6 and 7 for more information on our strategic framework

OTHER FINANCIAL INFORMATION

Items excluded from management trading profit

In order to achieve consistency and comparability between reporting periods the following items are excluded from management measures as they do not reflect trading activity:

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 loss of £122 million (2014: £209 million loss). When the business wins long-term customer contracts that are in a foreign currency, the Group offsets 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 2015, the net fair value of such instruments was a liability of £351 million (2014: £180 million) and the change in fair value during the year was a £103 million charge (2014: £232 million charge). During the year £68 million of liabilities in the form of forward currency contracts were taken on via the acquisition of Fokker. There was also a £1 million credit arising from the change in fair value of embedded derivatives in the year (2014: £4 million credit) and a net loss of £20 million attributable to the currency impact on Group funding balances (2014: £19 million net gain).

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 £80 million (2014: £69 million).

Gains and losses on changes in Group structure

The net loss on changes in Group structure was £1 million (2014: £24 million gain). On 30 January 2015, the Group sold GKN Sinter Metals Argentina SA for a cash consideration of £1 million before professional fees. The loss on sale of £5 million comprises a £1 million loss on disposal of net assets and £4 million loss from reclassification of previous currency variations from other reserves. During the year, following reassessment of fair value, £4 million of contingent consideration related to a previous acquisition was released to the income statement.

Impairment charges

Consistent with previous years, goodwill and cash generating units were tested for impairment. As a result of difficult markets and reduced sales of certain products during the year an impairment charge of £71 million (2014: £69 million) has been recorded in respect of four cash generating units; two in GKN Aerospace, one in GKN Powder Metallurgy and one in Other Businesses.

Reversal of inventory fair value adjustment arising on business combinations

The inventory fair value adjustment of £12 million arising on the acquisition of Fokker was reversed in full before the year end.

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 £59 million (2014: £62 million), with trading profit of £70 million (2014: £75 million). The Group's share of the tax and interest charges amounted to £11 million (2014: £13 million). Trading profit decreased £5 million, reflecting more challenging market conditions for our equity accounted investment companies, primarily in China.

Net financing costs

Net financing costs totalled £137 million (2014: £129 million) and comprise the net interest payable of £65 million (2014: £73 million), the non-cash charge on post-employment benefits of £49 million (2014: £50 million), charges from fair value changes on cross currency interest rate swaps of £17 million (2014: £3 million credit) and charge for unwind of discounts of £6 million (2014: £9 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 £72 million (2014: £75 million), while interest receivable was £7 million (2014: £2 million) including £4 million of interest from recoveries on a tax case resulting in net interest payable of £65 million (2014: £73 million). Interest charged on government refundable advances was £3 million (2014: £7 million).

Profit before tax

Management profit before tax was £603 million (2014: £601 million). Profit before tax on a statutory basis was £245 million (2014: £221 million). The main differences between management and statutory figures for 2015 are the change in value of derivative and other financial instruments, amortisation of non-operating intangible assets arising on business combinations, gains and losses on changes in Group structure and the fair value charges on cross currency interest rate swaps. Further details are provided in note 3 to the financial statements.

Taxation

The book tax rate on management profits of subsidiaries was 24% (2014: 22%), arising as a £133 million tax charge (2014: £121 million) on management profits of subsidiaries of £544 million (2014: £539 million). The book tax rate is significantly lower than the theoretical weighted average tax rate, largely because of the utilisation of deferred tax assets, movements in tax risk provisions as outstanding issues are settled and tax on items excluded from management profit. The tax rate on statutory profits of subsidiaries was 23% (2014: 29%) arising as a £43 million tax charge (2014: £47 million charge) on statutory profits of subsidiaries of £186 million (2014: £160 million).

Non-controlling interests

The profit attributable to non-controlling interests was £5 million (2014: £5 million).

Earnings per share

Management earnings per share was 27.8 pence (2014: 29.0 pence). Average shares outstanding in 2015 were 1,674.1 million (2014: 1,640.6 million). On a statutory basis earnings per share was 11.8 pence (2014: 10.3 pence), higher primarily due to the year-on-year reduction in losses on mark to market of foreign exchange hedging contracts.

Dividend

In view of the Group's future prospects, the Board has decided to recommend a final dividend of 5.8 pence per share (2014: 5.6 pence per share). The total dividend for the year will, therefore, be 8.7 pence per share (2014: 8.4 pence per share). The Group's objective is to have a progressive dividend policy reflecting growth in earnings per share and free cash flow generation. The final dividend is payable on

16 May 2016 to shareholders on the register on 8 April 2016. 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 22 April 2016.

Cash flow

Operating cash flow, which is defined as cash generated from operations of £885 million (2014: £765 million) adjusted for capital expenditure (net of proceeds from capital grants) of £411 million (2014: £403 million), and proceeds from the disposal/realisation of fixed assets of £9 million (2014: £19 million), was an inflow of £483 million (2014: £343 million). Included in 2014 operating cash flow is the repayment of principal for a UK Government refundable advance of £38 million. Cash generated from operations includes movements in working capital and provisions totalling a net inflow of £82 million (2014: £33 million outflow). In 2015, the improvement of £115 million was primarily as a result of a substantial one-off customer advance, the VAT on which was repaid in 2016.

Capital expenditure (net of proceeds from capital grants) on both tangible and intangible assets totalled £411 million (2014: £403 million). Of this, £330 million (2014: £328 million) was on tangible fixed assets and was 1.5 times (2014: 1.5 times) the depreciation charge. Expenditure on intangible assets, mainly initial non-recurring costs on GKN Aerospace programmes, totalled £81 million (2014: £75 million).

The Group invested £157 million in the year (2014: £161 million) on research and development activities not qualifying for capitalisation, net of customer and government funding. Net interest paid totalled £54 million (2014: £83 million, including £16 million of previously accrued interest on a government refundable advance). Tax paid in the year was £111 million (2014: £68 million).

Free cash flow

Free cash flow, which is operating cash flow including equity accounted investment dividends and after interest, tax, amounts paid to non-controlling interests but before dividends paid to GKN shareholders, was an inflow of £370 million (2014: £234 million). The year-on-year change reflects improvements in working capital in addition to the repayment of a government refundable advance in 2014.

Net debt

At the end of the year, the Group had net debt of £769 million (2014: £624 million after payment of a government refundable advance (including accrued interest) of £54 million). In September 2014, the Group entered into a series of cross currency interest rate swaps to better align its foreign currency income receipts with its debt coupon payments. The fair value of these derivative instruments at 31 December 2015 was a liability of £69 million (2014: £26 million) which is included in the net debt figure of £769 million.

Pensions and post-employment obligations

GKN operates a number of defined benefit pension schemes and historic retiree medical plans across the Group. At 31 December 2015, the total deficit on post-employment obligations of the Group totalled £1,558 million (2014: £1,711 million), comprising deficits on funded obligations of £1,007 million (2014: £1,095 million) and on unfunded obligations of £551 million (2014: £616 million). In total, the deficit has decreased £153 million since 31 December 2014, primarily due to changes in the discount rates used, further deficit contributions and beneficial currency movements.

The amount included within trading profit for the year comprises current service costs of £50 million (2014: £49 million), administrative costs of £3 million (2014: £3 million) and a past service credit of £4 million (2014: settlement credit of £9 million). The interest charge on net defined benefit plans, which is excluded from management figures, was £49 million (2014: £50 million). Cash contributions to the various defined benefit pension schemes and retiree medical arrangements totalled £100 million (2014: £108 million).

UK pensions

The accounting deficit for UK schemes decreased to £912 million (2014: £1,005 million), following continued cash contributions from the Group. Both UK pension schemes underwent funding valuations as at 5 April 2013. The agreed deficit recovery plan requires payments of £10 million per year to the pension schemes combined.

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 £42 million (2014: £35 million).

Net assets

Net assets of £1,886 million were £385 million higher than the December 2014 year end figure of £1,501 million. The increase is driven by management profit after tax of £470 million and a gain on remeasurement of defined benefit plans of £139 million which, in aggregate, more than offsets dividends paid to equity shareholders of £142 million and currency on translation of subsidiaries/equity accounted investments net of tax and the change in value of derivative and other financial instruments of £90 million.

Treasury management

All treasury activities are co-ordinated 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 2015, UK committed bank facilities were £864 million (2014: £880 million). Within this amount there are committed revolving credit facilities of £800 million (2014: £800 million) and a £64 million (2014: £80 million) eight-year amortising facility from the European Investment Bank (EIB). The revolving credit facilities of £800 million mature in 2019, while the first of five equal, annual £16 million EIB repayments was paid this year. At 31 December 2015, £64 million of the EIB facility was drawn (2014: £80 million fully drawn) and there were no drawings on any of the UK revolving credit facilities (2014: no drawings). Capital market borrowings at 31 December 2015 comprised a £350 million 6.75% annual unsecured bond maturing in October 2019 and a £450 million 5.375% semi-annual unsecured bond maturing in September 2022.

As at 31 December 2015, the Group had net debt of £769 million (2014: £624 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 2015, EBITDA was 13.4 times greater than net interest payable, while net debt was 0.9 times EBITDA. During 2014 the Group entered into 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. The fair value of the cross currency interest rate swaps at 31 December 2015 was a liability of £69 million (2014: £26 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 with the level of committed available borrowing facilities, described above. The Directors have concluded that the Group will have a sufficient level of headroom in the foreseeable future and that the likelihood of breaching covenants in this period is remote. It is therefore appropriate for the financial statements to be prepared on a going concern basis.

The Directors also confirm that they have a reasonable expectation that the Group will be viable for at least three years from 1 January 2016, continuing to operate and meet its liabilities as they fall due. The Directors' assessment has been made by stress testing the Group's 2016 budget and a sensitised forecast for 2017 and 2018.

The stress testing involved modelling the impact of our principal risks in a number of severe but plausible downside scenarios, taking account of additional mitigating actions available to the Group. The most severe risks that were modelled were a major global quality issue, global market deterioration and increased margin pressure. The assessment considered the potential impact of these risks on the 2016 budget and sensitised 2017 and 2018 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.

Basis of preparation

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

Definitions

Financial information aggregates the sales and trading profit of subsidiaries (excluding certain subsidiary businesses sold and closed) with the Group's share of the sales and trading profits of joint ventures. The following definitions apply:

Information	Definition
Trading margin[1]	Management trading profit expressed as a percentage of sales.
Management profit or loss before tax	Management trading profit less: net subsidiary interest payable and receivable; the Group's share of net interest payable and receivable; and taxation of equity accounted investments.
Organic results	Where appropriate, reference is made to organic results which exclude the impact of acquisitions/ divestments as well as currency translation on the results of overseas operations.
Operating cash flow	Cash generated from operations adjusted for capital expenditure, government capital grants, proceeds from disposal of fixed assets, and government refundable advances.
Free cash flow[1]	Operating cash flow including interest, tax, equity accounted investment dividends, and amounts paid to non-controlling interests, but excluding dividends paid to GKN shareholders. Free cash flow in 2012 excludes special pension payments and before working capital refinancing for Volvo Aero.
Return on average invested capital (ROIC)[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.
Dividends per share	Amount declared as payable by way of dividend divided by the number of ordinary shares in issue (excluding treasury shares).
Earnings per share (EPS)[1]	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).

1 These are included in our key performance indicators set out on pages 11 to 13.

In addition, the following definitions apply to the calculation of the other key performance indicators set out on pages 11 to 13.

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

Exchange rates

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

	Average		Year end	
	2015	2014	**2015**	2014
Euro	**1.38**	1.24	**1.36**	1.29
US dollar	**1.53**	1.65	**1.47**	1.56

The approximate impact on 2015 trading profit of subsidiaries and equity-accounted investments of a 1% movement in the average rate would be euro – £1 million, US dollar – £5 million.

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

The Board reviews the Group's principal risks throughout the year as part of its normal agenda, adopting an integrated approach to risk management by regularly discussing principal risks. In addition, in the middle and at the end of each year, the Board assesses the Group's principal risks through our enterprise risk management (ERM) programme described opposite, taking the strength of the Group's control systems and our appetite for risk into account. We have a risk matrix which ensures that, between the Board and its committees, all of the Group's principal risks are reviewed during the course of the year.

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

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

In response to the changes in the UK Corporate Governance Code, in 2014 we reviewed our approach to risk management at Board level and, in 2015, increased the level of oversight for certain principal risks while continuing to strengthen the independent assurance provided in respect of some risks. While overall we are happy with our risk management processes, our philosophy, as in all areas of the business, is one of continuous improvement.

How 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 and Group IT and financial control functions. Representatives of these functions report their findings to the Executive Sub-Committee on Governance and Risk or directly to the Executive Committee. The Sub-Committee reports twice a year to the Executive Committee on matters relating to the Group's governance, risk management and assurance framework, including areas of concern or proposals for improvement.

Level 3: Independent assurance

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

Level 4: Oversight

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

Our ERM programme

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

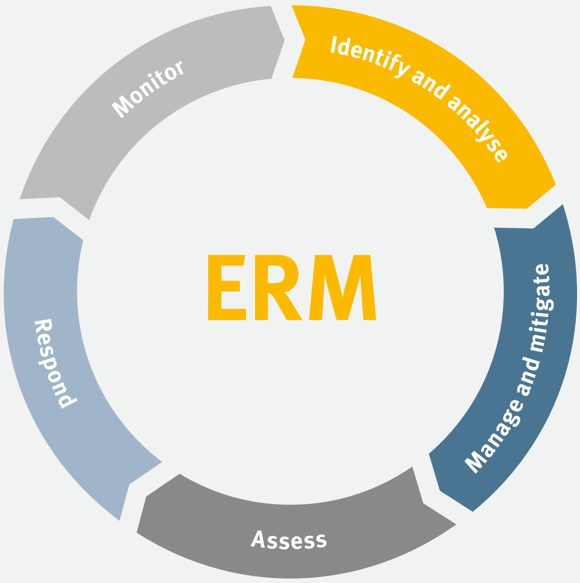
Identify and analyse: A broad spectrum of risks is considered through the ERM process. The Executive Committee and the Board review the output from ERM at both divisional and Group levels.

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

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

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

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



Principal risks and uncertainties

The nature of both our business and our strategy means that we face a number of inherent risks and uncertainties. The Board has carefully considered the type and extent of the principal risks to the Group achieving its objectives and delivering a satisfactory return for shareholders. These are summarised below, categorised according to the strategic objective to which they relate most closely. All of our principal risks may also impact our objective to sustain above market growth.

Over time our risk profile evolves and the Board's view of the principal risks facing the Group is updated accordingly. This year, acquisition integration risk has been added as a principal risk in light of the ongoing integration of Fokker Technologies Group B. V. 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 2015.

Risk trend

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

Highly competitive markets

1

Risk trend

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 price pressure and more challenging contractual terms.

Strong margins may come under pressure if our competitors improve or as a result of customer actions. An inability or delay in developing or maintaining sufficient or appropriate engineering and manufacturing capabilities in high growth 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 mitigated, could result in reduced sales and profit margins and potentially lost growth opportunities in high growth markets. 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 our 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 2015

Strong competition and customer pricing pressures have continued to increase throughout 2015. Pressure on margins was particularly strong in some areas of the aerospace market and the Chinese automotive market. Despite these challenges, we continue to win new business and differentiate ourselves through our technology.

Read more about the trends in each of our markets on pages 4 and 5

Supply chain

1

Risk trend

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, or insolvency of a key supplier 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 2015

Supply chain risk has increased in line with the growing complexity of certain of our products and programmes. It remains critical that our suppliers are able to support our requirements across our extended global supply chain.

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

A Supply Chain Steering Committee was established to lead our supply chain excellence strategy.

Customer concentration

Risk trend

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.

Read more about key customer trends on pages 4 and 5, and about credit risk in note 19 to the financial statements

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 2015
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 2015. No individual customer accounts for more than 10% of Group revenue. We have continued to win new business in each of our key markets but have seen significant margin pressure in some markets. We have not experienced any significant impact to sales volumes as a result of the recent problems experienced by Volkswagen, one of our largest customers, regarding vehicle emission tests. We will keep this under review throughout 2016.

Operating in global markets

Risk trend

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

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, construction, mining and industrial 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.

Read more about the Fokker acquisition on pages 20 and 21, and about the Group's financial risk management processes regarding foreign currency exposures in note 19 to the financial statements

Mitigation
- The Group has a diversified portfolio of businesses across our 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
  - 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.
- A strong balance sheet.

Changes in 2015
Market conditions are discussed in the Chief Executive's review on pages 8 to 10 and the global markets section on pages 4 and 5. We have taken action to reduce costs in GKN Driveline Brazil as a result of weak autmotive demand in Brazil, and in GKN Land Systems as a result of weak agricultural and chassis systems demand.

We have extended our global aerospace footprint and customer base through the acquisition of Fokker with 21 new locations in nine countries. We have also further strengthened our automotive presence in key markets, including expanding facilities in China, Mexico and Poland.

We are closely monitoring the implications of the UK's potential exit from the EU. It is too early for us to assess exactly what an exit might mean for GKN, but a vote to leave the EU would probably lead to a period of economic and political uncertainty which could pose a risk to the Group.

Joint ventures

Risk trend

Description
A sizeable portion of the Group's profits and cash flows are generated by a small number of joint ventures. In these circumstances, there is an inherent risk that the objectives of the joint-venture partners in regard to the joint venture may diverge.

Potential impact
Such a misalignment of objectives could result in the Group's inability to pursue its desired strategy. Consequently, the Group's business and future results may be adversely affected.

Mitigation
- The Group seeks to participate only in ventures in which its interests are complementary to those of its partners.
- Thorough pre-transaction due diligence procedures on any potential joint venture partner.
- Continual focus on sustaining strong relationships with joint venture partners.

Changes in 2015
In 2014 we sold our stake in Emitec; there have been no significant changes in our ongoing revenues and profits generated by other joint venture partners. Relationships relating to our largest joint venture, Shanghai GKN HUAYU Driveline Systems Co Limited (SDS), remain strong and continue to develop positively.

Read more about the Group's joint ventures in note 13 to the financial statements

Laws, regulations and corporate reputation

Risk trend

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.

Tax in particular is a complex area where laws and their interpretation change regularly, leading to potential uncertainty in tax exposures.

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 2015
There have been no significant new regulations impacting the Group during 2015, but our markets continue to be subject to robust enforcement activities in relation to existing regulations, particularly in relation to vehicle safety.

In response, we have taken steps to reinforce our commitment across the Group to 'doing the right thing' in all activities. This includes emphasising its importance to all senior managers at each of our divisional leadership conferences and completing the roll-out of the new GKN Code to remind employees of the standard of behaviour we expect. We continue to strengthen our risk management systems.

As part of the ongoing integration of Fokker, we will align our risk and governance procedures taking account of specific regulatory risks associated with the acquired business.

During 2015 we introduced a new online export control training course and, to date, 97% of the target audience has completed it.

Read more about doing the right thing on pages 48 to 55

Technology and innovation

Risk trend

Description

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

Potential impact

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

Read more on how the Group continues to differentiate itself through technology in the Chief Executive's and divisional reviews on pages 8 to 33

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 2015

We have continued to invest in technology and develop internal capabilities as we aim to meet customers' expectations for improving efficiency of aircraft, cars and other vehicles with solutions that are lighter and more fuel-efficient.

We have continued to diversify into targeted areas of new technology including electrical wiring systems (through the acquisition of Fokker), additive manufacturing and vehicle electrification.

Acquisition integration

Risk trend

Description

The successful realisation of the anticipated benefits of acquisitions is dependent upon the successful integration of these businesses together with their post-acquisition performance.

Potential impact

A failure to integrate major acquisitions effectively could impact the business operations, result in unplanned integration or restructuring costs, or prevent the achievement of the anticipated benefits of the acquisition.

Mitigation

- The Group has robust processes to manage detailed integration plans with regular reviews by divisional management, the Executive Committee and the Board.
- Post-investment reviews of all acquisitions.

Changes in 2015

Following the acquisition of Fokker in October 2015, acquisition integration has been added as a principal risk.

The Board has carefully reviewed the associated risks and considers them to be mitigated appropriately. The Group has considerable experience managing integration processes, and integration plans for Fokker are being regularly reviewed by divisional management, the Executive Committee and the Board.

Read more on the acquisition of Fokker on pages 20 and 21

People capability

Risk trend

Description

The Group's ability to deliver its strategic objectives is dependent upon the recruitment and retention of sufficiently qualified, experienced and motivated people.

It is critical for the Group to secure and maintain the relevant capabilities in specific geographical regions and disciplines in both existing markets and to support growth markets.

Potential impact

The failure to recruit, or the loss of, key personnel, and the failure to plan adequately for succession or develop the potential of employees may impact the Group's ability to deliver its strategic and financial objectives.

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 2015

During 2015 we reviewed the reward schemes for our senior managers and introduced a medium-term incentive plan for managers below Board level to help mitigate our retention risk. We also made some minor changes to the bonus schemes for executive Directors. We hope to implement further changes in 2017.

The recruitment and development of young engineering talent has continued to be a priority during 2015 with the reintroduction of our Group-wide International Graduate Programme.

We also continue to develop resources and capabilities aligned to our growth markets.

Read more in our sustainability report on pages 48 to 55

Product quality

Risk trend

Description

The quality and safety of our products are 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
- 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

- High levels of quality assurance are embedded in robust manufacturing systems.
- Regular reporting and monitoring of quality performance based upon customer KPIs.
- Maintenance of critical parts lists.
- External agency quality reviews and certifications.
- Robust contract terms and conditions.

Changes in 2015

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.

During 2015, the Executive Committee and Audit & Risk Committee reviewed the quality management system in each division and agreed future actions.

A cross-divisional Quality Committee has been formed to share best practice and co-ordinate Group-wide quality management projects.

Read more about our continuous improvement culture on page 53

Contract risk

Risk trend

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 2015

During the year we reviewed our contract management processes in each division to ensure they continue to be effective in response to the increased risks associated with more complex design and build contracts. Processes have been further strengthened to focus on key areas of contract risk.

Read more about key examples of new business wins in 2015 in the divisional business reviews on pages 16 to 33

Programme management

Risk trend

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
- 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.
- Periodic inspection of programmes by customers.

Changes in 2015

During the year we thoroughly reviewed our risk management systems in this area, further strengthening our processes, organisation and training programmes where required. This will continue as an area of focus during 2016.

Health and safety

Risk trend

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.

Read more about health and safety on pages 50 and 51

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 2015

The Group's AFR and ASR again improved during the year and we continued to focus on near-miss reporting as a key leading indicator of our health and safety performance.

Hazard awareness and risk assessment programmes continued with a particular focus on identifying and addressing potential catastrophic hazards.

Information systems resilience

Risk trend

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 2015

The security of our information systems has continued to improve to address potential threats impacting both our business and our industries more generally. We increased the number of penetration tests completed on our systems and continued to improve security standards across the Group.

In December, a senior former British security and intelligence officer briefed the Chief Executive's Council on the increasingly global perspective of the cyber security threat.

Business continuity

Risk trend

Description
A major disruption to internal facilities or the external supply chain could be caused by natural disaster or damage, or destruction of a key facility or asset.

The Group has a small number of facilities and assets which are key to maintaining production levels for major customers and internal service levels.

In addition, certain of the Group's businesses are exposed to a higher inherent risk of natural disasters because of their geographical locations.

Potential impact
A sustained disruption to internal facilities or production could result in major operational disruption, a significant adverse impact on our ability to meet customer requirements and additional contractual liabilities, and could have a consequential impact on financial performance.

Mitigation
- Ongoing maintenance and replacement programmes for key assets and facilities.
- Flexible sourcing arrangements for key supplies.
- Effective supply chain management to ensure appropriate inventory levels are maintained.
- Targeted incident response and business continuity plans.

Changes in 2015
There has been no significant change in the inherent risk profile during 2015. All divisions continue to focus on risk mitigation, including regular testing of business continuity and disaster recovery plans, ongoing reviews of supplier dependence and critical assets, and prioritisation of capital investment.

Pension funding

Risk trend

Description
The Group operates a number of defined benefit pension plans with aggregate net liabilities of £1,558 million at 31 December 2015. 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 co-operation 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.

Changes in 2015
During the year, against an economic backdrop which has seen pension liabilities remain at a high level versus historical norms, driven by the exceptionally low yields on long-term bonds, we have continued to undertake pension risk reduction initiatives. These include extending a partial buy-in transaction in the UK and finalising a 'pension increase exchange' exercise to further mitigate inflation risk.

The Group continues to have a reasonable degree of visibility over the range of short- to medium-term funding cash flows, but will continue to monitor the impact of market volatility ahead of the planned April 2016 funding valuation in the UK.

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

Strong commitment to doing the right thing

Nigel Stein
Chief Executive

Message from the Chief Executive

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

As I travel around GKN's facilities, no matter which country they are in, I am always heartened by the strong commitment of our people to doing the right thing. This year we saw progress on safety, with improved results and better near-miss reporting. We also successfully recommunicated our Code of Conduct to all employees in all the languages spoken at GKN.

Our sustainability performance relies on the commitment of our people and the quality of our leadership. I know both are strong, and will help us go further in 2016.

GKN Code

In 2015 we rolled out the new GKN Code, reminding people of the standards of behaviour we expect in GKN. The Code applies to all employees and is available in the 26 languages spoken at GKN. The roll-out programme started in February 2015 with briefings at divisional leadership conferences, followed by a cascade to all employees through manager-led, face-to-face briefings.

Our people

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

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 world

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

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.

As a business

We believe in:
- creating a high performance business
- honest and proper conduct.

In our world

We believe in:
- helping to protect the environment
- supporting local communities
- open and honest communication.

Six promises from GKN to our employees and six from employees to GKN help our employees live this value every day

Our people: focus on graduates and apprentices

To ensure we attract the high quality graduates we need at GKN, in 2015 we ran both Group-wide and divisional graduate programmes. The Group-wide International Graduate Programme (IGP) attracts graduates from China, the US, Sweden, Germany and the UK. Each participant undertakes a series of work placements, providing experience across a range of divisions, functions and cultures, developing potential future leaders for GKN. In total during the year, across the IGP and divisional programmes, GKN recruited 188 graduates, including 41 women.

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

New apprentice meets our Chief Executive during a tour (safety wear was not required because the site had been made safe for this executive visit)

See more at www.gkn.com

Our people

Providing a safe working environment

2015 performance

- Reduction of accident frequency rate (AFR) and accident severity rate (ASR) to 1.2 and 39 respectively, and an increase in near-miss reporting.
- Further deployment of hazard identification and catastrophic risk modelling programmes to identify and prevent potential safety risks.
- 59 health, safety and environment audits carried out globally.
- Further deployment of our global personal safety programme *think*SAFE!.
- 18 health and safety enforcement actions, resulting in penalties of $26,000.

2016 priorities

- Strengthening and further developing our *think*SAFE! programme, including a focused campaign aimed at reducing hand injuries.
- Full integration of Fokker into GKN health, safety and environment systems.
- Preparing to transition to the new ISO 45001 international standard for occupational health and safety management from 2017.
- Continued focus on catastrophic risk modelling across the business.

Respecting the rights of others

2015 performance

- 100% of leaders completed our Leadership Assurance process.
- Divisional diversity and integration (D&I) action plans were created to focus on improvement, and D&I leadership training sessions were rolled out to all senior leaders.

2016 priorities

- Extension of our D&I leadership training to the next level of management with D&I awareness sessions rolled out to all employees across the Group.
- New flexible working guidance to be piloted at some locations.
- Continue to find ways to develop high-potential employees, particularly those from under-represented groups.

Developing our people

2015 performance

- Reintroduction of Group-wide International Graduate Programme (IGP).
- Launch of upgraded HR system and employee career management tool, 'MyGKN'.

2016 priorities

- Roll out updated Company values and leadership principles.
- Integration of our existing online Learning Management System 'Academy' into new 'MyGKN' system.
- Implementation of our updated Positive Climate Index (PCI) process across all sites.
- Roll out an improved biennial Global Employee Survey.

Speaking up when we see behaviour which is wrong

2015 performance

- The new GKN Code was communicated across the business, making clear what behaviours are expected of employees.

2016 priorities

- Continued focus on promoting speaking up throughout GKN.

13%

Reduction in AFR to 1.2 (2014: 1.38[1])

15%

Reduction in ASR to 39 (2014: 46[1])

6,500

Additional near misses reported

100%

No. of employees made aware of our Code[2]

1 2014 figures restated to include contractors.
2 Excludes Fokker employees, who will be briefed on the Code in 2016.

Providing a safe working environment

The health and safety of our people is our number one priority.

We are pleased with our progress this year in reducing the overall accident frequency rate (AFR), by 13% compared with 2014, and our accident severity rate (ASR) by 15%. We achieved this through general improvements in occupational health management and Group safety standards.

We continued to focus on near-miss incident reporting, with a further 6,500 near misses being reported this year (2014: 2,000). Near misses are a key leading indicator of potential incidents, and reporting is vital in allowing us to learn from them to avoid future accidents.

We help employees with their personal safety through our global programme, *think*SAFE!. The programme covers key health and safety topics in 26 languages and in 2015 we developed new e-brochures to raise awareness of: slips, trips and falls; near misses; manual handling; and wellbeing.

Auditing is key to maintaining safety standards. In 2015, we carried out 59 health and safety audits, with support from external experts where necessary. We shared the key learnings and best practice from these audits across the Group.

Part of managing our health and safety risks at our plants is a total plant risk management programme (TPRM) and a catastrophic risk management (CRM) programme for the most potentially serious risks. In 2015 we strengthened TPRM by adding further modules, and introduced new software allowing detailed modelling and analysis of potentially catastrophic environments.

The vast majority of our manufacturing sites continue to be certified to the health and safety standard OHSAS 18001 or equivalent, while a small number are working towards certification.

Respecting the rights of others

The GKN Code requires all Group companies to treat employees fairly and with respect, recognising their abilities, differences and achievements. 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. In 2015 they were also asked to confirm that they had received, read and understood the new GKN Code. All our leaders certified that they had done so.

Diversity and inclusion

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

In 2015, we set a goal for 2020 that 20% of GKN's leadership should be women and, in time, 20% be from under-represented ethnic groups. As of 31 December 2015, women made up 12.6% of leaders and 10% of all other employees.

This year, we established a Group-wide project team with each division creating its own tailored diversity and inclusion (D&I) action plan. All senior leaders attended D&I awareness training sessions and the GKN leadership bonus scheme (STVRS) was linked to the implementation of our D&I programme. We also launched an intranet section for all GKN employees to raise awareness of the importance of D&I, answer FAQs and share information.

As at 31 December 2015	Men	Women
GKN plc Board	6	1
Senior managers[1]	380	34
Total employees[2]	42,789	7,933

1 Comprises GKN senior executives and, as required by S414C of the Companies Act 2006, GKN subsidiary company directors, which include directors of Fokker's subsidiaries.

2 Includes Fokker employees; excludes joint ventures.

Developing our people

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

In 2015 we launched an upgraded HR system, 'MyGKN', which brings together our HR and employment data with personal development management tools. In 2015, more than 20,000 online courses were completed by GKN employees. In 2016, our online learning tool will be upgraded and integrated into the new 'MyGKN' system.

The Group has an organisation-wide succession planning and development programme to help our people develop the capabilities required to deliver the business plan. In 2015, the Group internal recruitment rate for management roles was 78% (2014: 70%). Voluntary turnover of management employees, which excludes compulsory redundancies, terminations and retirements, was 4.1% (2014: 4.5%), in line with our target range of less than 5%.

Employee engagement

On a rolling basis, all GKN employees are invited to take part in Positive Climate Index (PCI) sessions, which enable us to measure their satisfaction with GKN. HR teams and Site Steering Committees respond to the issues raised in the sessions, and drive cultural improvements where necessary. PCI performance is now an essential measure of business performance and is a key element of all monthly divisional operational reviews. The Group's average PCI data has been consistent for the past four years.

In January 2016 we updated the PCI questions to enable us to benchmark ourselves better against other companies. The next Global Employee Survey will be held later in 2016, using a similar updated set of questions.

Speaking up

We continue to actively promote the importance of our confidential employee disclosure hotline, available to all employees who can raise concerns in their own language, anonymously if they prefer. It is hosted by an external, independent company and is available 24 hours a day, seven days a week. In 2015 there were 158 calls to the hotline, up 19% from 133 calls in 2014. Matters reported are investigated and feedback is always provided to the caller.

Our business

Creating a high performance business

2015 performance

- Lean Enterprise course structure revised to ensure rigour and enable faster transition for employees through the course levels.
- Focus on continuous improvement through our quality management systems.
- Supply Chain Excellence Programme established, with more than 150 GKN leaders taking part during its first year.

2016 priorities

- Continue to develop our global Quality Steering Group, co-ordinating cross-divisional projects to improve our quality systems.
- Maintain quality of delivery of our Lean Enterprise training within the new modular format.

Honest and proper conduct

2015 performance

- Continued to promote online training modules for anti-bribery and corruption, competition law, and IT security.
- Introduction of online export control compliance training.
- Supplier Code of Conduct, introduced in December 2014, was embedded within our procurement processes.

2016 priorities

- Roll out refresher training courses on anti-bribery and competition law.
- Launch the GKN governance handbook to remind employees of the Group's governance requirements, policies and procedures.

97%

of target employees completed online compliance training

250+

leaders trained in Lean principles

Focus on Lean leadership delivers results at GKN Aerospace Filton

GKN Aerospace Filton is a world leader in the manufacture of aircraft wing structures, and was recently awarded 'Accredited Supplier Status' by Airbus. The leadership team at GKN Filton continues to work hard to improve the business culture by embracing Lean principles, notably the concept of 'go, see, ask', which means getting out on the shop floor and connecting with employees.

This year, the team rolled out a 'Manufacturing Roadmap' communications programme to all 1,500 employees, to help them understand the business strategy and their role in delivering it. Key to this is a daily 'walkabout' by every leader, which makes them more approachable and accessible to employees, and enables them to interact on a personal level with their teams. The programme is already delivering results, with a significant improvement in engagement across the site.

Paul Adams, Head of Manufacturing, GKN Aerospace Filton and Western Approach (third from left), explains the Manufacturing Roadmap to employees

Creating a high performance business

Continuous improvement

We are committed to a culture of zero defects and continuous improvement (CI) and GKN's Lean Enterprise model provides a 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.

This year we changed our CI leadership course structures to a modular format to allow participants to get the specific training they need and to enable them to progress faster, while maintaining consistency and quality. During the year, more than 250 leaders received training from GKN's own Lean experts. We also continued to train many other employees across the Group on our core Lean principles.

We continued to drive operational excellence through expansion of initiatives such as our Operational Excellence Teamworking programme which brings together cross-divisional Lean Enterprise teams to find solutions and drive improvements.

Quality

We are committed to supplying safe and high quality products and services, judging our performance from the point of view of our customers. Quality management systems are in place across all divisions, with relevant ISO standards held across the Group. The 'Voice of the Customer' initiative, launched in 2014, which tracks online customer scoring of our performance, is now firmly established in the monthly divisional operational review process, and we judge ourselves using our customers' quality data on our performance. 2015 saw an improvement in these metrics.

Honest and proper conduct

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.

Compliance training

Our online compliance training modules continue to be an important element of our overall compliance programmes. We target training to employees whose roles require it. Of those targeted, 98% completed anti-bribery and corruption and competition law training – being 13,600 and 3,900 respectively since their launch. Separately, around 96% (19,140) completed online IT security training, and 97% (4,150) completed our new online training for export control. All new starters meeting the criteria are required to complete these online courses, which are supplemented by face-to-face training for higher risk individuals.

Suppliers

Our suppliers are integral to the sustainability of our business. We are committed to treating all our suppliers and partners with fairness and integrity. Our supply chain management policy sets out the principles and procedures each GKN company should follow when dealing with suppliers and potential suppliers. In return, our Supplier Code of Conduct sets out 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. Our contractual terms and conditions support the implementation of this code. Our aim is to build and maintain strong supplier relationships.

Our world

Helping to protect the environment

2015 performance

- 3% improvement in energy efficiency, meeting our target.
- Greenhouse gas intensity remained unchanged from 2014.
- 11 sites now certified to the ISO 50001 Standard for Energy Management Systems.
- Six environmental enforcement actions and two finalised from 2014 resulting in penalties of $162,000.

2016 priorities

- Integration of Fokker into GKN environmental systems.
- Expanding our global energy metering and monitoring project.
- *think*WASTE! ebrochure and campaign to engage all employees in reducing waste.
- Continue global deployment of ISO 50001.
- Reducing energy usage, global greenhouse gas intensity and waste to landfill.

Supporting local communities

2015 performance

- £1 million invested in 271 projects aimed at supporting young people as part of our global Hearts of Gold community scheme.
- Many other local community events held around the world.
- Launched Hearts of Gold microsite to allow GKN employees to post and share their community projects.
- Outstanding community involvement recognised through our annual Hearts of Gold awards.

2016 priorities

- Launching a Formula Student website to provide support for more teams of young engineers around the world.
- Maintaining the success of See Inside GKN (where school children visit GKN locations) in the UK, and expanding the initiative to China, Sweden and the US.
- Continue to promote other local Hearts of Gold events.

Open and honest communication

2015 performance

- Reported GKN community involvement via new website (Hearts of Gold).
- Increased publication of information and news, and enhanced social media presence.

2016 priorities

- Maintain the flow of news and information about GKN and ensure it reaches internal and external audiences.
- Expand understanding of key Group-wide technology, additive manufacturing, such as through a new microsite.

3%

Improvement in energy efficiency

Greenhouse gas emissions

Total greenhouse gas emissions
(tonnes CO_2 equivalent)[1]
+3%

Total emissions per £million sales
(tonnes CO_2 equivalent)[1]
No change

Scope 1: combustion of fuel
(tonnes CO_2 equivalent)[1]
-2%

Scope 2: electricity and heat
(tonnes CO_2 equivalent)[1]
+5%

2014 2015

1 See opposite for greenhouse gas emissions methodology.

Helping to protect the environment

In 2015 our energy efficiency improved by 3% to 470 kWh per £000 sales (2014: 484 kWh). We implemented a number of energy efficiency improvement projects including real-time energy monitoring, and increased usage of LED lighting, high efficiency air compressors and state-of-the-art electric motors.

ISO 14001 is our mandated environmental management system and the majority of our manufacturing sites are certified, while a small number are working towards certification.

Greenhouse gas emissions methodology

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

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

Scope 2 emissions are those from electricity and heat purchased by GKN.

Greenhouse gas figures include emissions related to the Fokker business.

Supporting local communities

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.

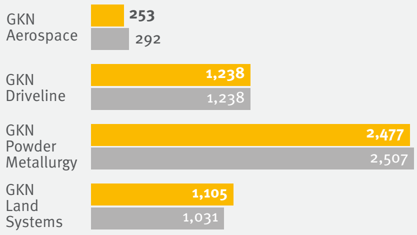
Support for young people is central to our Hearts of Gold activity. This includes inspiring children and young adults to study science and maths and consider a career in engineering through work experience and apprenticeships; and sponsoring education, technology institutions and events. In 2015, GKN invested £1 million in 271 significant projects aimed at supporting young people. These projects touched the lives of more than 70,000 young people in 30 countries. GKN in China continued its successful student sponsorship scheme, while in the UK GKN launched 'See Inside GKN', a project to invite hundreds of young people to visit our sites.

In April, GKN launched a Hearts of Gold microsite, www.gkn.com/heartsofgold, to ensure that even more of these activities are collected and recognised. The site encourages employees from around the world to post and share their community activity. Almost 100 stories have been added so far.

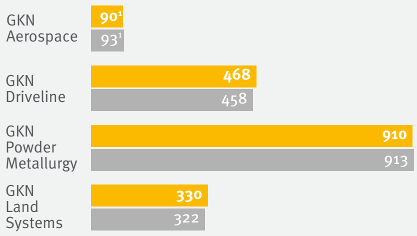
Open and honest communication

We aim to help our shareholders and external audiences understand our business through honest communication which is easy to access and understand. In 2015, as well as launching a new website dedicated to reporting GKN employees' community activity, we developed a concerted social media presence on Twitter and LinkedIn, using these networks to reach and interact with a wider audience.

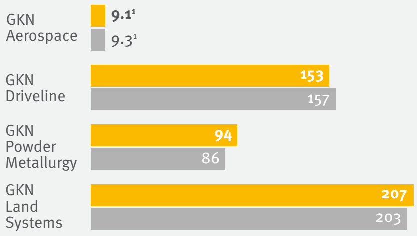
Energy consumption per unit of production (kWh/tonne)



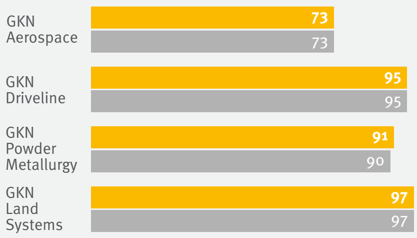
CO_2 emissions per unit of production (kg/tonne)



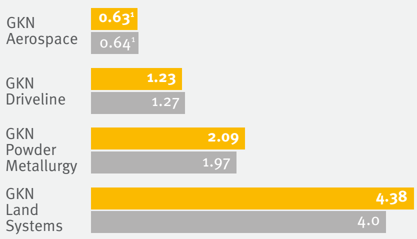
Waste generation per unit of production (kg/tonne)



Recycled waste (% of total waste)



Water consumption per unit of production (m^3/tonne)



1 GKN Aerospace figures measured per £000 sales.

BOARD OF DIRECTORS

1.
MIKE TURNER CBE (67)
Chairman N

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

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

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

2.
NIGEL STEIN (60)
Chief Executive N E

Appointed to the Board in August 2001.

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

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

3.
ANGUS COCKBURN (52)
Independent non-executive Director A R N

Appointed to the Board in January 2013.

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

4.
KEVIN CUMMINGS (53)
Chief Executive GKN Aerospace E

Appointed to the Board in January 2016.

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

5.
TUFAN ERGINBILGIC (56)
Independent non-executive Director A R N

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.

6.


7.


8.


9.


10.


6.
SHONAID JEMMETT-PAGE (55)
Independent non-executive Director A R N

Appointed to the Board in June 2010.

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

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

7.
RICHARD PARRY-JONES CBE (64)
Senior Independent Director A R N

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

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

External appointments Non-executive chairman of Kelda Eurobond Co Ltd and Yorkshire Water Services Ltd.

8.
PHIL SWASH (52)
Chief Executive GKN Driveline E

Appointed to the Board in January 2016.

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

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

9.
ADAM WALKER (48)
Group Finance Director and Chief Executive GKN Land Systems E

Appointed to the Board in January 2014. Assumed the role of Chief Executive GKN Land Systems in September 2015.

Experience Former Finance Director of Informa plc from 2008 to 2013 and operationally responsible for the Events Division from 2012 until leaving the group. Prior to this he was Group Finance Director at National Express Group plc from 2003 to 2008. His early career was spent at Touche Ross, NatWest Markets and, latterly, Arthur Andersen where he held a number of senior finance positions.

External appointments Non-executive director of Kier Group plc.

10.
JOS SCLATER (43)
General Counsel & Company Secretary E

Appointed General Counsel in January 2012. Assumed the joint role of General Counsel & Company Secretary and was appointed to the GKN Executive Committee in June 2014.

Experience Joined GKN from AkzoNobel where he was Director of Legal Affairs South Asia and Pacific and Lead M&A Counsel for Asia Pacific. Prior to this, he spent eight years at Imperial Chemical Industries plc where he held a number of senior legal positions within its headquarters, Asia Pacific and Europe.

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 GOVERNANCE

Mike Turner CBE
Chairman

Good governance is an essential ingredient of GKN's long-term success. As a Board, we set the strategic direction and risk appetite of the Group with the overarching aim of increasing its long-term value. It is therefore vital that we have a strong governance framework in place that enables us to make the right strategic decisions and take calculated risks that we manage carefully to safeguard our shareholders' investment.

Leadership

At GKN we believe in doing the right thing, always. The authorities and policies associated with good governance will only be effective if the right values, culture and business practices are set and demonstrated by the Board and embedded within the organisation.

To this end, during the year we communicated a revised code of conduct (the GKN Code) to all GKN employees, reinforcing our commitment to doing the right thing and reminding our employees about the standards of behaviour we expect from them. The GKN Code highlights the importance we place on maintaining working environments that promote safe working practices, honest conduct, diversity and inclusivity, the delivery of high quality products and speaking up to report wrong behaviour.

Effectiveness

The balance of skills, knowledge and experience on the Board and on the committees which support it is crucial to the Group's success.

I am very happy with the composition of our Board. It is a strong Board, in part because its members have relevant and diverse experience. Through robust debate we ensure that we make the best possible decisions.

In September 2015, Andrew Reynolds Smith resigned from the Board. The Nominations Committee subsequently considered both succession planning and Board composition and, taking into account the Group's strategic priorities, recommended the appointment of Kevin Cummings and Phil Swash as executive Directors. I was very pleased that we had such strong internal candidates to replace Andy and Marcus Bryson, who retired from the Board in December 2014. This reflects the strength of our talent pipeline and the value of our succession planning process.

Accountability

The Board is ultimately responsible for setting the risk appetite of the Group and ensuring that appropriate risk management systems are in place. As part of our strategic review in June 2015, we defined the Group's appetite for risk against each of our key risk areas and communicated this to the Executive Committee, which manages the Group's risks on a day-to-day basis. The risk appetite provides clarity on our desired approach to our principal strategic and operational risks.

A key element of our role as a Board is to review management performance. Mindful of the importance of operational performance and culture as well as financial performance, during 2015 we revised our key performance indicators to include additional non-financial measures. This dashboard will improve our visibility of key areas and better enable us to monitor operational performance and cultural health. Our revised KPIs can be found on pages 11 to 13.

This year we report against a revised version of the UK Corporate Governance Code. The new Code contains supplementary principles and provisions relating to going concern, viability and risk management; accordingly you will find additional information on these topics included throughout the annual report to support our compliance with the Code.

Mike Turner CBE
Chairman
22 February 2016

Leadership

The role of the Board

We are responsible for the long-term success of GKN, with the overarching aim of safeguarding shareholders' interests. Principally, we achieve this through:

- setting the strategic objectives of the Group
- ensuring that the Group has the executive leadership and necessary resources to meet its objectives
- 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 on the Board. A full description of our role, which includes a number of specific responsibilities reserved to us, is available on our website at www.gkn.com.

Shareholders

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

Chairman
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 approximately nine times a year. In order to increase 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 2015 we visited GKN Driveline's factories in Celaya and Villagran, Mexico, where we toured the facilities, reviewed business performance and met with employees. At our visit to Villagran we also opened a new state-of-the-art manufacturing facility for premium propshaft production to support Mexico's growing automotive sector and the broader growth in demand for all-wheel drive vehicles in the Americas.

In addition to regular Board reviews of strategic projects, we hold one two-day Board meeting per year 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. A number of informal meetings are also held during the year which help to ensure that there are 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 2015.

Strategy	• Reviewed and approved the Group's strategic plans and annual budget. • Reviewed a number of potential acquisitions. • Approved the acquisition of Fokker and the associated funding, including an equity placing. • Approved the acquisition of Sheets Manufacturing Inc. • Conducted a post-investment review of Volvo Aero, acquired in 2012.
Risk	• Assessed the risks to the achievement of the Group's strategy and reviewed the Group's risk appetite. • Considered and debated the principal risks and uncertainties which could impact the Group. • Approved the level of risk financing and insurance. • Agreed severe but plausible scenarios to model and test the viability of the Group.
Capabilities	• Considered succession planning for the Board and for senior executive positions within the Group. • Evaluated the effectiveness of the Board and agreed appropriate actions.
Performance	• Reviewed divisional strategic and operational performance. • Approved revised KPIs to support our ongoing monitoring of management 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.
Control	• Considered and approved revised Group authority limits. • Assessed, with the support of the Audit & Risk Committee, the effectiveness of internal control and audit processes.

Board committees

In line with the UK Corporate Governance Code, certain Board responsibilities are delegated to our Board committees, which play an important role in supporting the Board. 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 formally report on committee activities at the subsequent Board meeting.

GKN plc Board

	Audit & Risk Committee	Remuneration Committee	Nominations Committee	Executive Committee	Disclosure Committee
Chairman	**Shonaid Jemmett-Page**	**Richard Parry-Jones**	**Mike Turner**	**Nigel Stein**	**Nigel Stein**
Composition	All independent non-executive Directors	All independent non-executive Directors	All non-executive Directors and the Chief Executive	Chief Executive, Group Finance Director, divisional chief executives, Group HR Director, Group Communications Director, General Counsel & Company Secretary	Chief Executive, Group Finance Director, General Counsel & 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 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 work of the Executive Committee in executing the Group's strategy is supported by three sub-committees as shown below.

Executive Committee

Lean Enterprise Sub-Committee
drives operational best practice through the application of Lean business processes

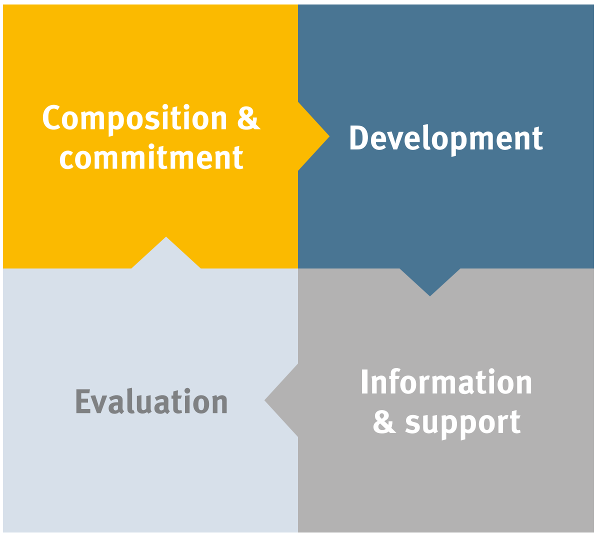
Governance and Risk Sub-Committee
monitors and reviews matters relating to governance, compliance and risk management

Group Technology Strategy Board
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 some 20 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



- Induction
- Ongoing development

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

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

Board composition

During 2015, the Board comprised three executive Directors until Andrew Reynolds Smith's resignation on 25 September and two executive Directors for the rest of the year. There were five non-executive Directors including the Chairman during the year. Accordingly, more than half of the Board, excluding the Chairman, was composed of independent non-executive Directors.

Following the appointments of Kevin Cummings and Phil Swash to the Board in January 2016, the Board comprises four executive Directors and five non-executive Directors including the Chairman.

The Board considers that all of the non-executive Directors, excluding the Chairman, are independent and it is not aware of any relationship or circumstance likely to affect the judgement of any Director.

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 and knowledge of the Group to enable it to meet the needs of the business. Collectively the Directors have many years of experience gained across a variety of areas and industries, including finance, engineering and manufacturing, and many have strong international backgrounds, having held executive positions in Asia or the Americas. In 2015 the Nominations Committee considered composition and succession planning in light of Andrew Reynolds Smith's decision to resign from the Board. Further details can be found on page 69.

Following their appointments to the Board in January 2016, Kevin Cummings and Phil Swash will retire and offer themselves for election at the 2016 annual general meeting (AGM). All other Directors will retire and seek re-election at the AGM in accordance with the provisions of the Code. Our biographical details are given on pages 56 and 57.

Recommendations for appointments to the Board are made by the Nominations Committee. The Committee follows Board-approved procedures (available on our website) which provide a framework for the different types of Board appointments. Appointments are made on merit against objective criteria with due regard to diversity of skills, experience and gender. The activities of the Nominations Committee during the year are set out on pages 68 and 69.

Time commitment

All Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively. To this end, the time commitment expected of each non-executive Director is set out in their letter of appointment and non-executive appointees must demonstrate that they have sufficient time to devote to the role.

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 accepted non-executive appointments to FTSE companies. These appointments were reviewed and approved by the Board.

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

Board and committee attendance

Attendance at relevant meetings of the Board and of the Audit & Risk, Remuneration and Nominations Committees held during 2015 was as follows:

Director	Board (10 meetings)	Audit & Risk Committee (6 meetings)	Remuneration Committee (9 meetings)	Nominations Committee (4 meetings)
Chairman				
Mike Turner	10	—	—	4
Executive Directors				
Nigel Stein	10	—	—	4
Adam Walker	10	—	—	—
Non-executive Directors				
Angus Cockburn	10	6	9	4
Tufan Erginbilgic[1]	9	5	8	4
Shonaid Jemmett-Page[2]	9	6	9	3
Richard Parry-Jones[3]	8	5	8	3
Former executive Director				
Andrew Reynolds Smith[4]	7/7	—	—	—

1 Tufan Erginbilgic was unable to attend the September Board and committee meetings due to a prior business commitment.
2 Shonaid Jemmett-Page was unable to attend short-notice Board and committee meetings in July due to overseas commitments. Shonaid received the Board and committee papers before these meetings and confirmed her agreement to the proposals therein.
3 Richard Parry-Jones was unable to attend Board and committee meetings in November and December due to illness.
4 Andrew Reynolds Smith resigned from the Board on 25 September 2015 and therefore was only eligible to attend seven meetings.

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.

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 on governance, strategy and risk from external experts as shown in the table opposite.

Governance	• Changes to the UK Corporate Governance Code • Company culture • Governance around equity raising
Strategy	• Long-term market and technological trends • Leadership and management development
Risk	• Cyber security • The audit committee's role in disaster recovery planning, crisis management and resilience

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, in the furtherance of their duties, take independent professional advice at the Company's expense.

Performance evaluation

Board evaluation

Each year a performance evaluation of the Board is undertaken. An external evaluation is carried out every three years. Following the external evaluation conducted in 2013, we undertook internal evaluations in 2014 and 2015. The evaluation process is described opposite.

Feedback from the evaluation was very positive. In particular, members felt that the Board was strong, well chaired and that there was a good amount of challenge with well structured discussion and frank and open debate.

Progress against our key actions for 2015 and the 2016 key actions agreed by the Board following discussion of the evaluation results are set out below.

Director evaluation

The individual performance of the Directors was evaluated and feedback was provided during one-to-one sessions with me. I can confirm that each Director continues to make a very valuable contribution to the Board and devotes sufficient time to the role. My evaluation was undertaken by the Senior Independent Director taking into account the views of the other Directors.

Committee evaluation

Committee evaluations were carried out as part of this process; details of these evaluations can be found in the relevant committee report.

PERFORMANCE EVALUATION PROCESS

Together with the Company Secretary, I agree areas of focus that we believe to be critical to the Board's effectiveness. For 2015 these included:

- effectiveness of the Board decision-making process and the quality of debate
- strategy and process
- Board composition
- succession planning
- risk and risk management systems
- culture.

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

	2015 key actions		2016 key actions
Area of focus	***Key action***	***Progress***	***Key action***
Strategy	Divisional strategies to be discussed in the context of long-term market and technology trends, with input from external experts.	External experts were invited to the Board strategy meeting to update us on long-term market and technology trends.	Refine the strategy process to ensure there is adequate time to debate the key issues. Major projects and contracts to be taken to the Board at the earliest possible stage.
Risk	KPIs relating to principal key risks to be revised and reported to the Board.	KPIs were expanded to provide a better balance between financial and non-financial measures and are reported to the Board on a bi-annual basis.	The internal control systems of each division relating to procurement risk to be reviewed.
	The internal control systems of each division relating to quality, programme management and contracting to be reviewed.	Risk management systems were reviewed and strengthened where appropriate.	Third line of defence in key risk areas to be reviewed. Actions arising from the divisional risk reviews to be tracked.
Succession planning	Increase senior management's level of exposure to the Board to accelerate development.	Divisional chief executives and certain other senior executives attended Board meetings when relevant to their expertise.	Increase focus on succession planning for the Executive Committee and throughout the Group.

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 users 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 98. The auditors' report on page 107 includes a statement by PricewaterhouseCoopers LLP about their reporting responsibilities. As set out on page 36, 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

We are responsible for setting the risk appetite of the Group and for maintaining sound risk management and internal control systems. We also undertake an annual review of the effectiveness of these systems.

As described in the governance framework on page 61, 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. During the year we considered changes to the UK Corporate Governance Code and related FRC guidance, particularly in respect of risk management and internal control. We reviewed our processes in the context of these changes and made the following improvements during the year:

- increased oversight of certain principal risks
- the development and approval of revised Group authority limits
- the continued strengthening of the Group's export control compliance programme
- the development and approval of revised KPIs for the Board
- the development of a viability review process
- a review of risk appetite
- a review of strategic risks
- the continued strengthening of our catastrophic health and safety risk assessments and related mitigation.

Enterprise risk management

GKN's enterprise risk management (ERM) programme facilitates a Group-wide approach to the identification, assessment and management 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 process for managing enterprise risk is provided on pages 38 and 39.

Internal control

The Group has in place a number of controls 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.

Other controls in place to minimise risk and ensure the efficient conduct of the Group's business include:

- the regular review of the GKN Code and policies to ensure that areas of potential risk are adequately covered. The Code and policies define the behaviours expected of all GKN employees and are available on the Group intranet
- the development and dissemination of training programmes to educate employees on relevant topics such as competition law or anti-bribery and to reinforce the behaviours expected of them
- clearly defined approval limits and delegated authorities, particularly in relation to treasury transactions, capital expenditure submissions and major projects
- an employee disclosure hotline which employees can use to report any instances of suspected wrongdoing.

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 details of how they are managed or mitigated, is set out on pages 40 to 47.

The areas of our risk assurance processes in which compliance monitoring is overseen by the Executive Sub-Committee on Governance and Risk (ESCGR) include: financial reporting, IT controls, legal matters (including anti-bribery and corruption, competition law and export control), human resources issues (including employment practices and employee disclosures), and health, safety and the environment. The risk assurance framework therefore incorporates:

- monthly monitoring of compliance with the GRiP financial reporting processes through a self-certification process and peer reviews
- the quarterly completion of an IT controls checklist confirming adherence to Group IT standards and policies
- monitoring the completion of mandated training on legal topics
- receiving assurance from divisional committees that they have complied with Group policy on the use of sales agents and consultants (implemented as part of the Group's anti-bribery and corruption measures)
- the annual completion of a human resources controls checklist confirming compliance with certain Group HR standards and procedures
- monitoring the completion of internal health and safety audits against target and any themes arising from these audits
- in-depth health and safety risk analysis at high risk sites
- the annual completion of a questionnaire by senior managers in relation to awareness of the Group's Code and policies
- the annual confirmation by senior managers that non-financial controls are in place and operating effectively in their businesses.

The ESCGR monitors the output from these processes and reports any areas of concern and proposals for improvement to the Executive Committee for consideration.

In 2015, the ESCGR made recommendations to adopt a Group-wide policy on driver safety, develop Group standards for key health and safety risks, and increase focus on implementing cyber security measures, all of which were accepted by the Executive Committee.

The Group's risk management and internal control systems and procedures are designed to identify, manage and, where practicable, reduce and mitigate the effects of the risk of failure to achieve business objectives. They are not designed to eliminate such risk, recognising that any system can only provide reasonable and not absolute assurance against material misstatement or loss.

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 70 to 75.

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 above, which accord with the FRC guidance on risk management, internal control and related financial and business reporting, have been in place throughout that period and up to the date of approval of the annual report. The Board 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 2015, which included site visits and presentations. The presentations are available on our website.

Annual general meeting

Information regarding the 2016 AGM is given on page 95. 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 a show of hands to allow the votes of all shareholders to be counted, including those cast by proxy. The results of the poll 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 68 and 69, the Audit & Risk Committee report on pages 70 to 75 and the Directors' remuneration report on pages 76 to 91, provide a description of how the main principles of the 2014 edition of the UK Corporate Governance Code (the Code) have been applied within GKN during 2015. 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 2015, 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 95 to 97.

NOMINATIONS COMMITTEE REPORT

Dear Shareholder

The appointment and retention of strong Board candidates is key to the success of the Company.

The Nominations Committee plays a vital role in ensuring the selection and recommendation of strong 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 Chief Executive and other executive Director positions.

Committee membership

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

In accordance with the provisions of the UK Corporate Governance Code, the majority of members are independent non-executive Directors. The Secretary to the Committee is Jos Sclater, General Counsel & Company Secretary.

The Committee met four times in 2015. Our attendance at these meetings is set out in the table on page 63.

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 and
- makes recommendations to the Board with regard to any changes.

The Nominations Committee follows Board-approved procedures in making its recommendations. Written terms of reference that outline the Committee's authority and responsibilities are available on our website at www.gkn.com.

2015 activities

During 2015 we:

- reviewed the composition of the Board and the organisational succession plan following the resignation of Andrew Reynolds Smith as Chief Executive Automotive
- considered and recommended new appointments to the Board as a result of this review
- recommended to the Board a three-year extension of terms of office for Mike Turner and Angus Cockburn.

Board and Committee composition

In light of Andrew Reynolds Smith's departure from the Company in September 2015, we considered the subsequent composition of the Board and its balance of skills, knowledge and experience. Recognising the importance of maintaining a balanced Board and the value of detailed industry and operational experience in Board discussion on the Group's principal businesses, the Committee recommended to the Board that Kevin Cummings, Chief Executive GKN Aerospace, and Phil Swash, Chief Executive GKN Driveline, be appointed to the Board with effect from January 2016. The Board approved this recommendation.

Executive matters

Following the appointment of Phil Swash, latterly Chief Executive GKN Land Systems, as Chief Executive GKN Driveline in September 2015, the Committee reviewed and approved a proposal to transfer executive responsibility for GKN Land Systems to Adam Walker, in addition to his role as Group Finance Director, noting the benefit to him of gaining divisional operational experience within the Group.

Non-executive matters

During the year, the Committee considered the extension of the term of appointment of Angus Cockburn. Taking into account his contribution to the Board and its committees, the Committee recommended to the Board the extension of his term for a further three years. The Board approved this recommendation.

The Committee also considered the extension of my term of appointment and recommended to the Board the extension of my term for a further three years. The Board approved this recommendation. I was not present at either meeting for the discussion and decision on this matter.

Diversity

Diversity is an area in which we recognise we have to improve. We acknowledge the importance of diversity in all forms, both on the Board and throughout the Group. Our aim is for the Board to consist of people with diverse experience who can add real value to Board debates, thereby supporting the achievement of our strategic objectives. This includes diversity of industry skills, knowledge and experience in addition to gender and ethnicity.

Our aim is for women to make up at least 25% of Board members and we will continue to work towards this. However, our overriding policy in any new appointment is to select on merit, in fulfilment of our role of ensuring the continued success of the Company.

During the year the Group's diversity initiative, which aims to develop and support our executive pipeline with regard to diversity, was rolled out across the Group. In order to gain greater visibility of our challenges and progress, gender diversity was added as a Group key performance indicator. The Board will receive updates on this measure throughout the year. Further information can be found in the sustainability report on page 51 and the Group's key performance indicators can be found on pages 11 to 13.

Advice provided to the Committee

From time to time the Committee appoints external search consultants to assist with the selection and recruitment of potential new Board members. During the year no such assistance was required.

Performance evaluation

The Committee's annual evaluation was carried out as part of a series of one-to-one interviews between the Company Secretary and each Director. 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 2015.

On behalf of the Committee

Mike Turner CBE
Chairman of the Nominations Committee
22 February 2016

AUDIT & RISK COMMITTEE REPORT

Shonaid Jemmett-Page
Chairman of the
Audit & Risk Committee

Dear Shareholder

I am pleased to present the Audit & Risk Committee report for 2015. The Committee plays a crucial role in ensuring the integrity of the Group's financial statements and monitoring aspects of management and auditor conduct which could financially impact shareholders. Our report sets out what we did during the year to safeguard shareholders' interests.

It was a busy year for the Committee, reflecting the increasing focus both internally and externally on areas within the Committee's remit such as risk management assurance and auditor rotation.

Recognising the importance of a strong assurance framework for managing risk, and noting changes to the FRC's UK Corporate Governance Code and risk management guidance, during the year the Board expanded the Committee's remit to include greater responsibility in this area. While the Board retains ultimate responsibility for setting the Group's risk appetite and maintaining sound systems of risk management and internal control, the Committee's role was expanded to include the review of the systems and controls in place to manage the Group's principal risks and to report to the Board on those reviews. In 2015, we focused on the systems in place and development activities in respect of quality, programme management and contract management (identified as increasing risks in 2015) and reported to the Board on the output. The Board's report in relation to principal risks can be found on pages 38 to 47.

During 2015 we completed a formal tender exercise for the external audit contract. We concluded the process towards the end of 2015, recommending to the Board the appointment of Deloitte LLP. The Board approved this recommendation and Deloitte's appointment as external auditors will be proposed to shareholders at the 2016 annual general meeting (AGM). More information on the tender process can be found on pages 74 and 75.

During the year, we received updates on developments in corporate governance, including the implications of new regulations requiring a viability statement and the Group's activities on cyber security, as well as amending our terms of reference to reflect our expanded remit. We also received updates from divisional finance directors in respect of their businesses and the risks associated with their operations.

Looking ahead to 2016, we plan to expand our focus on risk management to receive reports on the systems in place for managing risks in respect of the supply chain and export control, which is particularly relevant in GKN Aerospace. We will also oversee the handover from the current auditors to Deloitte LLP to ensure a smooth transition.

Committee membership	**Shonaid Jemmett-Page** (Chairman) **Angus Cockburn** **Tufan Erginbilgic** **Richard Parry-Jones** All members are independent non-executive Directors and, in the Board's view, have recent and relevant financial experience as required by the UK Corporate Governance Code. In particular, Shonaid Jemmett-Page has held a number of senior finance roles in Unilever and is a former partner at KPMG and former Chief Operating Officer at CDC Group plc, the UK Government's development finance institution. Angus Cockburn is currently the Chief Financial Officer of Serco Group plc and previously held senior finance positions within international organisations. The Secretary to the Committee is Jos Sclater, General Counsel & Company Secretary. The Committee met six times in 2015, with meetings generally timed to coincide with the financial and reporting cycles of the Company. Attendance at these meetings is set out in the table on page 63.
Role	The primary role of the Audit & Risk Committee is to ensure the integrity of the financial reporting and audit processes and the maintenance of sound internal control and risk management systems. This includes responsibility for monitoring and reviewing: • the integrity of the Group's financial statements and the significant accounting judgements contained in them, ensuring that the judgements and policies taken by management are appropriate • the appropriateness of the Group's relationship with the external auditors, including auditor independence, fees and provision of non-audit services • the effectiveness of the external audit process, making recommendations to the Board on the appointment of the external auditors • the activities and effectiveness of the internal audit function (Corporate Audit) • the effectiveness of the Group's internal control and risk management systems • the effectiveness of the Group's whistleblowing policies. The Committee has independent access to the services of Corporate Audit and to the external auditors, and may obtain outside professional advice as necessary in the performance of its duties. Written terms of reference that outline the Committee's authority and responsibilities are available on our website at www.gkn.com.

In order to maintain effective communication, we invited the Group Chairman, Chief Executive, Group Finance Director, Head of Corporate Audit, the external audit engagement partner and other members of senior management to attend Committee meetings as necessary.

Members of the Committee met 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 audit engagement partner of PricewaterhouseCoopers LLP (PwC) were 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.

2015 activities

Our activities in 2015 principally related to financial reporting, the external audit, and internal control and risk management.

Financial reporting

During the year, we:

- 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 the acquisition of Fokker
- examined key points of disclosure and presentation to ensure the adequacy, clarity and completeness of the financial statements
- discussed with PwC its audit reports 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 given on page 36
- considered the impact of new reporting requirements with specific focus on the viability statement.

Significant issues

We identified the issues below as significant in the context of the 2015 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.

Acquisition accounting for Fokker

Description

The Company acquired Fokker in October 2015. The acquisition accounting was particularly complex as Fokker operates through four divisions. Certain judgements were required to be made on the valuation of intangible assets and contractual matters.

See note 30 to the financial statements

Committee action

We considered the judgements taken by management to establish the fair value of the acquired assets and liabilities. In particular, we focused on:

- the valuation of intangible assets. An independent valuation was conducted by external advisers which involved valuing more than 30 contracts and Fokker's technology assets and brands. Assumptions included foreign exchange rates, discount rates and the achievement of a certain level of synergies
- property, plant, equipment, and certain investments were also valued by independent external advisers
- the inclusion of certain provisions and liabilities, principally in relation to an unresolved regulatory matter, ongoing contractual obligations and the requirement to repay government refundable advances.

We discussed with PwC the audit work performed by them to assess whether the assets and liabilities were included at fair value. Having considered PwC's view and the documentation provided by management, we were satisfied that the assumptions used were reasonable and that the provisional assets and liabilities had been established appropriately.

Impairment testing

Description

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 and the amount of potential future cash flows arising from them.

See note 11 to the financial statements

Committee action

We considered the significant judgements, assumptions and estimates made by management in preparing the impairment review to ensure that they were appropriate. We reviewed assumptions relating to:

- the discount rates used to discount the expected future cash flows to their present value. These rates reflected the risk inherent in each unit taking into account factors such as geography and sector
- the estimation of 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 levels.

We also considered sensitivities that would affect the assumptions noted above.

We obtained the external auditors' view in relation to the appropriateness of the approach and the outcome of the review. Taking this into account, together with the explanations given by management, we were satisfied that the approach taken was thorough and the judgements taken were appropriate.

The review resulted in the impairment of four units and a charge to the income statement of £71 million.

Clarity and completeness of reporting

Description

GKN Driveline and GKN Aerospace operate in highly competitive markets on a global scale. They compete for long-term contracts on large platforms of a relatively small number of key customers. Contracts, commercial transactions and commercial claims can be complex and can require judgement as to accounting treatment and the estimation of potential liabilities.

Committee action

We considered the clarity and completeness of the accounts as a whole taking into account matters such as:

- the presentation and disclosure implications resulting from the acquisition of Fokker
- the accounting treatment of certain contracts signed by GKN Aerospace during the year
- additions to provisions for potential liabilities arising from warranty exposure
- the reversal of specific contract provisions
- a commercial transaction with a key customer which resulted in a cash advance.

We received updates from management explaining the basis of accounting for complex contracts. While amounts in 2015 were not material, accounting concepts were debated and approved. To determine the appropriateness of the level of provisioning on the balance sheet and the reversal of provisions, we considered management's view on a number of matters including the nature of claims received, potential recall or rectification costs, the likelihood of a cash outflow and the circumstances around the reversal of provisions. We discussed the proposed disclosure with PwC and concluded that it was appropriately transparent and complete.

We also reviewed the following areas due to their materiality and the application of judgement. However, we considered them to be stable in nature and therefore we did not classify them as significant issues in the context of the 2015 financial statements.

Tax matters

Description

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, the interpretation of tax laws and the likelihood of challenge to tax positions.

Deferred tax assets are required to be recognised on the Company's balance sheet where it is probable that there will be sufficient taxable income in the future to absorb past tax losses. Judgement is required in assessing the future financial performance of the Group's entities when recognising deferred tax assets.

See note 6 to the financial statements

Committee action

We reviewed management updates and the external auditors' assessments on certain tax matters including:

- the recognition of deferred tax assets acquired with Fokker, taking into consideration the timing and level of future taxable profits
- the release of tax provisions on resolution of uncertain tax positions
- the recognition of interim receipts resulting from ongoing tax litigation.

Having considered updates from management and the external auditors' view, particularly in respect of the recognition of interim receipts, the Committee was satisfied with the judgements taken by management.

Development costs on large programmes

Description

Development costs for large aerospace and automotive programmes can be significant and assessing the likelihood of future recoverability of costs involves various judgements and assumptions. These relate to factors such as anticipated volumes, forecast cash flows and discount rates.

See note 11 to the financial statements

Committee action

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 which can influence levels of impairment were noted and the view of the external auditors was sought in relation to the appropriateness of the approach and outcome. Particular focus was placed on the A350 programme due to the value of its development costs. We also reviewed the development costs in GKN Driveline.

Taking into account the documentation presented and the assessment of the external auditors, we were satisfied with the approach and judgements taken.

Post-employment obligations

Description

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.

See note 24 to the financial statements

Committee action

Key matters reviewed this year 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. In the UK, a bulk annuity 'buy-in' was completed. The additional bulk annuity covered £47 million of pensioner liabilities (valued on an IAS 19 accounting basis as at 31 December 2015).

Valuation assumptions, prepared by external actuaries and adopted by management, were considered in light of prevailing economic indicators and the view of the external auditors. The approach adopted by management was accepted as appropriate.

External audit

In 2015, we:

- conducted our annual review of the independence and objectivity of PwC
- approved PwC's audit plan and terms of engagement for the audit of the 2015 financial statements
- noted the non-audit fees payable to PwC, having regard to the policy on the provision of non-audit services
- conducted a tender exercise in relation to the appointment of external auditors, recommending the appointment of Deloitte LLP to the Board with effect from 2016
- approved for recommendation to the Board a transitional policy on non-audit services in light of the proposed change of auditors.

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.

2015 audit plan

PwC's audit plan set out the scope and objectives of the audit together with an overview of the planned approach, an assessment of the Group's risks and controls, and proposed areas of audit focus. In my role as Chairman, I attended PwC's audit planning meeting. Additionally, PwC worked with Corporate Audit and management to identify areas which indicated an increased risk of control breakdown. These areas were then targeted proactively to ensure they received the appropriate amount of attention during the audit.

Independence

As a Committee we are responsible for the development, implementation and monitoring of the Company's policies on external audit which are designed to maintain the objectivity and independence of the external auditors. These policies regulate the appointment by the Group of former employees and set out the approach to be taken when using the external auditors for non-audit work.

Our annual review of the independence of PwC included:

- receiving confirmation from PwC that they remained independent and objective within the context of applicable professional standards
- considering the tenure of the audit engagement partner, who is required to rotate every five years in line with ethical standards
- ensuring that management confirmed compliance with the Group's policies on the employment of former employees of PwC and the use of PwC for non-audit work
- considering Corporate Audit's annual review of PwC's objectivity, independence and effectiveness and of the audit process.

As a result of this review, we concluded that PwC 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 external auditors are generally excluded from consultancy work and are not engaged by GKN for other non-audit work unless there are compelling reasons to do so, for example where PwC can draw upon significant historic knowledge gained through the audit process.

Any proposal to use the external auditors for non-audit work with a value between £50,000 and £250,000 must be submitted to the Group Finance Director for approval prior to their appointment. All proposals above this amount must be submitted to me for approval. In addition, the Group Finance Director will seek my prior authorisation for certain aspects of non-audit services relating to acquisitions, disposals and investigative accounting services, regardless of the fee value. The use of contingent fees is strictly prohibited under the policy.

Details of the fees paid to PwC in 2015 can be found in note 4(a) to the financial statements. Non-audit fees incurred during 2015 amounted to £1.1 million which related principally to tax compliance services (£0.5 million). Tax advisory services amounted to £0.3 million and audit-related assurance services and other services totalled £0.3 million. Non-audit fees as a percentage of audit fees totalled 22%. All such activities remained within the policy approved by the Board.

Effectiveness and reappointment of PwC for 2015

Our review of the performance of PwC and the effectiveness of the external audit process included consideration of responses from questionnaires conducted with members of the Committee, executive Directors and senior management. All participants were asked to rate PwC's effectiveness in a number of areas including independence and objectivity, audit planning and execution, conduct and communication, audit findings and feedback, and expertise and resourcing. The results confirmed that both PwC and their audit process were considered to be effective and that a good working relationship was supplemented by a sufficient amount of robustness in challenging management judgements.

PwC has been the Company's external auditors since their formation in 1998, although several predecessor organisations of PwC held office prior to that date. In determining whether to recommend the auditors for reappointment in 2015, we took into consideration the tenure of the audit partner, the results of the effectiveness review detailed above, the FRC Audit Quality Inspection Report in respect of PwC, and the firm's internal quality control procedures. Taking these elements into account, we concluded that it was appropriate to recommend to the Board PwC's reappointment as the Company's auditors for 2015.

Audit tender for 2016

In last year's report we noted our intention to put the external audit contract out to competitive tender due to new regulations on auditor rotation. This process was initiated in early 2015. In light of PwC's length of tenure and restrictions under the regulations which would limit its potential tenure to five years, it was agreed that PwC would not participate in the process. Our approach was supported by our largest shareholder.

The Audit & Risk Committee oversaw the audit tender process with support from the Group Finance Director and the Group Financial Controller. The tender participants were provided with information on the Group and attended a number of meetings with senior divisional and functional management to gain insight into GKN's operations, risks and requirements. In order to assess performance against selected criteria, each firm was asked to carry out reviews of GKN's financial reporting and integrity procedures. Their findings were presented to the relevant divisional and Group management teams and I attended a number of these presentations. All Committee members met informally with the proposed lead audit partners during the tender.

The concluding stage of the process was the submission of a detailed written proposal and presentation to the Committee by each firm. The Committee then considered the merits of each and the feedback provided by all GKN employees involved in the process. The Committee took into consideration the culture and levels of service, communication, commitment, and capability demonstrated by each firm during the process. It also took into account the ability to provide global audit coverage to the Group's subsidiaries and the use of audit-enhancing technology. Audit quality inspection reports issued by the FRC and PCAOB in the US were considered and it was confirmed that there would be no independence issues.

While we acknowledged that each firm had the ability to provide a high quality audit, based on the selection criteria we decided to recommend to the Board that Deloitte LLP be appointed the statutory auditors of the Group following the conclusion of the 2015 audit. The proposal to appoint Deloitte LLP as external auditors will be put to shareholders at the 2016 AGM. We would like to thank PwC for their contribution to GKN and the firms involved in the tender.

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

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

Internal control and risk management

In fulfilling our remit we:

- 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 operation of the Group's systems of internal control and risk management, informed by reports from Corporate Audit and PwC
- carried out in-depth reviews of each division's risk management system in relation to product quality, programme management and contract management.

The Committee is responsible for monitoring and reviewing the effectiveness of the Group's internal control and risk management systems.

We reviewed Corporate Audit's quarterly reports which detail any internal control issues and identify any themes arising in relation to audit recommendations. We considered the adequacy of management's response to matters raised and the implementation of recommendations made.

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 each division's risk management systems in relation to product quality, programme management and contract management and the key performance indicators used to monitor each risk.

Internal audit

During the year we:

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

In relation to consideration of the Corporate Audit programme for the forthcoming year, we reviewed the proposed audit approach, coverage and allocation of resources. We also received progress updates against the 2015 audit programme throughout the year.

We reviewed the terms of reference and effectiveness of Corporate Audit, taking into account the views of Directors and senior management on matters such as independence, proficiency, resourcing, and audit strategy, planning and methodology. The review confirmed that the Corporate Audit function was independent and objective and remained an effective element of the Group's corporate governance framework.

Employee disclosure

To support the Group's Employee Disclosure Procedures Policy (available on our website), GKN operates a Group-wide 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 Audit & Risk Committee as appropriate, and statistics on the volume and general nature of all disclosures made are reported to the Committee on an annual basis.

Other matters

During the year we reviewed progress against the Group's IT and cyber security plan and received updates from divisional finance directors on matters relevant to their divisions.

Performance evaluation

Our annual evaluation process was carried out by questionnaire. The questionnaire focused on areas such as Committee composition, quality and content of meetings, role and remit, and areas of focus for 2016. Feedback from the questionnaire, which was circulated to Committee attendees as well as members, showed that the Committee was considered to be effective in fulfilling its role throughout 2015.

On behalf of the Committee

Shonaid Jemmett-Page

Shonaid Jemmett-Page
Chairman of the Audit & Risk Committee
22 February 2016

DIRECTORS' REMUNERATION REPORT

Professor Richard Parry-Jones CBE
Chairman of the Remuneration Committee

Dear Shareholder

The Committee had a busy year during 2015. In addition to our normal activities we reviewed our remuneration framework to ensure that it still supports the long-term success of the Group. In this letter I have shared some of the main findings from that review, as well as describing our other activities during the year.

Performance outcome for 2015

Annual incentive plan (STVRS)

As described in the strategic report, GKN made pleasing progress in 2015, performing well against its markets.

STVRS payments to executive Directors amounted to 67% of salary. Given that the Group delivered on expectations against a backdrop of some challenging market conditions, this outcome reflects the stretching targets we put in place at the start of 2015.

Long-term incentive plan (SEP)

The performance period for the core element of the 2013 SEP award ended on 31 December 2015. In order to vest, an annual compound growth rate of at least 6% in management earnings per share (EPS) was required (calculated using the cash tax rate). A combination of lower than expected growth in our end markets and a sharp increase in the cash tax rate led to the 2013 SEP core award and the associated sustainability award lapsing in full. This is disappointing because GKN performed well in progressing its strategy of achieving above market growth, with management profit before tax increasing at a compound annual rate of 6.9% over the 2013 SEP performance period.

The first year of the 2012 SEP sustainability award also ended on 31 December 2015. As a result of the increasing cash tax rate applicable to GKN, EPS for 2015 was slightly below the highest annual level of EPS achieved during the 2012 SEP core performance period. Therefore, the first year of the 2012 SEP sustainability award will also not pay out.

Adam Walker's joining awards

Part of the joining award granted to Adam Walker in 2014 to compensate him for the long-term incentive arrangements he forfeited on leaving his former employer was also dependent on the Group's performance to 31 December 2015. This had the same EPS growth target as the 2013 SEP core award and has therefore lapsed with no pay-out.

Other key decisions during 2015

Salary increases

In June 2015 we approved annual salary increases for the executive Directors ranging from 2.6% to 3%. We carefully considered their performance, scope of responsibilities at that time, average salary increases awarded to employees in the UK (2.6%) and globally (3.6%), and market reference points. In October 2015, we approved a further increase to Adam Walker's salary of 10% to take account of the significant increase in his responsibilities following his appointment as Chief Executive GKN Land Systems in addition to his role as Group Finance Director.

Andrew Reynolds Smith's leaving arrangements

Andrew Reynolds Smith resigned from his role as Chief Executive GKN Automotive and executive Director on 25 September 2015. He did not receive any bonus payment in respect of 2015 and all of his outstanding SEP awards lapsed on leaving.

Review of our remuneration framework

During 2016 we reviewed our incentive plans to ensure that the targets continue to be appropriate in light of shareholder expectations and remain an effective tool for attracting, retaining and incentivising our top executives in highly competitive international markets. These incentive plans are not just for the executive Directors and Executive Committee members; we apply a very similar approach to all of our senior management population with almost 320 executives taking part in the SEP.

The Committee remains comfortable that the base salaries of GKN's executive Directors are appropriately positioned against the market. They are not excessive and do not in themselves create a significant risk in terms of our ability to recruit and retain top talent. However, our review highlighted the following key factors, which together suggest that our current incentive plans leave an uncomfortably high risk in our succession planning.

- For many years annual bonus pay-outs as a percentage of salary have been well below the market competitive range, including in years when GKN has performed strongly. The average bonus paid to our executive Directors over the last five years has been approximately 60% of salary, around half the median average pay-out of our UK comparators. Pay-out levels reflect both our relatively low maximum opportunity of 110% of salary compared to the UK market and the very stretching performance targets which we set at GKN.

- The annual bonus opportunity is significantly below GKN's international peer groups, including our US competitors. The US is an important market for us, where we generate around one third of our sales and compete for talent. We do not expect to match reward packages in that market, but having recently lost some senior US executives, we cannot ignore its practices.
- The retention risk is exacerbated by the fact that the 2013 SEP award will not pay out in 2016 and subsequent awards now look unlikely to vest in 2017 or 2018. While management profit before tax has grown steadily, slowing global GDP and an increasing tax rate for GKN mean that an annualised compound growth in EPS of 6% to 12% is overly stretching.
- The resignation of three senior executives in recent years, including the resignation in 2015 of Andrew Reynolds Smith to join another industrial company, emphasises the importance of ensuring that our reward packages are competitive. While we believe we currently have a very strong executive team, the Committee is mindful of the importance of a period of stability to the long-term success of the Group.

The Committee has carefully considered these points against the challenging stock market conditions seen at the start of 2016. Following shareholder consultation we have decided not to propose any policy changes for 2016 but to help address the above issues we have implemented some changes within our existing remuneration policy, as described below. We will carry out a full policy review during the course of 2016; it is likely that we will propose further changes in 2017 when the remuneration policy comes up for approval by shareholders under the normal three-year cycle. We will retain our rigorous, principled and fair approach to setting reward levels, while seeking to ensure that we can attract, motivate and retain the right talent across our global markets.

Our approach for 2016

STVRS

We are proposing to increase the proportion of the STVRS based on strategic measures from 20% to 25% of salary, with the overall maximum bonus opportunity remaining at 110% of salary. This change helps ensure that there is an appropriate balance between the delivery of strategic objectives that help the Group in the medium to long term and annual profit, margin and cash targets. The targets remain stretching and we will continue to take a disciplined approach to measuring performance.

SEP

For 2016 we are changing the way we set EPS targets and the SEP award levels for executive Directors.

GKN's overriding strategic objective is to achieve above market growth relative to our end markets. To better align EPS targets with our strategy, EPS performance will be assessed relative to actual automotive and aerospace end market growth. Market growth will be assessed using third-party data reporting the average growth in the number of vehicles produced and the value of aircraft sold during the performance period of the 2016 SEP. This means that our senior management population will only receive shares through the SEP if they succeed in delivering our strategy of growing above the market.

Further details on the market data that we will use to calculate the EPS targets for the 2016 SEP awards are set out on page 84. The Group expects that the continuing increase in book tax rate will create a headwind to EPS growth of between 1% and 1.5%. Based on current forecasts, management will need to achieve compound annual growth in earnings before tax of more than 5.5% to achieve the threshold vesting level for the 2016 SEP awards. This will be challenging given current economic uncertainty.

For the 2016 SEP we will measure EPS growth using the management EPS reported on page 11, which is based on book tax rather than cash tax. This will improve the connection between the financial information that we report to our shareholders and the SEP performance measure, and will aid transparency. Based on current forecasts, we expect both the cash tax rate and the book tax rate to increase by similar amounts over the period relevant to the 2016 SEP.

The 2015 management EPS to be used as the baseline for the 2016 SEP award will be adjusted upwards to include a notional full year of Fokker earnings and to ignore the effect of the Fokker-related transaction costs incurred during 2015 so that we compare like with like when we assess performance over the core performance period. On this basis, the baseline EPS for the 2016 SEP will be 27.9 pence.

For the 2016 SEP we have expanded the Committee's discretion to reduce any SEP pay-out so that the Committee can take account of both the quality of earnings (as was the case in relation to previous SEP awards) and EPS performance against shareholder expectations. This change was made in light of consultation with proxy advisers.

Taking into consideration the succession planning risks mentioned above, we intend to grant the 2016 SEP awards to our executive Directors with a maximum opportunity of 165% for the core award and a further 33% for the sustainability award. This is a relatively small increase of 20% of salary for the core award and 4% for the sustainability award, and is within our current remuneration policy.

The following pages describe in further detail how we implemented our remuneration policy in 2015, together with our plans for 2016. Our remuneration policy is due to be renewed and approved by shareholders at the 2017 annual general meeting (AGM). We are likely to propose changes to our policy at that time and will consult with shareholders during the course of this year.

Richard Parry-Jones CBE
Chairman of the Remuneration Committee
22 February 2016

Committee membership

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

All members are independent non-executive Directors. The Secretary to the Committee is Jos Sclater, General Counsel & Company Secretary.

The Committee met nine times during the year. Attendance at Committee meetings is set out in the table on page 63.

Role

The Board has delegated responsibility to the Committee for:

- determining the Group's policy on executive Directors' remuneration and, within the terms of that policy, setting the detailed remuneration and other terms of service of the executive Directors and determining the remuneration of the Company Secretary
- determining the fees of the Chairman
- recommending to the Chief Executive, and monitoring the level and structure of, remuneration of the most senior executives below Board level.

The Committee's terms of reference are available on our website at www.gkn.com.

2015 activities

The key activities that we focused on during 2015 are summarised below:

Salary and annual incentive plan	Jan	Feb[1]	Apr	Jun	Jul	Sep	Oct	Dec
Determining pay-outs for the 2014 STVRS	✓	✓						
Setting measures and targets for the 2015 STVRS	✓	✓						
Annual salary review for executive Directors				✓				
Long-term incentive arrangements								
Determining vesting level of Adam Walker's second restricted award	✓							
Determining vesting level for 2012 SEP core award		✓						
Introducing new incentive plan for participants below Board level					✓	✓	✓	
Board and Executive Committee changes								
Reviewing remuneration arrangements for new Chief Executive GKN Driveline					✓			
Reviewing Adam Walker's salary after his appointment as Chief Executive GKN Land Systems						✓		
Approving salary and benefits for Phil Swash and Kevin Cummings upon their appointment to the Board								✓
Governance matters								
Reviewing risk in the context of remuneration								✓
Reviewing incentive scheme design and retention risk			✓	✓	✓	✓		
Consulting with shareholders on incentive framework review						✓		✓
Reviewing performance of the Committee and its external advisers	✓		✓					
Approving remuneration report	✓	✓						

1 Committee met twice in February 2015.

Annual report on remuneration – executive Directors

The Committee presents the annual report on remuneration which, together with the Chairman's letter, will be put to shareholders as an advisory vote at the 2016 AGM to be held on 5 May 2016.

Single total figure of remuneration (audited)

The table below shows the single total figure for 2015 and the comparative figures for 2014.

	Fixed pay						Variable pay										
	Salary (£000)		Taxable benefits (£000)		Pension (£000)		STVRS – cash (£000)		STVRS – deferred shares (£000)		Long-term incentives (£000)		Other remuneration (joining awards) (£000)		Recovery (£000)	Total remuneration (£000)	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	**2015**	2014
Executive Directors																	
Nigel Stein	**795**	775	**18**	18	**333**	334	**517**	407	**18**	—	**—**	1,388	**—**	—	**—**	**1,681**	2,922
Adam Walker	**518**	492	**15**	15	**130**	123	**337**	270	**12**	—	**—**	–	**273**	45	**—**	**1,285**	945
Former executive Director																	
Andrew Reynolds Smith[1]	**366**	483	**12**	16	**167**	220	**—**	248	**—**	—	**—**	862	**—**	—	**(431)**	**114**	1,829
Total	**1,679**	**1,750**	**45**	**49**	**630**	**677**	**854**	**925**	**30**	**—**	**—**	**2,250**	**273**	**45**	**(431)**	**3,080**	**5,696**

1 Includes payments up to resignation from the Board on 25 September 2015.

Salary

Base salaries received during the year taking account of the salary increases on 1 July 2015. Further details are shown on page 80.

Taxable benefits

Gross value of taxable benefits received during the year including healthcare benefits, car and fuel allowances.

Pension

Value of all cash allowances/contributions in respect of pension and, where appropriate, the value of defined benefit participation. Further details on pension entitlements and pension provisions are shown on pages 80 and 87 respectively.

STVRS – cash

Value represents Short-Term Variable Remuneration Scheme (STVRS) cash element up to 65% of salary. Further details are shown on pages 80 to 82.

STVRS – deferred shares

Value represents STVRS amounts in excess of 65% of salary deferred into shares. For 2015, the amounts deferred into shares as a percentage of salary were 2.23% for both Nigel Stein and Adam Walker.

Long-term incentives

The performance period for the 2013 SEP core award ended on 31 December 2015. A combination of lower than expected market growth and an increasing cash tax rate (which has had a negative impact on our EPS growth) has resulted in the core award and the associated sustainability award lapsing (see page 83 for further details). This means the values for 2015 are zero. The prior year values relate to the 2012 SEP core award (including shares deferred until 2017 and dividend equivalent shares accrued from the date of grant to 31 December 2014) using the GKN share price on 17 February 2015 (375.5 pence) which was the date on which the Committee determined the performance outcome for the 2012 SEP core award.

Other remuneration (joining awards)

Value of vested joining awards (second restricted award including dividend equivalent shares from date of grant to release date) granted to Adam Walker following his appointment in 2014 using the GKN share price of 373.6 pence on 24 February 2015 (release date). The prior year value relates to the first restricted award and dividend equivalent shares using the GKN share price of 366 pence on 29 July 2014 (release date). The 2014 performance share award granted to Adam Walker was also due to vest based on EPS performance over a two-year period ending on 31 December 2015. The EPS targets were not met and therefore the award lapsed (see page 84 for further details). No value has been included in the table above for this particular award.

Recovery

Value represents 50% of the 2014 long-term incentives value relating to the element of vested shares under the 2012 SEP core award deferred until February 2017. These shares lapsed on Andrew Reynolds Smith's resignation from the Board. There was no equivalent value for 2014.

Salaries

Designed to recruit and retain individuals with the necessary knowledge, skills and experience to deliver the Group's strategic objectives.

In June 2015, we carried out the annual salary review for executive Directors. We took into account a number of factors, including their performance, scope of responsibilities, market data from our remuneration advisers and increases awarded to other employees in the UK and globally. We approved salary increases (rounded to the nearest thousand) of 2.6% for Nigel Stein and 3% for both Adam Walker and Andrew Reynolds Smith to recognise the additional responsibilities they had taken on at that time. These increases were effective from 1 July 2015 and were broadly in line with the average increase awarded to UK employees (2.6%) and employees globally (3.6%).

Following Andrew Reynolds Smith's resignation in September 2015, the scope of Adam Walker's responsibilities significantly increased as he was appointed Chief Executive GKN Land Systems, in addition to his current role as Group Finance Director. Given these additional responsibilities, we approved an additional salary increase of 10% with effect from 1 October 2015. In reaching this decision, we took care to ensure that his salary remained appropriate in light of market benchmarking data. This salary increase was in line with our approved remuneration policy.

	1 July 2015 (£)	1 July 2014 (£)	Increase
Executive Directors			
Nigel Stein	**805,000**	785,000	2.6%
Adam Walker[1]	**513,000**	498,000	3.0%
Former executive Director			
Andrew Reynolds Smith[2]	**505,000**	490,000	3.0%

1 Salary increased to £564,300 with effect from 1 October 2015.
2 Salary increased prior to resignation from the Board.

Implementation of policy for 2016

Any salary increases in 2016 will be made in line with the approved remuneration policy as set out at the end of this report.

Taxable benefits

All Directors received healthcare benefits and car and fuel allowances.

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. All benefits accruing under the defined benefit section of the Scheme and cash allowances are included in the single total figure table on page 79.

The defined benefit section of the Scheme provides legacy arrangements that now only apply to Nigel Stein. He receives a cash retirement benefit allowance of 40% of his base salary. Andrew Reynolds Smith was a member of the defined benefit section of the Scheme until he resigned from the Board.

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

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

Details of the pension benefit provisions under the defined benefit and defined contribution sections of the Scheme can be found on page 87.

Implementation of policy for 2016

There are no plans to change Directors' pension entitlements in 2016.

STVRS

Designed to reward achievement of short-term financial and strategic measures to support the broader Group strategy and individual needs of each division, without encouraging excessive risk-taking.

For 2015 the maximum STVRS opportunity was 110% of base salary. The financial measures represent a maximum of 90% of base salary and are assessed against profit, margin and cash targets in relation to Group and individual portfolios as appropriate. The strategic measures represent the remaining bonus opportunity of 20% of base salary. Payments of up to 65% of base salary are made in cash and any balance is deferred into shares under the Deferred Bonus Plan (see page 82). Malus and clawback provisions will apply to STVRS payments.

2015 STVRS performance (audited)

The 2015 STVRS financial and strategic measures were linked to our overall strategic objectives and financial goals as set out below. See pages 6 and 7 for further information on our strategic framework.

Performance measure	Link to strategic objectives and financial goals
Financial measures	
Profit	Delivering strong financial returns
Margin	Delivering strong financial returns
Cash	Delivering strong financial returns
Strategic measures	
Address market challenges	Leading in our chosen markets
	Leveraging a strong global presence
	Differentiating ourselves through technology
Progress operational excellence	Driving operational excellence
Strengthen governance and risk	Driving operational excellence
	Doing the right thing

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

		Target performance				Actual performance (as % of salary)	Maximum opportunity
Director	Measure	Threshold	Target	Maximum	Actual	Threshold / Target / Maximum	(% of salary)
Nigel Stein	Group profit	£581m	£611m	£631m	£608m	22.71%	50
	Group margin	8.7%	9.0%	9.3%	9.0%	5%	10
	Group cash		See below			21.77%	30
	Strategic measures		See page 82			17.75%	20
						Total achieved: 67.23%	110
Adam Walker	Group profit	£581m	£611m	£631m	£608m	22.71%	50
	Group margin	8.7%	9.0%	9.3%	9.0%	5%	10
	Group cash		See below			21.77%	30
	Strategic measures		See page 82			17.75%	20
						Total achieved: 67.23%	110

The profit, margin and cash figures above relate to the Group and are calculated using the 2015 budget exchange rates to eliminate the impact of translational currency fluctuations.

In GKN, annual profit and margin targets for the Group and each division are set in line with the budget approved by the Board, which the Board approves in light of shareholder expectations, the Group's strategy and market conditions. GKN's budget, and therefore STVRS targets, tend to be stretching as discussed in the Chairman's letter.

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

The performance of the strategic measures included the following:

Strategic measures	Objectives	Outcome
Address market challenges	• Win new business in strategic areas as well as improving margin • Develop e-drive and additive manufacturing technology	• Solid progress across the Group, with GKN Powder Metallurgy performing particularly well winning new business. • Good progress, with nomination as tier one status on an important hybrid platform.
Progress operational excellence	• Implement defined continuous improvement systems	• Excellent progress across all divisions, with improvement across our key operational metrics.
Strengthen governance and risk	• Implement diversity and inclusion programme • Map key risks and controls in each division	• All divisions successfully rolled out the Group's diversity and inclusion programme. • All divisions mapped and reviewed their quality, contract management and programme management systems in line with the plan.

STVRS – deferred shares

Aimed at aligning executive Directors' interests with those of shareholders and aiding retention of executives.

How the DBP works

Any STVRS payment above 65% of base salary is deferred into shares under the DBP for a two-year period. The release of awards is subject to continued employment and malus provisions.

There were no DBP awards granted during 2015 as the STVRS payment for the prior year did not meet the 65% of salary threshold required for deferral. DBP awards will be granted in 2016 in respect of the 2015 STVRS amounts in excess of 65% of salary (see page 79 for further details).

Implementation of policy for 2016 – STVRS and DBP

The STVRS performance measures are reviewed annually. For the 2016 STVRS, the maximum opportunity for the strategic objectives has increased from 20% to 25% of salary while the maximum opportunity for profit has reduced from 50% to 45% of salary.
The weightings for each measure are set out below:

	% of salary	
	Target	Maximum
Profit	22.5	45
Cash	15	30
Margin	5	10
Strategic objectives	12.5	25
	55	**110**

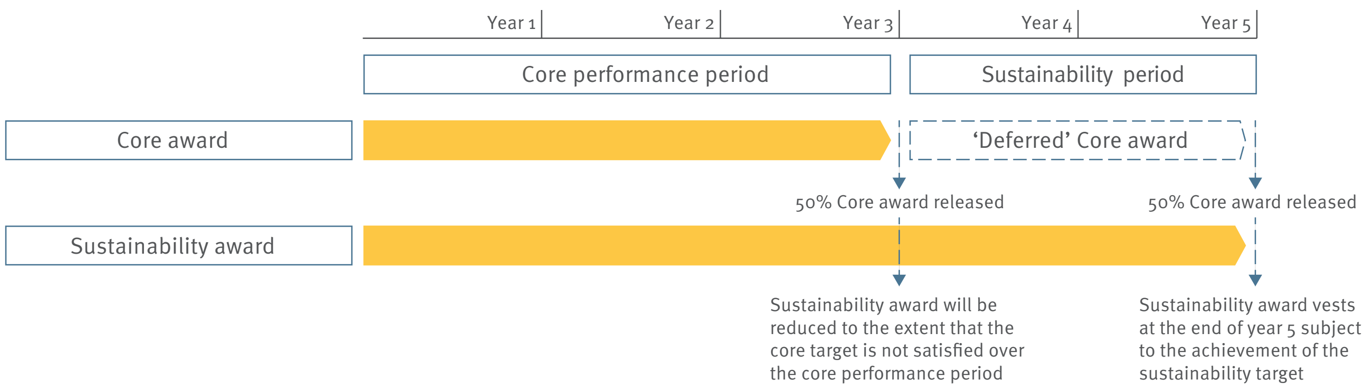
There are no changes to the DBP. Any STVRS payment above 65% of base salary earned in respect of 2016 will be deferred into shares.

Long-term incentives

Aimed at improving alignment with the Group's growth strategy and shareholders' interests as well as rewarding and encouraging sustained earnings performance over the long term.

How the SEP works

SEP awards take the form of a core award and a sustainability award and are normally granted annually to executive Directors and to the senior management population. For 2016, the award levels for executive Directors (both core and sustainability awards) will be 198% of salary. Malus and clawback provisions will apply to SEP awards. The chart below illustrates how the SEP operates.



The core and sustainability awards are subject to performance targets and additional assessment of the quality of earnings. The performance measures for the 2015 awards are set out below:

Core target

EPS growth[1]	Vesting level[2]
12% or more	100%
6%	25%
Less than 6%	0%

Sustainability target[3, 4]

Year 4	Year 5	Vesting level[5]
√	√	100%
X	√	50%
√	X	50%
X	X	0%

1 Compound annual EPS growth based on management EPS calculated using cash tax rate as reported in note 9 to the financial statements.
2 Vesting between 6% and 12% is on a straight line basis.
3 Based on the highest level of EPS in any year of the core performance period being achieved or exceeded.
4 Sustainability target is assessed separately in years 4 and 5.
5 Vesting level is reduced to reflect the extent to which the core target is not satisfied.

Assessment of quality of earnings

The Committee must be satisfied that the level of vesting for core and sustainability awards is justified by the quality of earnings by taking into account the following factors:

- Group ROIC against internal projections
- shareholder expectations
- new investment performance
- cost of capital to ensure the level of vesting appropriately reflects the creation of shareholder value.

Vesting of awards in 2015 (audited)

The 2013 SEP core award was subject to EPS growth targets to the end of 31 December 2015. EPS growth has been negatively impacted by a combination of lower than expected market growth and an increasing cash tax rate. This means that no payments will be made under the core award as it lapsed in full on 16 February 2016. The sustainability award associated with the core award also lapsed on the same date.

	Target for vesting[1]		
	Threshold	Maximum	Actual vesting
Performance measure (EPS growth[2])	6%	12%	3.5%
Vesting level	25%	100%	0%

1 Vesting between these points is on a straight line basis.
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 2015 (audited)

Director and award type[1]	% of salary	Face value of award (£)[2]	No of shares awarded	% vesting at threshold	End of performance period
Nigel Stein					
Core award	145	1,138,250	317,796	25	31 December 2017
Sustainability award	29	227,650	63,559	50	31 December 2019
			381,355		
Adam Walker					
Core award	145	722,100	201,608	25	31 December 2017
Sustainability award	29	144,420	40,321	50	31 December 2019
			241,929		
Andrew Reynolds Smith[3]					
Core award	145	710,500	198,369	25	31 December 2017
Sustainability award	29	142,100	39,673	50	31 December 2019
			238,042		

1 Core and sustainability awards were granted as performance share awards with no exercise price.
2 Value is based on the maximum number of shares vesting assuming the relevant performance conditions (see above for further details) are satisfied in full. The number of core award shares is calculated using the GKN share price of 358.17p, being the average share price for the three dealing days immediately before the date of grant (6 March 2015). The number of sustainability award shares is based on 20% of the core award shares. The value excludes the dividend equivalent amounts (paid in additional shares or cash) accrued from the date of grant to release date and released at the same time as the core and sustainability award shares.
3 Awards lapsed on resignation from the Board.

Implementation of policy for 2016

As described in the Chairman's letter, we are changing the way we set EPS targets and, for 2016, the SEP award levels for executive Directors.

In order to better align the EPS targets with our strategy to achieve above market growth relative to our end markets, and to ensure that EPS targets are stretching but achievable, EPS performance for 2016 will be assessed relative to the extent to which GKN outperforms actual automotive and aerospace end market growth. The underpin has been expanded to take account of both the quality of earnings (as for previous SEP awards) and EPS performance against shareholder expectation. The 2016 SEP awards will be measured on the vesting schedule set out below using a base year EPS for 2015 of 27.9 pence (which is the 2015 management EPS calculated using book tax rate adjusted to take account of the Fokker acquisition):

EPS growth target	Vesting
Growth of 1% above end markets	25%
Growth of 5% above end markets	100%
	Straight line vesting in between

Provided all or part of the core awards vest, the sustainability awards will be measured by reference to the highest level of EPS achieved in any year of the core performance period. The awards will also be subject to malus and clawback provisions.

Reliable data on end market growth is reported by well-recognised industry standard providers. For automotive data, we use IHS Automotive and for aerospace data we use Teal. They produce monthly reports on the number of vehicles produced and the value of aircraft sales respectively. We have used this data for many years when compiling annual results and AGM presentations. For the purpose of the 2016 SEP awards, we will calculate the blended market growth rate for our Group using a weighting of 55% automotive and 45% aerospace, which is broadly in line with the profit contribution of our automotive and aerospace divisions. Details of the actual end market growth will be disclosed at the time of vesting.

Set out below are the market forecasts published by IHS Automotive and Teal in January 2016, together with the resulting EPS targets that would apply if actual market growth over the performance period for the 2016 SEP is in line with the forecast.

Market	Forecast (3 year CAGR: 2016, 2017 and 2018)	Forecast EPS threshold target	Forecast EPS maximum target
Aerospace	2.5		
Automotive	2.8		
Group	2.7	3.7	7.7

We are proposing to grant the 2016 SEP awards to our executive Directors with a maximum opportunity of 198% of salary, which is within our remuneration policy but is an increase from the opportunity of 174% of salary awarded in 2015. This will apply for 2016 and is not a precedent for the level of long-term incentive awards to be granted on an ongoing basis.

Historic plans

Prior to the introduction of the SEP in 2012, long-term incentive awards were granted under the GKN Long Term Incentive Plan (LTIP) which targeted EPS growth and the GKN Executive Share Option Scheme (ESOS) which was based on total shareholder return performance. The final LTIP awards were released during the year; this and details of the vested and outstanding ESOS awards are shown on page 86. Since 2012, all long-term incentive awards have been granted under the SEP.

Joining awards for Adam Walker

As disclosed last year, Adam Walker joined the Board on 1 January 2014 and became Group Finance Director on 26 February 2014. In addition to participating in the normal ongoing incentive arrangements (STVRS and SEP), he was granted joining awards in line with the remuneration policy to compensate him for the long-term incentive arrangements he forfeited on leaving his former employer.

Vesting of awards in 2015 (audited)

The second tranche of Adam Walker's restricted share award was granted subject to continued employment and his personal performance, and was released in February 2015 (see page 86). However, the performance share award with a two-year performance period ending on 31 December 2015 was based on the same EPS growth targets as the 2013 SEP and did not vest as performance was below threshold. No payment will be made as the award lapsed in full on 16 February 2016 (see page 83).

Executive Directors' share interests (audited)

We believe that the interests of Directors should be closely aligned with those of shareholders so we operate a shareholding requirement to achieve this. For executive Directors, a considerable part of this alignment can be achieved through the retention of shares released under the DBP and under long-term incentive plans.

Executive Directors are expected to achieve a minimum shareholding of 200% of base salary within five years or as soon as possible after that if they were appointed after 2012. Nigel Stein was in post at that time and has met the requirement comfortably (see table below).

Adam Walker was appointed on 1 January 2014 and is expected to achieve 100% of base salary within five years of his appointment and 200% of base salary as soon as possible after that. He is expected to retain all vested long-term incentive awards (net of tax) until the requirement is met in full. He is making progress towards meeting 100% of his shareholding requirement since his appointment (see table below).

We also 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 (see page 88). 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.

As the SEP will not pay out in 2016, and is forecast not to pay out in 2017 and 2018, it may take some Directors and other executives more than five years to meet their shareholding requirement.

The table below shows the number of shares held by Directors (and their connected persons) at 31 December 2015. It also shows the interests of executive Directors in share awards and options at the same date.

	Shares			Interests in share awards and options					
	Shares held	Shareholding requirement		Without performance conditions	With performance conditions				
		% of salary		DBP[2]	SEP[3]		Performance[4]	ESOS[5]	
		Required	Achieved[1]	Unvested	Vested	Unvested	Unvested	Vested	Exercised
Executive Directors									
Nigel Stein	1,971,455	200	713	32,569	174,978	1,268,976	–	635,041	752,861[6]
Adam Walker	115,899	200[7]	60	–	–	454,911	76,218	–	–
Former executive Director									
Andrew Reynolds Smith	966,119[8]	–	–	–	–	–	–	–	–

1 Based on average share price of 291.25p per share for the period 1 October 2015 to 31 December 2015 and salary as at 31 December 2015.
2 DBP awards are granted in the form of conditional awards. Vesting is subject to continued employment only. Malus provisions apply.
3 SEP awards are granted in the form of conditional awards. Vesting is subject to the achievement of an EPS performance condition. Malus and clawback provisions apply. The vested award represents 50% of the 2012 SEP core award that is not released until February 2017.
4 Performance share award is granted in the form of a conditional award. Vesting is subject to the achievement of an EPS performance condition (same as that for the 2013 SEP core award) and continued employment. Clawback will apply in the event employment ceases within 12 months of vesting.
5 ESOS awards are market value options. Vested ESOS awards are those not exercised at 31 December 2015.
6 287,672 shares retained on exercise of the ESOS option are included in the total shares held for Nigel Stein.
7 Required to achieve a shareholding of 100% of salary within five years of appointment and 200% of salary as soon as possible after that.
8 Shares held on resignation from the Board.

Further details on interests in share awards and options shown above can be found in the table and additional notes on page 86.

There were no changes in the interests of Directors in the period 31 December 2015 to 22 February 2016.

Directors' interests in share awards and options

Director and plan	Shares held at 01.01.2015[1]	Shares granted in year	Shares released/ options exercised in year	Dividend shares released in year	Shares lapsed in year	Number of shares at 31.12.2015	Status at 31.12.2015	Share price (pence)[2]	Performance period	Actual/expected release/exercise date[3]
Nigel Stein										
ESOS 2009^	752,861	–	752,861	–	–	–	Exercised	110.08	2009-2011	17.03.15
ESOS 2010^	434,621	–	–	–	–	434,621	Vested	134.6	2010-2012	07.05.13-06.05.20
ESOS 2011^	200,420	–	–	–	–	200,420	Vested	199.58	2011-2013	01.04.14-31.03.21
LTIP 2011Δ	408,997	–	408,997	–	–	–	Released	146.7	2011-2013	01.04.15
SEP 2012	622,143	–	174,977	9,778	202,197	244,969[4]	Vested/ unvested	208.36	2015-2016	2017
	2,419,042		**1,336,835**	**9,778**	**202,197**	**880,010**				
DBP 2014	32,569	–	–	–	–	32,569	Unvested	402.16	n/a	24.02.16
SEP 2013	482,128	–	–	–	–	482,128	Unvested[5]	268.87	2013-2017	–[5]
SEP 2014	335,502	–	–	–	–	335,502	Unvested	396.23	2014-2018	2017/2019
SEP 2015	–	381,355	–	–	–	381,355	Unvested	358.17	2015-2019	2018/2020
	850,199	**381,355**	**–**	**–**	**–**	**1,231,554**				
Adam Walker										
Restricted shares 2 2014	71,423	–	71,423	1,572	–	–	Released	396.23	n/a	24.02.15
	71,423	–	**71,423**	**1,572**	**–**	**–**				
Performance shares 2014	76,218	–	–	–	–	76,218	Unvested[6]	396.23	2014-2015	–[6]
SEP 2014	212,982	–	–	–	–	212,982	Unvested	396.23	2014-2018	2017/2019
SEP 2015	–	241,929	–	–	–	241,929	Unvested	358.17	2015-2019	2018/2020
	289,200	**241,929**	–	**–**	**–**	**531,129**				
Andrew Reynolds Smith										
ESOS 2011^	168,353	–	168,353	–	–	–	Exercised	199.58	2011-2013	09.09.15
LTIP 2011Δ	343,558	–	343,558	–	–	–	Released	146.7	2011-2013	01.04.15
	511,911	**–**	**511,911**	**–**	**–**	**–**				
DBP 2014	25,383	–	–	–	25,383	–	Lapsed[7]	402.16	n/a	–
SEP 2012	386,647	–	108,744	6,076	277,903	–	Lapsed[7]	208.36	2015-2016	–
SEP 2013	299,631	–	–	–	299,631	–	Lapsed[7]	268.87	2013-2017	–
SEP 2014	209,468	–	–	–	209,468	–	Lapsed[7]	396.23	2014-2018	–
SEP 2015	–	238,042	–	–	238,042	–	Lapsed[7]	358.17	2015-2019	–
	921,129	**238,042**	**108,744**	**6,076**	**1,050,427**	**–**				

^ Indicates awards granted as share options.
Δ Indicates awards granted as nil cost options.

1 For SEP awards, it includes both the core and sustainability awards.
2 The share price used to calculate the number of shares granted under awards and options is:
For SEP, Restricted Shares 2 and Performance Share awards, it is the average price for the three dealing days immediately before the grant dates.
For DBP awards, it is the average price for the five dealing days immediately before the grant date.
For LTIP awards, it is the average share price for the year prior to the grant date.
For ESOS options, it is the average price for the five dealing days immediately before the grant dates. This is also the price at which options can be exercised.
3 For SEP awards, 50% of any vested core award is released after three years and the remaining 50% (and any vested sustainability award) is released after five years, in both cases after the announcement of the prior year annual results.
4 Represents 50% of the vested core award (174,978 shares) to be released in 2017 and sustainability award (69,991 shares) which will vest subject to the sustainability target being met.
5 Performance condition was not met so the 2013 SEP core and sustainability awards lapsed in full on 16 February 2016.
6 Performance condition was not met so the 2014 performance share award lapsed in full on 16 February 2016.
7 Awards lapsed on resignation from the Board.

The aggregate gain made by Directors on the release/exercise of the above awards was £6.2 million.

Pension (audited)

The table below sets out details of the pension benefit provisions under the defined benefit and defined contribution sections of the Scheme for executive Directors who served during the year.

	Pivotal retirement date[1]	Accrued pension at 31.12.15[2] £000	Transfer value of accrued pension at 31.12.2015[3] £000	Increase in accrued pension during year (net of inflation) £000	Pension value in year from defined benefit scheme (A) £000	Pension value in year from cash allowance/ defined contribution (B) £000	Total pension value in year as reported in single total figure table (A+B)[4] £000
Nigel Stein	31.12.15	86	2,020	1	15	318	333
Adam Walker	—	—	—	—	—	130	130
Andrew Reynolds Smith[5]	12.05.26	48	934	3	50	117	167

1 Earliest date that a non-reduced pension is payable to Directors. No additional benefits are provided for early retirement.
2 Accrued annual pension includes entitlements earned as an employee prior to becoming a Director as well as for qualifying services after becoming a Director.
3 Transfer value represents the present value of accrued benefits. It does not represent an amount of money which the individual is entitled to receive. The change in transfer value over the year reflects the additional pension earned and the effect of changes in financial market conditions during the year. The method and assumptions used to calculate transfer values from the Scheme were last reviewed in March 2015 and remain applicable.
4 Notional value of defined benefit and cash allowances included in single total figure table on page 79.
5 Reflects service up to resignation from the Board.

Payments for loss of office (audited)

There were no payments for loss of office made to any past Director during the year.

Payments to past Directors (audited)

Andrew Reynolds Smith

Andrew Reynolds Smith resigned from the Board and left the Company on 25 September 2015. 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 bonus payment in respect of 2015.

Marcus Bryson

Marcus Bryson stepped down from the Board on 31 December 2014 and retired from the Company on 1 January 2015. He continued to be employed on a part-time basis until 31 December 2015 when his employment ended.

The table below sets out the awards and options released to him during 2015:

Award	Number of shares released	Dividend shares released	Release/ exercise date
2012 SEP	217,489	12,152	24.02.15
2014 DBP	11,675	–	25.02.15
2011 LTIP	343,558	–	24.02.15
2011 ESOS	168,353	–	11.05.15

As reported on page 83, the 2013 SEP core award did not vest as EPS performance was below threshold. No payment will be made as the award lapsed in full on 16 February 2016. The sustainability award associated with the core award lapsed on his date of leaving.

William Seeger

William Seeger stepped down from the Board on 25 February 2014 and subsequently retired from the Group on 31 August 2014. Details of the benefits he received during the year are set out below.

In the 2013 annual report on remuneration we disclosed estimated values of certain expatriate benefits that William Seeger was entitled to receive. Details of the actual payments made to him during the year are set out below:

- US healthcare benefits of £14,155 (2014: £5,214). Value estimated at £15,000 for 18 months following his retirement from the Company. Payments ongoing until March 2016.
- Tax return support of £2,783 (2014: £4,219). Value estimated at £25,000 until the vesting of all outstanding awards. Payments ongoing until March 2018.
- Tax and social security equalisation continued to be applied to payments made during the year so he was not disadvantaged by his global tax position. This treatment resulted in GKN making a payment of £45,172 (2014: £1,671,937) to the UK and US tax authorities with any overpayment of taxes being subsequently refunded to the Company. For 2015, the Company held an estimated credit balance of £80,175 due to the timing of hypothetical taxes being withheld on the release of the 2012 SEP core award and the amount actually being paid over to the local authorities. For 2014, the best estimate of the amount which was not expected to be recovered by the Company, based on information available at that date, was £134,780. Tax equalisation will continue to be applied to any relevant payments made up to 2018 if applicable.

On 24 February 2015, 90,796 shares (50% of the vested 2012 SEP core award and 5,073 dividend equivalent shares) were released to him. The remaining vested core award (90,797 shares and dividend equivalent shares) will be released in 2017. The sustainability award associated with the core award (40,867 shares and dividend equivalent shares) will be released at the same time subject to the sustainability target being met.

As reported on page 83, the 2013 SEP core award did not vest as EPS performance was below threshold. No payment will be made as the award lapsed in full on 16 February 2016. The sustainability award associated with the core award also lapsed on the same day.

The aggregate gain made by Marcus Bryson and William Seeger on the release/exercise of the above awards was £2.8 million.

Annual report on remuneration – non-executive Directors

Single total figure of remuneration (audited)

	Basic fees (£000)		Senior Independent Director/ Committee Chairman fee (£000)		Total (£000)	
	2015	2014	**2015**	2014	**2015**	2014
Chairman						
Mike Turner	**335**	315	**—**	—	**335**	315
Non-executive Directors						
Angus Cockburn	**60**	55	**—**	—	**60**	55
Tufan Erginbilgic	**60**	55	**—**	—	**60**	55
Shonaid Jemmett-Page	**60**	55	**15**[1]	15[1]	**75**	70
Richard Parry-Jones	**60**	55	**25**[2]	25[2]	**85**	80
Total	**575**	535	**40**	40	**615**	575

1 Fee for Audit & Risk Committee Chairman.
2 Fees for Remuneration Committee Chairman (£15,000) and Senior Independent Director (£10,000).

Fees

As disclosed in last year's report, we approved fee increases for the Chairman and non-executive Directors of 6% and 9% respectively with effect from 1 January 2015. No further increases were made during the year. The fees for 1 January 2016 are set out below:

	1 Jan 2016	1 Jan 2015
Chairman's fee	**£335,000**	£335,000
Non-executive Directors' base fee	**£60,000**	£60,000
Audit & Risk Committee Chairman's additional fee	**£15,000**	£15,000
Remuneration Committee Chairman's additional fee	**£15,000**	£15,000
Senior Independent Director's additional fee	**£10,000**	£10,000

Implementation of policy for 2016

Fees are reviewed periodically and any changes will be in line with the remuneration policy as set out at the end of this report.

Non-executive Directors' shareholdings

Non-executive Directors are required to achieve a minimum shareholding of 30% of base fees within three years of appointment. The 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. All non-executive Directors met the requirement comfortably.

The following table shows the number of shares held by non-executive Directors (and their connected persons) at 31 December 2015.

	Shares held	Shareholding requirement: % of fees required	Shareholding requirement: % of fees achieved[1]
Chairman			
Mike Turner	260,000	30	226
Non-executive Directors			
Angus Cockburn	10,000	30	49
Tufan Erginbilgic	30,000	30	146
Shonaid Jemmett-Page	12,900	30	63
Richard Parry-Jones	10,000	30	49

1 Based on average share price of 291.25p per share for the period 1 October 2015 to 31 December 2015 and fees as at 31 December 2015.

Other information

Percentage change in the remuneration of the Chief Executive

The table below illustrates the percentage change in the Chief Executive's salary, benefits and bonus compared to the senior management population. For the purposes of the table below, we have expanded our definition of senior management to include approximately 480 employees worldwide. This group is considered appropriate as it includes employees with international responsibilities who have similar remuneration arrangements to the Chief Executive.

	Chief Executive (%)	Senior Management (%)
Salary	2.6	3.6[1]
Benefits	0	0.8
Annual bonus	31.3	16.4

1 Salary increases reflect additional responsibilities and increases awarded in certain high inflation countries.

The increase for the Chief Executive's salary was in line with those for employees in the UK (2.6%) and globally (3.6%).

Advisers to the Committee

We appointed Deloitte LLP (Deloitte) as our independent adviser in 2012 following a selection process. Their performance and role are reviewed regularly. During the year, Deloitte 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 £99,100. Deloitte also provided other services to the Group in relation to tax support to GKN employees on international assignments, other taxation matters including employment tax and corporate tax, and accounting compliance.

Deloitte are a member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it receives from Deloitte is objective and independent.

Deloitte have been appointed as auditors to the Group with effect from the 2016 financial year. As a result, we have started a competitive selection process to appoint a new independent adviser to the Committee. The aim is to appoint the new adviser with effect from April 2016. Further details will be provided in next year's report.

During the year, we also consulted with Mike Turner (Group Chairman), Nigel Stein (Chief Executive) and Douglas McIldowie (Group HR Director) and invited them to attend meetings as necessary. We were also supported by the Global Reward function, Group Finance and Company Secretariat as appropriate. In consulting with senior management, we took care to ensure there were no conflicts of interest. Committee members and other attendees were not present in any matter that directly concerned their own remuneration or terms of service.

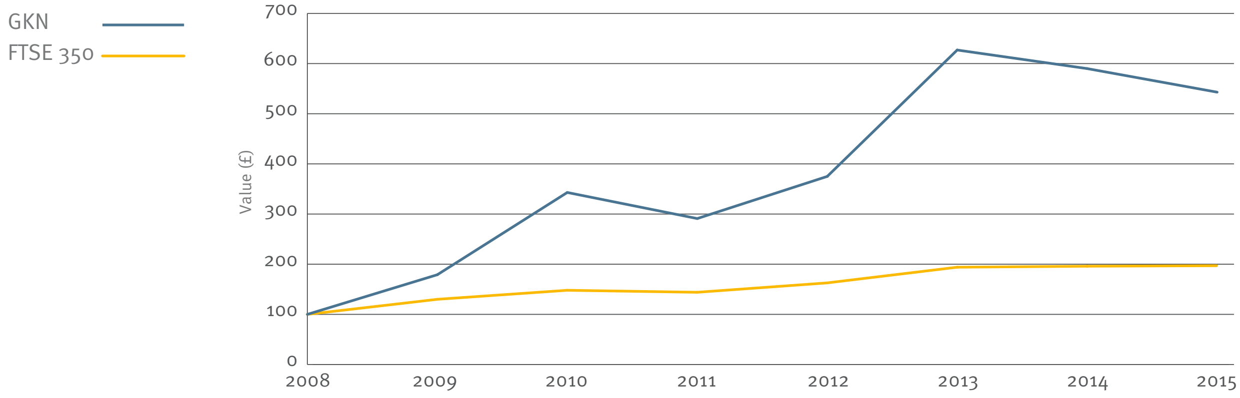
External appointments

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) subject to review by the Board in each case and the appointment not leading to any conflicts of interest. Directors may retain the fees received for such appointments.

Nigel Stein was appointed a non-executive director of Inchcape plc on 8 October 2015 and received fees of £13,330 from his appointment date to 31 December 2015. Andrew Reynolds Smith is a non-executive director of Morgan Advanced Materials plc and received fees of £35,250 from 1 January 2015 to 25 September 2015 (when he resigned from the GKN Board). The fees for these appointments were retained. Adam Walker was appointed a non-executive director of Kier Group plc with effect from 1 January 2016.

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 seven-year period to 31 December 2015. 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 last seven years as well as the level of STVRS and long-term incentive vesting achieved as a percentage of maximum.

	Sir Kevin Smith[1]			Nigel Stein			
	2009	2010	2011	2012	2013	2014	**2015**
Single figure of remuneration (£000)	1,267	1,779	3,659	3,206	3,853	2,922	**1,681**
STVRS payout (% of maximum)	50	95	39	42	75	48	**61**
LTIP vesting (% of maximum)	Nil	Nil	100	100	100	67.5	**Nil**

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

Relative importance of spend on pay

The table below sets out the total remuneration for all employees compared to distributions to shareholders for 2014 and 2015.

	2014 (£m)	**2015 (£m)**	Change (%)
Total employee remuneration[1]	1,446	**1,513**	4.6%
Distributions to shareholders[2]	133	**142**	6.8%

1 Includes salary, bonus and benefits (see note 9 to the financial statements).
2 Includes the total dividends paid in each financial year (see note 8 to the financial statements).

Statement of voting at AGM

The votes cast at the 2015 AGM on the annual report on remuneration are set out below. No issues were raised at the AGM on remuneration matters. The remuneration policy was approved at the 2014 AGM and is due to be renewed at the 2017 AGM as part of the three-year cycle.

During the year we consulted with shareholders and leading proxy advisers on remuneration matters and will continue to do so.

	Votes for		Votes against		Total votes	Votes withheld[1]
Resolution at 2015 AGM	No. of shares	% of shares	No. of shares	% of shares	No. of shares	No. of shares
Approval of the annual report on remuneration	1,025,247,058	98.95	10,908,877	1.05	1,036,155,935	15,846,180

1 Votes withheld are not counted in the total votes.

Dilution limits

The rules of the discretionary share plans (SEP, ESOS and LTIP) contain limits on the dilution of capital. These limits are monitored to ensure that the issue of new shares or transfer of shares from treasury does not exceed 5% of the issued share capital in any rolling ten-year period for discretionary plans or 10% of the issued share capital in any rolling ten-year period for all-employee plans.

At 31 December 2015 the cumulative number of shares issued under discretionary plans for the previous ten-year period as a percentage of the issued share capital was 2.72%. The Company no longer operates an all-employee share plan.

GKN's policy is to satisfy awards under the SEP, ESOS and LTIP by the issue of shares, transfer of shares from treasury, or from the Employee Share Ownership Plan Trust (the Trust) established for that purpose. Shares in the Trust are used to satisfy awards under the DBP and joining awards for newly appointed Directors. A dividend waiver operates in respect of shares held in the Trust.

During the year, shares held in treasury were used to satisfy awards under the SEP, ESOS and LTIP, and shares held in the Trust were used to satisfy awards under the DBP and joining awards for Adam Walker. The shares purchased during the year were in anticipation of satisfying awards in the future granted under a new incentive plan introduced for participants below Board level. Details of the Trust shares are set out below.

Balance at 31 December 2014	Shares acquired	Shares transferred to participants	Balance of shares at 31 December 2015
186,652	2,476,894	144,922	2,518,624

Performance evaluation

The annual evaluation of the Committee was carried out by a series of one-to-one interviews between the Company Secretary and each Director. The interviews focused on the quality and content of meetings and discussed areas of focus for 2016. Feedback from the evaluation, which was circulated to Committee members, showed that the Committee was considered to be effective in fulfilling its role throughout 2015.

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

Professor Richard Parry-Jones CBE
Chairman of the Remuneration Committee
22 February 2016

Note: changes to Directors' interests:

Nigel Stein	2014 DBP: 32,569 shares were released on 24 February 2016

As at 1 March 2016, there were no other changes in the interests of Directors.

This report has been prepared under The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Regulations), and in accordance with the requirements of the Listing Rules. The Board has applied the principles of good governance relating to directors' remuneration contained within the 2014 UK Corporate Governance Code.

Directors' remuneration policy

The Company's full policy on remuneration for executive Directors was approved by shareholders on 1 May 2014 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 have repeated here.

Policy table for executive Directors

Fixed pay

	Base salary	Benefits in kind	Pension
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.	• To provide benefits consistent with the scope and location of the role.	• To provide appropriate retirement benefits and assist with recruitment and retention.
Operation	• Normally reviewed annually (with any increase generally taking effect from 1 July) taking into account a number of factors including individual experience, scope of the role, responsibility and performance, Group profitability, prevailing market conditions and pay awards in the Group generally.	• Benefits are consistent with those provided to senior managers, and 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.	• Provided by means of an allowance delivered in cash and/or as payment to a pension plan. • Where historical arrangements are in place, benefits are provided in part through membership of the GKN Group Pension Scheme 2012.
Maximum potential value	• Salary increases will normally be in line with the average increase awarded to other employees in the Group. However, larger increases may be awarded in circumstances where it is considered appropriate by the Committee, such as: — an increase in scope and responsibility — a new executive Director being moved to market positioning over time — an existing executive Director falling below market positioning. • To comply with the Regulations, the maximum potential value for existing Directors will be no more than the amount paid to the Chief Executive at any time plus 15%.	• Benefits are set at a level which the Committee considers appropriate and are kept under review. Car and fuel allowances will not increase by more than 15% in any one year. 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.	• The maximum allowance for Directors appointed from 1 January 2013 onwards is 25% of base salary. • Directors appointed before that date currently have legacy benefits under the GKN Group Pension Scheme 2012, a defined benefit scheme. The pension due under these arrangements is up to two-thirds of pensionable salary (calculated on a career average basis for service from 1 September 2007 onwards), with a maximum annual accrual rate of 1/30th. The Committee has discretion to provide alternative arrangements on terms no more favourable if it considers it to be in the best interests of the Company. These Directors receive a supplementary cash allowance of up to 40% of the difference between their individual pensionable salary and base salary.
Performance measures	Not applicable.	Not applicable.	Not applicable.

Variable pay

	Annual bonus plan (STVRS)	Deferred Bonus Plan (DBP)	Sustainable Earnings Plan (SEP)
Purpose and link to strategy	• To drive and reward achievement of short-term financial and strategic measures which support long-term strategic objectives.	• Any STVRS payment above a percentage of salary (currently 65%) is deferred into shares to assist with retention of key executives and to align their interests with those of shareholders.	• 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	• 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. • Level of payment is determined by the Committee after the year end based on performance against targets. • Payments up to a certain percentage of base salary (currently 65%) are normally made in cash and the balance is deferred into shares under the DBP. The Committee has discretion to make the payment wholly in cash in certain circumstances (for example to a departing Director).	• 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. • A malus provision exists to allow the Committee to adjust unvested DBP awards in the event of material misstatement, material failure of risk management or serious reputational damage.	• Awards comprise a core award and a sustainability award (equal to 20% of the shares in a core award) with vesting based on performance over an initial three-year (core) period and subsequent two-year (sustainability) period. • Subject to performance, 50% of the core award is released after the end of year three; the balance of the core award and the sustainability award are released after the end of year five. • On vesting, 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.
Maximum potential value	• Maximum is 110% of base salary.	• No additional opportunity above the STVRS maximum.	• Maximum award level under the SEP rules is 200% of base salary (including both the core and sustainability awards).
Performance measures	• Targets are normally applied to a combination of Group, and where appropriate individual portfolio, financial and strategic measures. A significant proportion of the total award is based on financial measures. Performance is measured over a one-year period. Payments range between 0 and 110% of base salary with 55% of base salary payable for achievement of on-target performance.	• No additional performance measures (see STVRS) but release is subject to continued employment.	**Core awards:** • Measured over the initial three-year period based on a stretching EPS growth target. • Vesting at threshold is 25% rising to a maximum of 100%. **Sustainability awards:** • If the highest level of EPS attained in any year of the core performance period is achieved or exceeded in both years four and five, the sustainability award will vest in full (subject to any reduction made in respect of the core target not being satisfied over the core performance period). • The sustainability target will be assessed for year four and year five separately. • Vesting at threshold is 50% rising to a maximum of 100%. Vesting of core and sustainability awards is subject to an additional test based on the Committee's assessment of the quality of earnings (as described on page 94).

Performance measures

STVRS: a combination of financial and strategic measures which support the delivery of the Group's long-term strategic objectives. Appropriate targets are set each year which align with the specific business objectives for that year. The Committee has discretion to alter targets to reflect changed circumstances such as material changes in accounting standards or changes in the Group's structure. The Committee also has discretion to reduce payments based on its assessment of underlying performance of the Group, including health and safety performance.

SEP: based on sustained EPS growth over the long term in line with GKN's stated growth strategy and objective of creating long-term shareholder value. Before any vesting can occur, the Committee must be satisfied that this is justified by the quality of earnings. This will involve consideration of Group return on average invested capital (ROIC) against internal projections, shareholder expectations, new investment performance and cost of capital to ensure that the level of vesting appropriately reflects shareholder value creation. In accordance with the rules of the SEP, the Committee can 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 cause the Committee to determine that the measures or targets are no longer appropriate and that amendment is required so that they achieve their original purpose.

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

Policy table for 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 periodically. • The fee structure is: — 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. • Fees are paid in cash.
Maximum potential value	• 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.

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.

ADDITIONAL INFORMATION

Annual general meeting
The annual general meeting (AGM) of the Company will be held at 2.00 pm on Thursday 5 May 2016 at 195 Piccadilly, London W1J 9LN. The notice of meeting, which includes the business to be transacted at the meeting, is included within the AGM circular. The circular also contains an explanation of all the resolutions to be considered at the AGM.

Dividend
The Directors recommend a final dividend of 5.8 pence per ordinary share in respect of the year ended 31 December 2015, payable to shareholders on the register at the close of business on 8 April 2016. This, together with the interim dividend of 2.9 pence paid in September 2015, brings the total dividend for the year to 8.7 pence.

Issued share capital
In July 2015 the Company conducted an equity placing of 65,573,771 ordinary shares of 10 pence each at a price of £3.05 per share to raise a total of £200 million before expenses. The proceeds from the equity placing were used to fund in part the consideration for the acquisition of Fokker.

At 31 December 2015, the issued share capital of the Company consisted of 1,726,103,630 ordinary shares of 10 pence each (2014: 1,660,529,859 shares), of which 12,168,928 shares (0.7%) were held in treasury (2014: 17,797,916 shares; 1.07%). During the year, a total of 5,628,988 ordinary shares were transferred out of treasury in connection with the exercise of options by participants under the Company's share option schemes (2014: 2,760,865 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 2015[1], the Company had been notified of the following holdings of voting rights in its shares under Rule 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority:

Shareholder	Nature of interest	% of voting rights
Standard Life Investments (Holdings) Ltd	Direct	4.44
	Indirect	3.37
	Total	**7.81**
Ameriprise Financial Inc	Direct	0.07
	Indirect	5.15
	Contracts for difference	0.16
	Total	**5.38**
BlackRock, Inc.	Indirect	4.89
	Qualifying financial instruments	0.01
	Contracts for difference	0.10
	Total	**5.00**

1 See footnote on page 97.

Directors

The Directors who served during the financial year were as follows:

Name	Position as at 31 December 2015	Service in the year ended 31 December 2015
Mike Turner	Chairman	Served throughout the year
Nigel Stein	Chief Executive	Served throughout the year
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
Andrew Reynolds Smith	N/A	Resigned 25 September 2015
Adam Walker	Group Finance Director and Chief Executive GKN Land Systems	Served throughout the year

Membership of the Board and biographical details of the Directors in office at the date of this report are shown on pages 56 and 57. Further details relating to Board and Committee composition are disclosed in the corporate governance statement.

Following their appointment to the Board in January 2016 and in accordance with the Company's articles of association, Kevin Cummings and Phil Swash will retire and offer themselves for election at the 2016 AGM. All other Directors in office will retire and offer themselves for re-election at the 2016 AGM in accordance with the UK Corporate Governance Code.

The articles of association provide that a Director may be appointed by an ordinary resolution of shareholders or by the existing Directors, either to fill a vacancy or as an additional Director. Further information on GKN's internal procedures for the appointment of Directors is given in the corporate governance statement.

The executive Directors serve under contracts that are terminable with 12 months' notice from the Company and six months' notice from the executive Director. The non-executive Directors serve under letters of appointment and do not have service contracts with the Company.

Copies of the service contracts of the executive Directors and the letters of appointment of the non-executive Directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

The Directors' remuneration report, which includes the Directors' interests in GKN shares, is set out on pages 76 to 91.

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 2015 AGM the Directors were authorised to exercise the powers of the Company to purchase up to 164,612,408 of its ordinary shares. No shares were purchased under this authority in 2015. The Directors were also authorised to allot shares in the Company up to an aggregate nominal amount of £54,870,803. These authorities will remain valid until the 2016 AGM or 1 July 2016, if earlier. Resolutions to renew these authorities will be proposed at the 2016 AGM.

Directors' indemnities

Pursuant to the articles of association, the Company has executed a deed poll of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Companies Act 2006, were in force during the year ended 31 December 2015 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 2015, the Company's subsidiary, GKN Holdings plc, had agreements with 14 banks for 15 bilateral banking facilities totalling £800 million, and a £64 million loan facility with the European Investment Bank. Each of these agreements provides that, on a change of control of GKN plc, the respective bank can give notice to GKN Holdings plc to repay all outstanding amounts under the relevant facility.

The Company has in issue £450 million fixed rate notes paying 5.375% semi-annual interest and maturing on 19 September 2022 under a euro medium-term note programme established by GKN Holdings plc (the Notes). Pursuant to the terms attaching to the Notes, a holder of the Notes has the option to require GKN Holdings plc to redeem or (at GKN Holdings plc's option) purchase the holder's Notes at their principal amount if there is a change of control of the Company and either (i) the Notes are unrated or do not carry an investment grade credit rating from at least two ratings agencies; or (ii) if the Notes carry an investment grade credit rating from at least two ratings agencies, the Notes are downgraded to a non-investment grade rating or that rating is withdrawn within 90 days of the change of control and such downgrade or withdrawal is cited by the ratings agencies as being the result of the change of control.

Companies in GKN Aerospace are party to long-term supply contracts with customers which are original equipment manufacturers of aircraft and aero engines. Certain of these contracts contain provisions which would entitle the customer to terminate the contract in the event of a change of control of the Company, where such change of control conflicts with the interests of the customer.

Companies in GKN Driveline are party to supply contracts with customers which are original equipment manufacturers of motor vehicles. Certain of these contracts contain provisions which would entitle the customer to terminate the contract in the event of a change of control of the Company.

All of 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 2015.

The Group's US aerospace business has a political action committee (PAC) which is funded entirely by employees and their spouses. No funds are provided to the PAC by GKN and any administrative services provided to the PAC by the US aerospace business are fully charged to and paid for by the PAC, and the Company does not therefore consider these to be political donations. Employee contributions are entirely voluntary and no pressure is placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company.

Research and development
Group subsidiaries undertake research and development work in support of their principal manufacturing activities. Further details of the Group's research and development activities can be found throughout the strategic report.

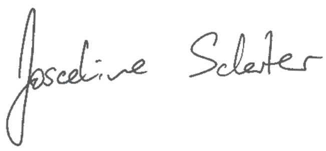
Financial instruments
Details of the Group's use of financial instruments can be found in Note 19 to the financial statements.

Strategic report
As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' report has been included in the strategic report. Specifically, this relates to information on the likely future developments of the business of the Group, the Company's business model and strategy, risk management and the disclosure of greenhouse gas emissions for which the Company is responsible.

Disclosures required by Listing Rule 9.8.4R
Information relating to the waiver of dividends can be found on page 95. 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 55, and this Directors' report comprising pages 56 to 98, 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



Jos Sclater
General Counsel & Company Secretary
22 February 2016

1 As at 1 March 2016, BlackRock, Inc.'s holding in the Company amounted to 5.30% (of which 5.01% was indirectly held, 0.01% held as qualifying financial instruments, and 0.28% held as contracts for difference), and Ameriprise Financial Inc.'s interest had decreased to 4.996% (of which 0.062% was held directly, 4.776% was held indirectly and 0.158% was held as contracts for difference).

As at this date, the Company had not been advised of any further changes or additions to the interests notified under Rule 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority as set out on page 95.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have elected to prepare the Company financial statements in accordance with applicable law and United Kingdom (UK) Accounting Standards (UK Generally Accepted Accounting Practice).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements the Directors are required to:

- select appropriate accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors as at the date of the annual report, whose names and functions are set out on pages 56 and 57, confirm that to the best of his/her knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, 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 and
- 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.

In addition, the Directors consider that the annual report and accounts, 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.

Approved by the Board of GKN plc and signed on its behalf by

Mike Turner CBE
Chairman
22 February 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GKN PLC

Report on the Group financial statements

Our opinion

In our opinion, GKN plc's Group financial statements (the 'financial statements'):
- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the annual report and accounts (the 'Annual Report'), comprise:
- the Consolidated balance sheet as at 31 December 2015;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

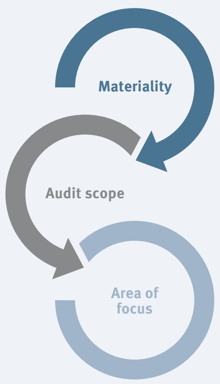
The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Context

As a result of the acquisition of Fokker Technologies Group B.V. ('Fokker') in late 2015 we have included an additional area of focus in relation to the opening balance sheet accounting. The remaining areas we considered were consistent with the 2014 audit.

Overview



- Overall Group materiality: £18 million (2014: £22 million) represents 5% of profit before tax, adjusted for the change in fair value of derivative and other financial instruments.

- Following our assessment of the risks of material misstatement of the Group financial statements we performed audits of the complete financial information of 54 reporting units (2014: 56 reporting units), and specific audit procedures in a further 32 reporting units (2014: 24 reporting units) and at one large joint venture in China.
- In addition, the Company and certain centralised functions, including those covering post-employment obligations, derivative financial instruments, UK and corporate taxation, goodwill and intangible asset impairment assessments were audited.
- The components on which audits of the complete financial information and centralised work was performed accounted for 70% of Group revenue.
- As part of our supervision process, the Group engagement team visited all significant components and a number of other component auditors in multiple locations in the Netherlands and the USA, as well as being responsible for all in scope UK reporting locations.

Our assessment of the risk of material misstatement also informed our views on the areas of particular focus for our work which are listed below:

- Assessment of the carrying value of the intangible and tangible assets relating to the A350 programme at Western Approach.
- Risk of fraud in revenue recognition.
- Assessment of the carrying value of goodwill and other relevant assets.
- Assessment of the accounting position adopted on complex contractual obligations.
- Assessment of the accounting position adopted on the opening balance sheet accounting for the Fokker acquisition.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Assessment of the carrying value of the intangible and tangible assets relating to the A350 programme at Western Approach Refer to pages 40 to 47 (Risk management/Principal risks and uncertainties), pages 70 to 75 (Audit & Risk Committee report), note 1 (Accounting policies and presentation), note 11 (Goodwill and other intangible assets) and note 12 (Property, plant and equipment). We focused on this area because the Directors' assessment of the recoverability of this programme's intangible assets of £156 million and tangible assets of £67 million, inclusive of £15 million of capitalised borrowing costs, involve complex and subjective judgements and assumptions about the progress and future results of this programme. The key judgements and assumptions made by the Directors included the discount rate and the key business drivers of the cash flow forecasts, being the number of aircraft sets to be produced and production and assembly hours.	We obtained and understood the Directors' impairment model and tested it for mathematical accuracy, and found that it followed an acceptable methodology and was consistent with prior periods. We obtained an understanding of the Directors' assumptions on the key business drivers of the cash flow forecasts and obtained evidence to evaluate their appropriateness. We performed a range of sensitivities on the assumptions in order to understand which assumptions were most sensitive in determining the recoverable value. The most sensitive and judgemental assumptions identified by these procedures and our work over them are detailed below: • we validated the assumptions applied by the Directors to calculate the discount rate used, through the use of our specialists to compare this to the cost of capital for the Group and a selection of comparable organisations. • for production and assembly hours, we considered the Directors' expectations for achieving targeted learning curve improvements and hence reducing the total hours per aircraft set. We challenged the Directors on the historical achievement of learning curve improvement targets on the A350 programme and where these had not been achieved, obtained sufficient understanding of the basis on which the Directors believe these could be achieved in the future. We also considered how this was balanced against the expected increase in production rates over future years and the implicit challenges that this will bring to achieving the required hours improvements. • for the number of aircraft sets, we considered the Directors' expectations for the number and timing of sets to be produced and compared this to current industry expectations, past schedules and the latest reported order book from Airbus. Based on our audit work, the Directors' assumptions on the planned levels of production and assembly hour improvements appear achievable, although not without challenge, and the total number of aircraft sets expected to be produced is consistent with current market expectations and production schedules. As a result of this, we found that the Directors' assessment of the carrying value of intangible and tangible assets relating to the A350 programme at Western Approach to be supportable. However, we consider that a failure to meet target production and assembly hours as the supply to Airbus increases, or a significant change in the total number of aircraft sets to be produced could reasonably be expected to give rise to an impairment charge in the future. This finding is consistent with the results of our work in 2014.

Area of focus	*How our audit addressed the area of focus*
Risk of fraud in revenue recognition Refer to pages 40 to 47 (Risk management/Principal risks and uncertainties), pages 70 to 75 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 2 (Segmental analysis). We focused on this area because while the majority of the Group's revenue is generated from non-complex revenue recognition, an element is made up of a number of complex revenue recognition policies, which require the Directors to exercise judgement and therefore revenue could be subject to material misstatement, whether due to fraud or error. This specifically includes judgement over whether revenue has been earned, can be recognised and the subsequent value at which to recognise this revenue. These complexities and judgements include, but are not limited to: • risk and revenue sharing partnerships (RRSPs) in GKN Aerospace where GKN is entitled to a set percentage of revenue per completed aircraft as contractually agreed with the programme partner, which requires the Directors to exercise judgement as to how much revenue to recognise reflecting the quantum of products despatched by the engine manufacturer and the difference in pricing of original engine manufacturer parts and spare parts at the year-end; • pricing of non-contractually agreed elements of revenue, including rebates and ongoing pricing discussions, which requires a level of judgement to be applied by the Directors over how much revenue to recognise; and • the unbundling of complex contracts and multiple element arrangements, which requires the Directors to exercise judgement over the appropriateness of the accounting treatment for each individual part of the contract or arrangement. In addition, we also focused on this area because the GKN short-term variable remuneration scheme (STVRS) of the Directors and senior management is significantly driven by financial measures including revenue, which we concluded gave a greater risk of manipulation of judgements around revenue recognition to ensure that STVRS targets are achieved.	For each area of complexity identified, we verified the amount of revenue recognised by the Directors to check that it was in line with IAS 18 'Revenue' and the contractual agreement and latest formal correspondence with the customer. In particular: • For RRSPs we agreed the percentage of revenue entitlement to the customer contract, agreed the revenue recognised to supporting correspondence from the customer and obtained evidence on the level of revenue recognised where estimates were made by the Directors at the year-end date. Specifically, we tested the reasonableness of the estimate through agreement to post year-end confirmations received by the Directors from customers. • When revenue was recognised based on non-contractually agreed terms, we challenged the Directors' assessment and validated the assertions which drove the level of revenue recognised by taking into account the historical level of agreement reached with customers on similar programmes and agreeing the revenue recognised to either post year-end cash settlements or communications with the customer. • Where the contracts are complex and have multiple elements we verified that the recognition triggers had been identified in order to unbundle the revenue and allocate it to the respective parts of the contract. In addition to the specific items noted above, we also responded to the risk that journal entries could be posted to misstate revenue by testing a sample of accounting journals relating to revenue so as to identify unusual or irregular items. We agreed the journals tested to corroborative evidence and found no instances of manipulation of revenue occurring in this way. Based on the results of our audit work, we found that the revenue recognised by the Directors agreed to the relevant contractual terms, was at an appropriate value and was consistent with the requirements of IAS 18. This finding is consistent with the results of our work in 2014. However we did note that contracts with customers are becoming ever more complex and unique and we have therefore recommended that the Directors continue to give sufficient consideration to the revenue being recognised.

Area of focus	*How our audit addressed the area of focus*
Assessment of the carrying value of goodwill and other relevant assets Refer to page 34 (Other financial information), pages 40 to 47 (Risk management/Principal risks and uncertainties), pages 70 to 75 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 11 (Goodwill and other intangible assets). We focused on this area because the Directors' assessment of whether or not certain elements of goodwill and other relevant assets were impaired, and the level of impairment to be booked if applicable, involved complex and subjective judgements and assumptions about the progress and future results of the Group's Cash-Generating Units (CGUs). In particular, we focused on the carrying values of material CGUs for Aerospace St. Louis in North America (£8 million of goodwill and £110 million of other relevant assets) and Aerospace Astech in North America (£13 million of goodwill and £13 million of other relevant assets). The Directors have recorded total impairment charges of £71 million relating to the Aerospace St. Louis CGU (£49 million), the Aerospace Astech CGU (£14 million) and other impairment charges totalling £8 million. No impairment triggers had been identified by the Directors in respect of the remaining CGUs and/or their impairment models determined that adequate headroom existed not to result in the need for an impairment charge in reasonably possible scenarios.	We understood and tested the Directors' impairment models around the key business drivers of the cash flow forecasts supporting their recoverability assessments. We also evaluated the appropriateness of the key assumptions including the discount rate and long term growth rate applied. For the Aerospace St. Louis CGU, where the Directors recognised an impairment charge of £49 million, we focused on the key assumptions of future revenue expectations and cost reduction activities. We were able to evaluate the reasonableness of the Directors' forecast by substantiating their assumptions regarding the amount of future revenue by agreeing this to contractual terms and assessing the margin expected to be achieved by reference to historical margin and margin improvement plans. In the Aerospace Astech CGU, where the Directors recognised an impairment charge of £14 million, the key assumption we focused on was the future revenue profile, given the loss of a key programme with Boeing during the year. The key factor we considered was forecast margin on other programmes with reference to historical margin achieved on similar programmes. We also validated the inputs used by the Directors to calculate the discount rate applied by using our specialists to compare this to the cost of capital for the Group and a selection of comparable organisations. The Directors' key assumptions for long term growth rates were also compared to economic and industry forecasts for reasonableness. We assessed, through the performance of sensitivity analysis over the key assumptions above, the extent of change in those assumptions that either individually or collectively would be required for the impairment charges to be materially different to those amounts recognised. We also assessed the likelihood of such changes occurring. As a result of our audit work, we determined that the impairment charges for the Aerospace St. Louis and Aerospace Astech CGUs were within a range of potential likely outcomes based on the current plans which reflect the Directors' best estimate of the value in use of the CGUs. In addition, based on our audit work, in respect of the remaining CGUs, the Directors' assessment that no impairment charge is required to be recognised was supportable. However, certain models are sensitive to revenue growth and margin improvement targets which, if delayed or not achieved, could reasonably be expected to give rise to further impairment charges in the future. The methodology applied by management is consistent with that applied in 2014 and whilst the CGUs considered are in some instances different, the judgments taken in totality remain supportable.

Area of focus	*How our audit addressed the area of focus*
Assessment of the accounting position adopted on complex contractual obligations Refer to pages 40 to 47 (Risk management/ Principal risks and uncertainties), pages 70 to 75 (Audit & Risk Committee report), note 1 (Accounting policies and presentation), note 2 (Segmental analysis) and note 21 (Provisions). The Group continues to work closely with its customers and suppliers to resolve contractual and other claims and disputes. These matters are principally in respect of contract variations and recoveries, onerous contracts, warranty, delivery performance and pricing. We focused on this area because the Directors are required to perform an assessment of the expected outcome in line with relevant accounting standards and consider each item individually. The determination of whether to recognise a liability or not, or make disclosure in the financial statements requires the Directors to exercise considerable judgement. In addition, given the wide ranging geographical and market spread of the Group, there is also complexity in the Directors ensuring they have considered all known disputes, claims and potential recoveries.	We tested, on a sample basis, the valuation and calculation of individual liabilities that made up the total. In particular: For liabilities recognised, we validated that the assessment and calculation of any provision was consistent with the requirements of IAS 37 'Provisions, contingent liabilities and contingent assets' and that all potential outcomes had been considered and appropriately disclosed in the financial statements. We assessed the completeness of the Directors' knowledge of contract variations and recoveries, onerous contracts, warranty, delivery performance and pricing claims using our knowledge of the business, enquiries of the Directors, examining post year-end correspondence with customers and suppliers and assessing the Directors' material litigation process. We found no material exceptions from the procedures noted above. We consider the Directors' recognition of liabilities to be reasonable and within an acceptable range of potentially likely outcomes and consistent with the requirements of IAS 37. This finding is consistent with the results of our work in 2014.

Area of focus	*How our audit addressed the area of focus*
Assessment of the accounting position adopted on the opening balance sheet accounting for the Fokker acquisition Refer to pages 18 to 21 (GKN Aerospace review), pages 40 to 47 (Risk management/Principal risks and uncertainties), pages 70 to 75 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 30 (Business combinations). The Group completed the acquisition of Fokker on 28 October 2015. We focused on this area because the accounting treatment for the provisional opening balance sheet position is inherently judgmental and requires the Directors to exercise many judgements over the valuation of intangible assets, fair value adjustments on identifiable assets, completeness and accuracy of liabilities and the calculation of associated goodwill of £101 million.	For each of the areas of complexity identified within the provisional opening balance sheet, we validated the fair value adjustments recognised by the Directors to check that they were in line with IFRS 3 'Business Combinations' and in accordance with the sale and purchase agreement. In particular: • For the valuation of non-operating intangible assets we assessed the key business drivers of the cash flow forecasts supporting the intangible valuation, being sales volumes, pricing and margin and validated them to contractually agreed sales volumes and prices, externally produced aircraft delivery forecasts as well as through reference to historical performance levels. We also engaged, and evaluated the work of, our specialists to validate the assumptions underlying the calculation of the fair value of non-operating intangible assets generated by the Directors' external valuation experts; • We also assessed the inputs used by the Directors to calculate the discount rate and royalty rates applied and assessed them by using our specialists to draw comparison with a selection of comparable organisations. We also benchmarked this against the rates used for previous acquisitions, to ensure that these were comparable; • For the fair value exercise in relation to property, plant and equipment and inventories, we verified the assumptions to external market data or internal corroborative evidence. We attended physical inventory counts at key locations and assessed the degree of completion of work in progress; and • For liabilities recognised, we evaluated the assessment and calculation of material provisions to check that they reflected information that was known in relation to events that existed at the transaction date. We also checked that the Directors had considered a range of potential outcomes. We assessed the completeness of the Directors' list of liabilities using our knowledge of the business, enquiries of the Directors, examining correspondence with customers, suppliers and legal counsel and reading the sale and purchase agreement. We note that the generated goodwill of £101 million is the residual value of the consideration over and above the fair value of the acquired net assets. We consider that the Directors' assessment of the fair value of the provisional opening balance sheet of the Fokker acquisition to be supportable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along four segments being GKN Aerospace, GKN Driveline, GKN Powder Metallurgy and GKN Land Systems with each division set up to manage operations on both a regional and functional basis and consisting of a number of reporting units.

The Group financial statements are a consolidation of 246 active reporting units, comprising the Group's operating businesses and centralised functions. These reporting units maintain their own accounting records and controls and report to the head office finance team in the UK through an integrated consolidation system.

GKN Aerospace reporting units are based predominantly in the UK, the USA, Sweden and the Netherlands. GKN Driveline reporting units are based in 22 countries with Europe and North America being the largest regions as well as a large joint venture in China. GKN Powder Metallurgy reporting units are based predominantly in North America with other sites in Europe and Asia-Pacific. GKN Land Systems reporting units are based predominantly in Europe and North America.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each reporting unit and we used component auditors within PwC UK, from other PwC network firms and from other audit firms operating under our instruction, who are familiar with the local laws and regulations in each of these territories to perform this audit work.

Accordingly, of the Group's 246 active reporting units, we identified 54 which, in our view, required a full audit of their complete financial information in order to ensure that sufficient appropriate audit evidence was obtained. The reporting units on which a full audit of their complete financial information was performed accounted for 70% of Group revenue. Of these reporting units, three were considered to be significant components, due to their size and/or risk circumstances; a UK treasury reporting unit, the reporting unit responsible for the A350 programme at Western Approach in the UK and an Aerospace reporting unit in Sweden.

Specific audit procedures on certain balances and transactions were performed at a further 32 reporting units with due consideration paid to obtaining global coverage on a rotational basis.

Specific audit procedures were also performed at the joint venture investment in China by another audit firm who reported to PwC in the UK. This joint venture accounted for 96% of the share of post-tax earnings of equity accounted investments in the Consolidated income statement.

The Group consolidation, financial statements disclosures and a number of centralised functions were audited by the Group engagement team at the head office. These included, but were not limited to, central procedures on post-employment obligations, derivative financial instruments, UK and corporate taxation and goodwill and intangible asset impairment assessments. We also performed Group level analytical procedures on all of the remaining out of scope active reporting units to identify whether any further audit evidence was needed, which resulted in no extra testing being required. The Company was also subject to a full scope audit.

The Group engagement team visits component auditors based on significance and/or risk characteristics, as well as on a rotational basis to ensure coverage across the Group. In the current year, the Group engagement team visited all significant components and a number of other component auditors in multiple locations in the Netherlands and the USA, as well as being responsible for all in scope UK reporting locations performing full scope audits and specified audit procedures.

Additionally the Group audit team was in contact, at each stage of the audit, with all component teams through regular written communication in line with detailed instructions issued by the Group audit team and though holding global planning calls. In addition, for a number of the component teams, the Group team discussed in detail the planned audit approach at the component level, was in attendance at local audit close meetings and discussed the detailed findings of the audit with the component team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£18 million (2014: £22 million).
How we determined it	5% of profit before tax, adjusted for the change in fair value of derivative and other financial instruments.
Rationale for benchmark applied	We believe that profit before tax adjusted for the change in fair value of derivative and other financial instruments provides us with a consistent year on year basis for determining materiality as it eliminates the fluctuating nature of these items which can have a disproportionate impact on the Consolidated income statement.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above £1 million (2014: £1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 36, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, 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.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 65, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 70 to 75, as required by provision C.3.8 of the Code, describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on page 65 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 36 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 have nothing material to add or to draw attention to.
Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.	

Adequacy of information and explanations received
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. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Listing Rules we are required to review the part of the corporate governance review relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit
Our responsibilities and those of the Directors
As explained more fully in the statement of Directors' responsibilities set out on page 98, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter
We have reported separately on the Company financial statements of GKN plc for the year ended 31 December 2015 and on the information in the Directors' remuneration report that is described as having been audited.

Ian Chambers (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

22 February 2016

a) The maintenance and integrity of the GKN plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Sales	2	**7,231**	6,982
Trading profit	2	**609**	612
Change in value of derivative and other financial instruments	4	**(122)**	(209)
Amortisation of non-operating intangible assets arising on business combinations	4	**(80)**	(69)
Gains and losses on changes in Group structure	4	**(1)**	24
Impairment charges	11	**(71)**	(69)
Reversal of inventory fair value adjustment arising on business combinations	30	**(12)**	–
Operating profit		**323**	289
Share of post-tax earnings of equity accounted investments	13	**59**	61
Interest payable		**(72)**	(75)
Interest receivable		**7**	2
Other net financing charges		**(72)**	(56)
Net financing costs	5	**(137)**	(129)
Profit before taxation		**245**	221
Taxation	6	**(43)**	(47)
Profit after taxation for the year		**202**	174
Profit attributable to non-controlling interests		**5**	5
Profit attributable to owners of the parent		**197**	169
		202	174
Earnings per share – pence	7		
Continuing operations – basic		**11.8**	10.3
Continuing operations – diluted		**11.7**	10.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Profit after taxation for the year		**202**	174
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency variations – subsidiaries			
Arising in year		**74**	47
Reclassified in year	4	**4**	–
Currency variations – equity accounted investments			
Arising in year	13	**1**	2
Reclassified in year		**–**	(1)
Derivative financial instruments – transactional hedging			
Arising in year	20	**5**	–
Reclassified in year	20	**(5)**	–
Net investment hedge changes in fair value			
Arising in year	20	**(37)**	(30)
Reclassified in year		**–**	–
Taxation	6	**(5)**	9
		37	27
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plans			
Subsidiaries	24	**139**	(485)
Taxation	6	**(42)**	122
		97	(363)
Other comprehensive income for the year		**134**	(336)
Total comprehensive income for the year		**336**	(162)
Total comprehensive income attributable to non-controlling interests		**4**	5
Total comprehensive income attributable to owners of the parent		**332**	(167)
		336	(162)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

						Other reserves					
	Notes	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Exchange reserve £m	Hedging reserve £m	Other reserves £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2015		**166**	**298**	**139**	**1,069**	**168**	**(227)**	**(134)**	**1,479**	**22**	**1,501**
Profit for the year		**–**	**–**	**–**	**197**	**–**	**–**	**–**	**197**	**5**	**202**
Other comprehensive income/(expense)		**–**	**–**	**–**	**97**	**75**	**(37)**	**–**	**135**	**(1)**	**134**
Total comprehensive income		**–**	**–**	**–**	**294**	**75**	**(37)**	**–**	**332**	**4**	**336**
Share-based payments	10	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Share options exercised	22	**–**	**–**	**–**	**2**	**–**	**–**	**–**	**2**	**–**	**2**
Proceeds from share issue	22	**7**	**–**	**191**	**–**	**–**	**–**	**–**	**198**	**–**	**198**
Purchase of own shares by Employee Share Ownership Plan Trust	22	**–**	**–**	**–**	**(7)**	**–**	**–**	**–**	**(7)**	**–**	**(7)**
Dividends paid to equity shareholders	8	**–**	**–**	**–**	**(142)**	**–**	**–**	**–**	**(142)**	**–**	**(142)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**
At 31 December 2015		**173**	**298**	**330**	**1,217**	**243**	**(264)**	**(134)**	**1,863**	**23**	**1,886**
At 1 January 2014		166	298	139	1,392	111	(197)	(134)	1,775	20	1,795
Profit for the year		–	–	–	169	–	–	–	169	5	174
Other comprehensive income/(expense)		–	–	–	(363)	57	(30)	–	(336)	–	(336)
Total comprehensive income		–	–	–	(194)	57	(30)	–	(167)	5	(162)
Share-based payments	10	–	–	–	3	–	–	–	3	–	3
Share options exercised	22	–	–	–	1	–	–	–	1	–	1
Purchase of non-controlling interests		–	–	–	–	–	–	–	–	(1)	(1)
Dividends paid to equity shareholders	8	–	–	–	(133)	–	–	–	(133)	–	(133)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(2)	(2)
At 31 December 2014		166	298	139	1,069	168	(227)	(134)	1,479	22	1,501

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 2015

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Goodwill	11	**591**	498
Other intangible assets	11	**1,265**	944
Property, plant and equipment	12	**2,200**	2,060
Equity accounted investments	13	**195**	174
Other receivables and investments	14	**42**	44
Derivative financial instruments	20	**21**	16
Deferred tax assets	6	**388**	407
		4,702	4,143
Current assets			
Inventories	15	**1,170**	971
Trade and other receivables	16	**1,311**	1,226
Current tax assets	6	**9**	8
Derivative financial instruments	20	**13**	10
Other financial assets	18	**5**	3
Cash and cash equivalents	18	**299**	319
		2,807	2,537
Total assets		**7,509**	6,680
Liabilities			
Current liabilities			
Borrowings	18	**(137)**	(43)
Derivative financial instruments	20	**(151)**	(76)
Trade and other payables	17	**(1,757)**	(1,611)
Current tax liabilities	6	**(121)**	(125)
Provisions	21	**(78)**	(51)
		(2,244)	(1,906)
Non-current liabilities			
Borrowings	18	**(867)**	(877)
Derivative financial instruments	20	**(294)**	(148)
Deferred tax liabilities	6	**(157)**	(223)
Trade and other payables	17	**(425)**	(202)
Provisions	21	**(78)**	(112)
Post-employment obligations	24	**(1,558)**	(1,711)
		(3,379)	(3,273)
Total liabilities		**(5,623)**	(5,179)
Net assets		**1,886**	1,501
Shareholders' equity			
Share capital	22	**173**	166
Capital redemption reserve		**298**	298
Share premium account		**330**	139
Retained earnings		**1,217**	1,069
Other reserves		**(155)**	(193)
Equity attributable to equity holders of the parent		**1,863**	1,479
Non-controlling interests		**23**	22
Total equity		**1,886**	1,501

The financial statements on pages 108 to 158 were approved by the Board of Directors and authorised for issue on 22 February 2016.
They were signed on its behalf by:

Nigel Stein, Adam Walker
Directors

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	23	**885**	765
Interest received		**15**	2
Interest paid		**(69)**	(82)
Costs associated with refinancing		**–**	(3)
Tax paid		**(111)**	(68)
Dividends received from equity accounted investments	13	**55**	44
		775	658
Cash flows from investing activities			
Purchase of property, plant and equipment		**(332)**	(329)
Receipt of government capital grants		**2**	1
Purchase of intangible assets		**(81)**	(75)
Proceeds from sale and realisation of fixed assets		**9**	19
Payment of deferred and contingent consideration	17	**(7)**	(6)
Acquisition of subsidiaries (net of cash acquired)	30	**(117)**	(8)
Repayment of debt acquired in business combinations		**(371)**	–
Repayment of government refundable advance		**–**	(38)
Proceeds from sale of equity accounted investments	4	**–**	37
Equity accounted investments loan settlement		**3**	8
		(894)	(391)
Cash flows from financing activities			
Purchase of own shares by Employee Share Ownership Plan Trust	22	**(7)**	–
Purchase of non-controlling interests		**–**	(1)
Proceeds from exercise of share options	22	**2**	1
Gross proceeds from issuance of ordinary shares	22	**200**	–
Costs associated with issuance of ordinary shares	22	**(2)**	–
Amounts placed on deposit		**(2)**	(3)
Proceeds from borrowing facilities		**485**	66
Repayment of other borrowings		**(423)**	(63)
Dividends paid to shareholders	8	**(142)**	(133)
Dividends paid to non-controlling interests		**(3)**	(2)
		108	(135)
Movement in cash and cash equivalents		**(11)**	132
Cash and cash equivalents at 1 January		**317**	181
Currency variations on cash and cash equivalents		**(15)**	4
Cash and cash equivalents at 31 December	23	**291**	317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2015

1 Accounting policies and presentation
The Group's significant accounting policies are summarised below.

Basis of preparation
The consolidated financial statements (the 'statements') have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union. These statements have been prepared under the historical cost method except where other measurement bases are required to be applied under IFRS as set out below.

These statements have been prepared using all standards and interpretations required for financial periods beginning 1 January 2015. 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 2015 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'). During 2014 the Group did not have any material associates, but through its acquisition in the year (see note 30) it now has one such investment. This has necessitated a change to the narrative only.

Subsidiaries are entities over which, either directly or indirectly, the Company has control through the power to govern financial and operating policies so as to obtain benefit from their activities. This power is accompanied by a shareholding of more than 50% of the voting rights. The results of subsidiaries acquired or sold during the year are included in the Group's results from the date of acquisition or up to the date of disposal. All business combinations are accounted for by the purchase method. Assets, liabilities and contingent liabilities acquired in a business combination are measured at fair value.

Intra-group balances, transactions, income and expenses are eliminated.

Non-controlling interests represent the portion of shareholders' earnings and equity attributable to third party shareholders.

Equity accounted investments
Joint ventures are entities in which the Group has a long-term interest and exercises joint control with its partners over their financial and operating policies. In all cases voting rights are 50% or lower. Associated undertakings are entities, being neither a subsidiary nor a joint venture, where the Group has a significant influence. Equity accounted investments are accounted for by the equity method. The Group's share of equity includes goodwill arising on acquisition.

Foreign currencies
Subsidiaries and equity accounted investments account in the currency of their primary economic environment of operation, determined having regard to the currency which mainly influences sales and input costs. Transactions are translated at exchange rates approximating to the rate ruling on the date of the transaction except in the case of material transactions when actual spot rate may be used where it more accurately reflects the underlying substance of the transaction. Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Such transactional exchange differences are taken into account in determining profit before tax.

Material foreign currency movements arising on the translation of intra-group balances where there is no intention of repayment are treated as part of the net investment in a subsidiary and are recognised through equity. Movements on other intra-group balances are recognised through the income statement.

The Group's presentational currency is sterling. On consolidation, results and cash flows of foreign subsidiaries and equity accounted investments are translated to sterling at average exchange rates except in the case of material transactions when the actual spot rate is used where it more accurately reflects the underlying substance of the transaction. Assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Such translational exchange differences are taken to equity.

Profits and losses on the realisation of foreign currency net investments include the accumulated net exchange differences that have arisen on the retranslation of the foreign currency net investments since 1 January 2004 up to the date of realisation.

Presentation of the income statement
IFRS is not fully prescriptive as to the format of the income statement. Line items and subtotals have been presented on the face of the income statement in addition to those required under IFRS.

Sales shown in the income statement are those of subsidiaries.

Operating profit is profit before taxation, finance costs and the share of post-tax earnings of equity accounted investments. In order to achieve consistency and comparability between reporting periods, operating profit is analysed to show separately the results of normal trading performance and individually significant charges and credits. Such items arise because of their size or nature and comprise:

- the impact of the annual goodwill impairment review
- asset impairment and restructuring charges which arise from events that are significant to any reportable segment
- amortisation of the fair value of non-operating intangible assets arising on business combinations
- changes in the fair value of derivative financial instruments and material currency translation movements arising on intra-Group funding
- gains or losses on changes in Group structure which do not meet the definition of discontinued operations or which the Group views as capital rather than revenue in nature

1 Accounting policies and presentation *continued*
Presentation of the income statement continued

- 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
- significant pension scheme curtailments and settlements.

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 the fair value of non-operating intangible assets arising on business combinations and other net financing charges and their related taxation are separately identified, in the related note.

Net financing costs are analysed to show separately interest payable, interest receivable and other net financing charges. Other net financing charges include the interest charge on net defined benefit plans, specific changes in fair value on net investment hedges and unwind of discounts on fair value amounts established on business combinations.

Revenue recognition
Sales

Revenue from the sale of goods is measured at the fair value of the consideration receivable which generally equates to the invoiced amount, excluding sales taxes and net of allowances for returns, early settlement discounts and rebates. The Group has three principal revenue streams:

Sales of product

This revenue stream accounts for the overwhelming majority of Group sales. Contracts in the Automotive and Land Systems segments operate almost exclusively on this basis, and it also covers a high proportion of Aerospace revenues.

Invoices for goods are raised when the risks and rewards of ownership have passed which, dependent upon contractual terms, may be at the point of despatch, acceptance by the customer or, in Aerospace, certification by the customer.

Many businesses in GKN Automotive and GKN Land Systems recognise an element of revenue via a surcharge or similar raw material cost recovery mechanism. The surcharge invoiced or credited is generally based on prior period movement in raw material price indices applied to current period deliveries. Other cost recoveries are recorded according to the customer agreement. In those instances where recovery of such increases is guaranteed, irrespective of the level of future deliveries, revenue is recognised, or due allowance made, in the same period as the cost movement takes place.

Risk and revenue sharing partnerships (RRSPs)

This revenue stream impacts 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 impacts a discrete number of businesses, primarily in the GKN Aerospace segment but also on a smaller scale in the GKN 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' whilst the Group optimises its production processes. During this early phase of these contracts, all costs including any start-up losses are taken directly to the income statement.

Other income

Interest income is recognised using the effective interest rate method.

Sales and other income is recognised in the income statement when it can be reliably measured and its collectability is reasonably assured.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges.

Cost

Cost comprises the purchase price plus costs directly incurred in bringing the asset into use and borrowing costs on qualifying assets, defined as an asset or programme where the period of capitalisation is more than 12 months and the capital value is more than £25 million. Where freehold and long leasehold properties were carried at valuation on 23 March 2000, these values have been retained as book values and therefore deemed cost at the date of the IFRS transition.

Where assets are in the course of construction at the balance sheet date they are classified as capital work in progress. Transfers are made to other asset categories when they are available for use.

Depreciation

Depreciation is not provided on freehold land or capital work in progress. In the case of all other categories of property, plant and equipment, depreciation is provided on a straight line basis over the course of the financial year from the date the asset is available for use.

Depreciation is applied to specific classes of asset so as to reduce them to their residual values over their estimated useful lives, which are reviewed annually.

The range of depreciation lives are:

	Years
Freehold buildings	Up to 50
Steel powder production plant	18
General plant, machinery, fixtures and fittings	6 to 15
Computers	3 to 5
Commercial vehicles and cars	4 to 5

Property, plant and equipment is reviewed at least annually for indications of impairment. Where an impairment charge arises in the ordinary course of business it is recorded in trading profit. If an impairment charge arises as a part of a wider review of a cash generating unit it is presented separately within operating profit.

Financial assets and liabilities

Financial liabilities are recorded in arrangements where payments, or similar transfers of financial resources, are unavoidable or guaranteed.

Borrowings are measured initially at fair value which usually equates to proceeds received and includes transaction costs. Borrowings are subsequently measured at amortised cost.

Cash and cash equivalents comprise cash on hand and demand deposits, and overdrafts together with highly liquid investments of less than 90 days maturity. Other financial assets comprise investments with more than 90 days until maturity. Unless an enforceable right of set-off exists and there is an intention to net settle, the components of cash and cash equivalents are reflected on a gross basis in the balance sheet.

Other financial assets and liabilities, including short-term receivables and payables, are initially recognised at fair value and subsequently measured at amortised cost less any impairment provision unless the impact of the time value of money is considered to be material.

Derivative financial instruments

The Group does not trade in derivative financial instruments. Derivative financial instruments including forward foreign currency contracts and cross currency interest rate swaps are used by the Group to manage its exposure to risk associated with the variability in cash flows in relation to both recognised assets or liabilities or forecast transactions. All derivative financial instruments are measured at the balance sheet date at their fair value.

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.

Gains or losses on derivative financial instruments no longer designated as effective hedges are 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.

1 Accounting policies and presentation *continued*

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment charges.

Development costs and participation fees

Where development expenditure results in a new or substantially improved product or process and it is probable that this expenditure will be recovered, it is capitalised. Cost comprises development expenditure and borrowing costs on qualifying assets or fair value on initial recognition when as a result of a business combination. In addition, payments made to engine manufacturers and original equipment manufacturers for participation fees relating to risk and revenue sharing partnerships and long-term agreements, are carried forward in intangible assets to the extent that they can be recovered from future sales.

Amortisation is charged from the date the asset is available for use. In Aerospace, amortisation is charged over the asset's life up to a maximum of 15 years for all programmes other than risk and revenue sharing partnerships where a maximum life of 25 years is assumed, either on a straight line basis or, where sufficient contractual terms exist providing clarity over volumes that do not reflect a linear progression, a unit of production method is applied. In Automotive, amortisation is charged on a straight line basis over the asset's life up to a maximum of seven years.

Capitalised development costs, including participation fees, are subject to annual impairment reviews with any resulting impairments charged to the income statement.

Research expenditure and development expenditure not qualifying for capitalisation is written off as incurred.

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	20-50
– agreements not to compete	Life of agreement
Customer related assets	
– order backlog	Length of backlog
– other customer contracts and relationships	2-25
Technology based assets	5-25

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. Interest is calculated using the effective interest rate method.

Share-based payments

Share options granted to employees and share-based arrangements put in place since 7 November 2002 are valued at the date of grant or award using an appropriate option pricing model and are charged to operating profit over the performance or vesting period of the scheme. The annual charge is modified to take account of shares forfeited by employees who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely the option will vest.

Provisions

Provisions for onerous or loss making contracts, warranty exposures, environmental matters, restructuring, employee obligations and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in provisions due to discounting, only recorded where material, is recognised as interest expense within other net financing charges.

Standards, revisions and amendments to standards and interpretations issued but not yet adopted

The Group does not intend to adopt any standard, revision or amendment before the required implementation date. At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 Financial Instruments (effective from 1 January 2018)
- IFRS 15 Revenue from contracts with customers (effective from 1 January 2018)
- IFRS 16 Leases (effective from 1 January 2019).

These standards and other revisions to standards and interpretations which have an implementation date in 2017 or thereafter are still being assessed.

Significant judgements, key assumptions and estimates

The Group's significant accounting policies are set out above. The preparation of financial statements, in conformity with IFRS, requires the use of estimates, subjective judgement and assumptions that may affect the amounts of assets and liabilities at the balance sheet date and reported profit and earnings for the year. The Directors base these estimates, judgements and assumptions on a combination of past experience, professional expert advice and other evidence that is relevant to the particular circumstance.

Accounting policies where the Directors consider the more complex estimates, judgements and assumptions have to be made are those in respect of business combinations (note 30), post-employment obligations (note 24), derivative and other financial instruments (notes 4b and 20), taxation (note 6), provisions (note 21) and impairment of non-current assets (note 11c). Details of the principal judgements, assumptions and estimates made are set out in the related notes as identified.

2 Segmental analysis

The Group's reportable segments have been determined based on reports reviewed by the Executive Committee led by the Chief Executive. The operating activities of the Group are largely structured according to the markets served; aerospace, automotive and the land systems markets. Automotive is managed according to product groups; driveline and powder metallurgy. Reportable segments derive their sales from the manufacture of products and sale of service. Revenue from inter segment trading and royalties is not significant.

(a) Sales

		Automotive			
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2015					
Subsidiaries	**2,387**	**3,124**	**906**	**670**	
Equity accounted investments	**–**	**424**	**–**	**23**	
	2,387	**3,548**	**906**	**693**	**7,534**
Acquisitions					
Subsidiaries	**102**	**–**	**–**	**–**	
Equity accounted investments	**11**	**–**	**–**	**–**	
	113	**–**	**–**	**–**	**113**
Other businesses					**42**
Management sales					**7,689**
Less: Equity accounted investments					**(458)**
Income statement – sales					**7,231**
2014					
Subsidiaries	2,226	3,050	916	752	
Equity accounted investments	–	394	–	24	
	2,226	3,444	916	776	7,362
Other businesses					94
Management sales					7,456
Less: Equity accounted investments					(474)
Income statement – sales					6,982

Subsidiary sales comprise £6,895 million (2014: £6,694 million) from the manufacture of product and £336 million (2014: £288 million) from the sale of service.

(b) Trading profit

	GKN Aerospace £m	Automotive: GKN Driveline £m	Automotive: GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2015					
Trading profit before depreciation and amortisation	**383**	**329**	**148**	**39**	
Depreciation of property, plant and equipment	**(59)**	**(101)**	**(38)**	**(15)**	
Amortisation of operating intangible assets	**(33)**	**(7)**	**(1)**	**(1)**	
Trading profit – subsidiaries	**291**	**221**	**109**	**23**	
Trading profit – equity accounted investments	**–**	**69**	**–**	**1**	
	291	**290**	**109**	**24**	**714**
Acquisitions					
Subsidiaries	**(5)**	**–**	**–**	**–**	
Acquisition related charges	**(13)**	**–**	**–**	**–**	
	(18)	**–**	**–**	**–**	**(18)**
Other businesses					**1**
Corporate and unallocated costs					**(18)**
Management trading profit					**679**
Less: equity accounted investments trading profit					**(70)**
Income statement – trading profit					**609**

Acquisition related charges in 2015 comprise integration costs of £3 million and transaction professional fees of £10 million. There was also a £5 million restructuring charge within the trading profit of Fokker.

	GKN Aerospace £m	Automotive: GKN Driveline £m	Automotive: GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2014					
Trading profit before depreciation, impairment and amortisation	356	325	137	60	
Depreciation and impairment of property, plant and equipment	(55)	(109)	(35)	(17)	
Amortisation of operating intangible assets	(24)	(6)	(1)	(1)	
Trading profit – subsidiaries	277	210	101	42	
Trading profit – equity accounted investments	–	70	–	2	
	277	280	101	44	**702**
Other businesses					**5**
Corporate and unallocated costs					**(20)**
Management trading profit					**687**
Less: equity accounted investments trading profit					**(75)**
Income statement – trading profit					**612**

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 2015, the Group recorded a net credit of £22 million (2014: net credit of £14 million) in trading profit in respect of:

- GKN Aerospace: net credit of £32 million (2014: net credit of £12 million) relating to further progress on an onerous contract (£22 million credit), settlement of warranty matters (£8 million credit) and resolution of a contractual dispute matter (£7 million credit), offset by restructuring costs (£5 million charge)
- GKN Driveline: net charge of £1 million (2014: net credit of £2 million) relating to the resolution of an onerous contract (£8 million credit) and warranty matters (£9 million charge)
- GKN Land Systems: net charge of £11 million (2014: nil) relating to restructuring
- Corporate and unallocated costs: net credit of £2 million (2014: nil) following completion of a pension increase exchange in the UK (£7 million credit, see note 24 for further details) and an environmental matter in a legacy business (£5 million charge).

2 Segmental analysis *continued*

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

		Automotive			
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2015					
Property, plant and equipment and operating intangible assets	**1,208**	**1,049**	**375**	**128**	**2,760**
Working capital	**159**	**22**	**97**	**64**	**342**
Net operating assets	**1,367**	**1,071**	**472**	**192**	
Goodwill and non-operating intangible assets	**841**	**258**	**29**	**134**	
Net investment	**2,208**	**1,329**	**501**	**326**	
2014					
Property, plant and equipment and operating intangible assets	1,024	995	363	132	2,514
Working capital	148	47	89	75	359
Net operating assets	1,172	1,042	452	207	
Goodwill and non-operating intangible assets	507	268	27	146	
Net investment	1,679	1,310	479	353	

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

		Automotive				
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	GKN Land Systems £m	Other £m	Total £m
2015						
Fixed asset additions						
– property, plant and equipment	**99**	**157**	**59**	**14**	**5**	**334**
– intangible assets	**62**	**18**	**2**	**1**	**1**	**84**
Equity accounted investments	**16**	**171**	**–**	**8**	**–**	**195**
Other non-cash items						
– share-based payments	**–**	**1**	**–**	**–**	**–**	**1**
– impairment charges	**63**	**–**	**6**	**–**	**2**	**71**
2014						
Fixed asset additions						
– property, plant and equipment	73	193	65	19	3	353
– intangible assets	71	8	3	–	–	82
Equity accounted investments	–	165	–	9	–	174
Other non-cash items						
– share-based payments	1	1	–	–	1	3
– impairment charges	39	–	–	26	4	69

(e) Country analysis

	United Kingdom £m	US £m	Germany £m	Other countries £m	Total non-UK £m	Total £m
2015						
Management sales by origin	**956**	**2,517**	**863**	**3,353**	**6,733**	**7,689**
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	**472**	**999**	**428**	**2,352**	**3,779**	**4,251**
2014						
Management sales by origin	950	2,313	964	3,229	6,506	7,456
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	474	943	444	1,815	3,202	3,676

(f) Other sales information

Subsidiary segmental sales gross of inter segment sales are: GKN Aerospace £2,489 million (2014: £2,226 million), GKN Driveline £3,176 million (2014: £3,106 million), GKN Powder Metallurgy £908 million (2014: £919 million) and GKN Land Systems £672 million (2014: £754 million). Inter segment transactions take place on an arm's length basis using normal terms of business.

In 2015 and 2014, no customer accounted for 10% or more of subsidiary sales or management sales.

Management sales by product are: GKN Aerospace – aerostructures 48% (2014: 47%), engine components and sub-systems 44% (2014: 47%), wiring and special products 7% (2014: 6%) and services 1% (2014: nil). GKN Driveline – CVJ systems 60% (2014: 60%), all-wheel drive and e-drive systems 39% (2014: 39%) and other goods 1% (2014: 1%). GKN Powder Metallurgy – sintered components 84% (2014: 84%) and metal powders 16% (2014: 16%). GKN Land Systems – power management devices 40% (2014: 41%), wheels and structures 33% (2014: 32%) and aftermarket 27% (2014: 27%).

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

	2015 £m	2014 £m
Segmental analysis – property, plant and equipment and operating intangible assets	**2,760**	2,514
Segmental analysis – goodwill and non-operating intangible assets	**1,262**	948
Goodwill	**(591)**	(498)
Other businesses	**25**	31
Corporate assets	**9**	9
Balance sheet – property, plant and equipment and other intangible assets	**3,465**	3,004

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

	2015 £m	2014 £m
Segmental analysis – working capital	**342**	359
Other businesses	**13**	11
Corporate items	**(45)**	(31)
Accrued interest	**(25)**	(17)
Restructuring provisions	**(1)**	(2)
Equity accounted investment funding	**(10)**	–
Deferred and contingent consideration	**(3)**	(9)
Government refundable advances	**(86)**	(46)
Balance sheet – inventories, trade and other receivables, trade and other payables and provisions	**185**	265

3 Adjusted performance measures

(a) Reconciliation of reported and management performance measures

	2015			
	As reported £m	Equity accounted investments £m	Adjusting and non-trading items £m	Management basis £m
Sales	**7,231**	**458**	**–**	**7,689**
Trading profit	**609**	**70**	**–**	**679**
Change in value of derivative and other financial instruments	**(122)**	**–**	**122**	**–**
Amortisation of non-operating intangible assets arising on business combinations	**(80)**	**–**	**80**	**–**
Gains and losses on changes in Group structure	**(1)**	**–**	**1**	**–**
Impairment charges	**(71)**	**–**	**71**	**–**
Reversal of inventory fair value adjustment arising on business combinations	**(12)**	**–**	**12**	**–**
Operating profit	**323**	**70**	**286**	**679**
Share of post-tax earnings of equity accounted investments	**59**	**(70)**	**–**	**(11)**
Interest payable	**(72)**	**–**	**–**	**(72)**
Interest receivable	**7**	**–**	**–**	**7**
Other net financing charges	**(72)**	**–**	**72**	**–**
Net financing costs	**(137)**	**–**	**72**	**(65)**
Profit before taxation	**245**	**–**	**358**	**603**
Taxation	**(43)**	**–**	**(90)**	**(133)**
Profit after tax for the year	**202**	**–**	**268**	**470**
Profit attributable to non-controlling interests	**(5)**	**–**	**–**	**(5)**
Profit attributable to owners of the parent	**197**	**–**	**268**	**465**
Earnings per share – pence	**11.8**	**–**	**16.0**	**27.8**

	2014			
Sales	6,982	474	–	7,456
Trading profit	612	75	–	687
Change in value of derivative and other financial instruments	(209)	–	209	–
Amortisation of non-operating intangible assets arising on business combinations	(69)	–	69	–
Gains and losses on changes in Group structure	24	–	(24)	–
Impairment charges	(69)	–	69	–
Operating profit	289	75	323	687
Share of post-tax earnings of equity accounted investments	61	(75)	1	(13)
Interest payable	(75)	–	–	(75)
Interest receivable	2	–	–	2
Other net financing charges	(56)	–	56	–
Net financing costs	(129)	–	56	(73)
Profit before taxation	221	–	380	601
Taxation	(47)	–	(74)	(121)
Profit after tax for the year	174	–	306	480
Profit attributable to non-controlling interests	(5)	–	–	(5)
Profit attributable to owners of the parent	169	–	306	475
Earnings per share – pence	10.3	–	18.7	29.0

Basic and management earnings per share use a weighted average number of shares of 1,674.1 million (2014: 1,640.6 million). Also see note 7.

(b) Summary of management performance measures by segment

	2015			2014		
	Sales £m	**Trading profit £m**	**Margin**	Sales £m	Trading profit £m	Margin
GKN Aerospace	**2,387**	**291**	**12.2%**	2,226	277	12.4%
GKN Driveline	**3,548**	**290**	**8.2%**	3,444	280	8.1%
GKN Powder Metallurgy	**906**	**109**	**12.0%**	916	101	11.0%
GKN Land Systems	**693**	**24**	**3.5%**	776	44	5.7%
Other businesses	**42**	**1**		94	5	
Acquisition – Fokker (GKN Aerospace)	**113**	**(18)**		–	–	
Corporate and unallocated costs	**–**	**(18)**		–	(20)	
	7,689	**679**	**8.8%**	7,456	687	9.2%

4 Operating profit

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

(a) Trading profit

	2015 £m	2014 £m
Sales by subsidiaries	**7,231**	6,982
Operating costs		
Change in stocks of finished goods and work in progress	**16**	44
Raw materials and consumables	**(3,177)**	(3,127)
Staff costs (note 9)	**(1,887)**	(1,809)
Reorganisation costs (ii):		
Redundancy and other employee related amounts	**(22)**	(3)
Depreciation of property, plant and equipment (iii)	**(218)**	(216)
Impairment of property, plant and equipment	**–**	(4)
Amortisation of operating intangible assets	**(43)**	(32)
Operating lease rentals payable:		
Plant and equipment	**(18)**	(17)
Property	**(33)**	(29)
Impairment of trade receivables	**(4)**	(5)
Amortisation of government capital grants	**2**	2
Net exchange differences on foreign currency transactions	**2**	8
Acquisition related charges	**(13)**	–
Other costs (v)	**(1,227)**	(1,182)
	(6,622)	(6,370)
Trading profit	**609**	612

(i) EBITDA is subsidiary trading profit before depreciation, impairment and amortisation charges included in trading profit. EBITDA was £870 million (2014: £864 million).
(ii) Reorganisation costs reflect actions in the ordinary course of business to reduce costs, improve productivity and rationalise facilities in continuing operations. This cost is included in trading profit.
(iii) Including depreciation charged on assets held under finance leases of less than £1 million (2014: £1 million).
(iv) Research and development expenditure in subsidiaries was £157 million (2014: £161 million), net of customer and government funding.

4 Operating profit *continued*

(a) Trading profit continued

(v) Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	2015 £m	2014 £m
Fees payable to PricewaterhouseCoopers LLP for the audit of the parent company	**(0.5)**	(0.5)
Fees payable to PricewaterhouseCoopers LLP and their associates for other services to the Group:		
– Audit of the accounts of subsidiaries	**(4.6)**	(4.0)
Total audit fees	**(5.1)**	(4.5)
– Audit related assurance services	**(0.1)**	(0.1)
– Tax advisory services	**(0.3)**	(0.2)
– Tax compliance services	**(0.5)**	(0.5)
– Other services	**(0.2)**	(0.1)
Total fees for other services	**(1.1)**	(0.9)
Fees payable to PricewaterhouseCoopers LLP and their associates in respect of associated pension schemes:		
– Audit	**(0.1)**	(0.1)
	(0.1)	(0.1)
Total fees payable to PricewaterhouseCoopers LLP and their associates	**(6.3)**	(5.5)

All fees payable to PricewaterhouseCoopers LLP, the Company's auditors, include amounts in respect of expenses. All fees payable to PricewaterhouseCoopers LLP have been charged to the income statement.

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

	2015 £m	2014 £m
Forward currency contracts (not hedge accounted)	**(103)**	(232)
Embedded derivatives	**1**	4
	(102)	(228)
Net gains and losses on intra-group funding		
Arising in year	**(20)**	19
Reclassified in year	**–**	–
	(20)	19
	(122)	(209)

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. In 2015 and 2014 the Group used transactional hedge accounting in a limited number of instances.

(c) Amortisation of non-operating intangible assets arising on business combinations

	2015 £m	2014 £m
Marketing related	**(4)**	(1)
Customer related	**(57)**	(56)
Technology based	**(19)**	(12)
	(80)	(69)

(d) Gains and losses on changes in Group structure

	2015 £m	2014 £m
Business sold	**(5)**	–
Profit on sale of joint venture	**–**	24
Gain on contingent consideration	**4**	–
	(1)	24

On 30 January 2015, the Group sold GKN Sinter Metals Argentina SA for cash consideration of £1 million before professional fees. The loss on sale of £5 million comprises a £1 million loss on disposal of net assets and £4 million loss from reclassification of previous currency variations from other reserves.

During the year, following reassessment of fair value, £4 million of contingent consideration was released to the income statement.

On 31 July 2014, the Group sold its 50% share in Emitec, a joint venture company, for cash consideration of £37 million. The carrying value on the date of disposal was £14 million and £1 million of previous currency variations were reclassified from other reserves resulting in a profit on sale of £24 million.

5 Net financing costs

	2015 £m	2014 £m
(a) Interest payable and fee expense		
Short-term bank and other borrowings	**(10)**	(7)
Repayable within five years	**(34)**	(36)
Repayable after five years	**(25)**	(25)
Government refundable advances	**(3)**	(7)
	(72)	(75)
Interest receivable		
Short-term investments, loans and deposits	**3**	2
Tax case net interest recovery (see note 6)	**4**	–
Net interest payable and receivable	**(65)**	(73)

	2015 £m	2014 £m
(b) Other net financing charges		
Interest charge on net defined benefit plans	**(49)**	(50)
Fair value changes on cross currency interest rate swaps	**(17)**	3
Unwind of discounts	**(6)**	(9)
	(72)	(56)

6 Taxation

(a) Tax expense

Analysis of charge in year	2015 £m	2014 £m
Current tax (charge)/credit		
Current year charge	**(121)**	(86)
Utilisation of previously unrecognised tax losses and other assets	**38**	1
Net movement on provisions for uncertain tax positions	**(23)**	9
Adjustments in respect of prior years	**–**	(4)
	(106)	(80)
Deferred tax (charge)/credit		
Origination and reversal of temporary differences	**30**	36
Tax on change in value of derivative financial instruments	**31**	(51)
Other changes in unrecognised deferred tax assets	**1**	44
Adjustments in respect of prior years	**1**	4
	63	33
Total tax charge for the year	**(43)**	(47)

Analysed as:

	2015 £m	2014 £m
Tax in respect of management profit		
Current tax	**(107)**	(77)
Deferred tax	**(26)**	(44)
	(133)	(121)
Tax in respect of items excluded from management profit		
Current tax	**1**	(3)
Deferred tax	**89**	77
	90	74
Total for tax charge for the year	**(43)**	(47)

Book tax rate

In 2015 the Group used £38 million of unrecognised tax losses against taxable profits reducing the current tax charge. The uncertainties preventing recognition of these losses will not be resolved until 2017 and a corresponding provision was created against their use. The net movement on provisions was reduced to £23 million by the resolution of a long standing dispute through a bilateral negotiation between tax authorities.

Management tax rate

The tax charge arising on management profits of subsidiaries of £544 million (2014: £539 million) was £133 million (2014: £121 million charge) giving an effective tax rate of 24% (2014: 22%).

Significant judgements and estimates

The Group operates in many jurisdictions and is subject to tax audits which are often complex and can take several years to conclude. Therefore, the accrual for current tax includes provisions for uncertain tax positions which require estimates for each matter and the exercise of judgement in respect of the interpretation of tax laws and the likelihood of challenge to historic tax positions. 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.

Tax reconciliation	2015 £m	2015 %	2014 £m	2014 %
Profit before tax	**245**		221	
Less share of post-tax earnings equity accounted investments	**(59)**		(61)	
Profit before tax excluding equity accounted investments	**186**		160	
Tax charge calculated at 20.25% (2014: 21.5%) standard UK corporate tax rate	**(38)**	**(20)**	(34)	(21)
Differences between UK and overseas corporate tax rates	**(34)**	**(18)**	(16)	(10)
Non-deductible and non-taxable items	**19**	**10**	(49)	(31)
Recognition of previously unrecognised tax losses	**1**	**1**	43	27
Utilisation of previously unrecognised tax losses and other assets	**38**	**20**	1	1
Changes in tax rates	**(2)**	**(1)**	(3)	(2)
Other changes in deferred tax assets	**(5)**	**(3)**	2	1
Tax charge on ordinary activities	**(21)**	**(11)**	(56)	(35)
Net movement on provision for uncertain tax positions	**(23)**	**(12)**	9	6
Adjustments in respect of prior years	**1**	**–**	–	–
Total tax charge for the year	**(43)**	**(23)**	(47)	(29)

(b) Tax included in other comprehensive income

	2015 £m	2014 £m
Deferred tax on post-employment obligations	**(46)**	118
Deferred tax on foreign currency gains and losses on intra-group funding	**1**	(4)
Current tax on post-employment obligations	**4**	4
Current tax on foreign currency gains and losses on intra-group funding	**(6)**	13
	(47)	131

(c) Current tax

	2015 £m	2014 £m
Assets	**9**	8
Liabilities	**(121)**	(125)
	(112)	(117)

(d) Recognised deferred tax

	2015 £m	2014 £m
Assets	**388**	407
Liabilities	**(157)**	(223)
	231	184

There is a net £63 million deferred tax credit to the income statement in the year (2014: £33 million credit) and a deferred tax charge of £45 million recorded directly in other comprehensive income (2014: £114 million credit). These movements are impacted by the recognition and use of deferred tax assets (primarily in respect of actuarial losses).

6 Taxation *continued*

(d) Recognised deferred tax continued

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 2015	**285**	**93**	**95**	**(283)**	**(6)**	**184**
Included in the income statement	**6**	**(10)**	**42**	**28**	**(3)**	**63**
Included in other comprehensive income	**(46)**	**–**	**1**	**–**	**–**	**(45)**
Businesses acquired	**2**	**92**	**17**	**(74)**	**–**	**37**
Currency variations	**(2)**	**1**	**2**	**(10)**	**1**	**(8)**
At 31 December 2015	**245**	**176**	**157**	**(339)**	**(8)**	**231**
At 1 January 2014	169	127	63	(287)	(25)	47
Included in the income statement	–	(32)	28	15	22	33
Included in other comprehensive income	118	–	–	–	(4)	114
Businesses acquired	–	–	–	(1)	–	(1)
Currency variations	(2)	(2)	4	(10)	1	(9)
At 31 December 2014	285	93	95	(283)	(6)	184

Deferred tax assets are recognised where management projections indicate the future availability of taxable profits to absorb the deductions.

'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 accounts. Other deferred tax assets include £85 million relating to derivatives (2014: £47 million).

(e) Unrecognised deferred tax assets

Certain deferred tax assets have not been recognised on the basis that the Group's ability to utilise them is uncertain as shown below.

	2015			2014		
	Tax value £m	Gross £m	Expiry period	Tax value £m	Gross £m	Expiry period
Tax losses – with expiry: national	**106**	**421**	**2016-2034**	38	114	2015-2033
Tax losses – with expiry: local	**6**	**190**	**2016-2034**	9	237	2015-2033
Tax losses – without expiry	**49**	**287**		52	242	
Total tax losses	**161**	**898**		99	593	
Other temporary differences	**6**	**32**		1	5	
Unrecognised deferred tax assets	**167**	**930**		100	598	

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 £18 million (2014: £16 million) would be payable.

(f) Changes in UK tax rate

A reduction in the mainstream rate of UK corporation tax from 21% to 20% took effect from April 2015 which gives rise to an effective rate of 20.25% for the year. A further reduction to 19% from 1 April 2017 and 18% from 1 April 2020 have been substantively enacted. UK temporary differences are measured at the rate at which they are expected to reverse.

(g) Franked investment income – litigation

Since 2003, the Group has been involved in litigation with HMRC in respect of various advance corporate tax payments and corporate tax paid on certain foreign dividends which, in its view, were levied by HMRC in breach of the Group's EU community law rights. The most recent High Court judgement in the case was published in December 2014. Although the judgement was broadly positive, it is anticipated that HMRC will appeal at least some of the technical points decided.

GKN has received payments from HMRC in respect of the case, principally interest, which have been recognised as received. In August 2015, the Group agreed a settlement of £12 million with HMRC in respect of the Foreign Income Dividends element of the claim. This resulted in an interest receipt, net of restitutional and other charges, of £4 million. 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.

7 Earnings per share

	2015			2014		
	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	**197**	**1,674.1**	**11.8**	169	1,640.6	10.3
Dilutive securities	**–**	**7.7**	**(0.1)**	–	11.5	(0.1)
Diluted	**197**	**1,681.8**	**11.7**	169	1,652.1	10.2

Management basis earnings per share of 27.8p (2014: 29.0p) is presented in note 3 and uses the weighted average number of shares consistent with basic earnings per share calculations.

8 Dividends

	Paid or proposed in respect of		Recognised		
	2015 pence	2014 pence	2016 £m	**2015 £m**	2014 £m
2013 final dividend paid	**–**	–	–	**–**	87
2014 interim dividend paid	**–**	2.8	–	**–**	46
2014 final dividend paid	**–**	5.6	–	**92**	–
2015 interim dividend paid	**2.9**	–	–	**50**	–
2015 final dividend proposed	**5.8**	–	99	**–**	–
	8.7	8.4	99	**142**	133

The 2015 final proposed dividend will be paid on 16 May 2016 to shareholders who are on the register of members at close of business on 8 April 2016.

9 Employees including Directors

Employee benefit expense	**2015 £m**	2014 £m
Wages and salaries	**(1,513)**	(1,446)
Social security costs	**(285)**	(285)
Post-employment costs	**(88)**	(75)
Share-based payments	**(1)**	(3)
	(1,887)	(1,809)

Average monthly number of employees (including Executive Directors)	**2015 Number**	2014 Number
By business		
GKN Aerospace	**13,046**	12,114
GKN Driveline	**20,986**	19,962
GKN Powder Metallurgy	**6,669**	6,791
GKN Land Systems	**4,933**	5,109
Other businesses	**1,215**	1,012
Corporate	**214**	198
Total	**47,063**	45,186

9 Employees including Directors *continued*

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	**2015 £m**	2014 £m
Salaries and short-term employee benefits	**7.3**	6.8
Post-employment benefits	**0.4**	0.3
Share-based and medium-term incentives and benefits	**0.3**	1.4
	8.0	8.5

The amount outstanding at 31 December 2015 in respect of annual short-term variable remuneration payable in cash was £2.0 million (2014: £1.5 million). Key management participate in certain incentive arrangements where the key performance metric is management earnings per share using the cash tax rate which is discussed in the Strategic Report. Management EPS using the cash tax rate is 30.4p (2014: 32.1p). A total of £331,136 in dividends was received by key management in 2015 (2014: £267,158).

10 Share-based payments

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 since 7 November 2002 that impact the 2015 accounting charge are:

Sustainable Earnings Plan (SEP)

Awards comprising Core and Sustainability Awards were made to Directors and certain senior employees in August 2012, March 2013, March 2014 and March 2015. Core and Sustainability Awards are subject to performance targets with Core Awards subject to achievement of EPS growth targets over an initial three year performance period and Sustainability Awards subject to the highest level of EPS attained in any year during the core performance period being achieved or exceeded in years four and five. Sustainability Awards will be reduced to the extent that the target in the core performance period has not been met. Sustainability Awards are measured independently in years four and five. 50% of Core Awards will be released at the end of year three; the balance of Core Awards and any Sustainability Awards will be released at the end of year five. There is no provision for retesting performance for either the Core or Sustainability Awards. On vesting, dividends are treated as having accrued on the shares from the date of grant to the date of release with the value delivered in either shares or cash.

Details of SEP awards (Core Award and Sustainability Awards) granted during the year are set out below:

	Shares granted during year	Weighted average fair value at measurement date
2015 SEP awards	7,051,165	3.60

The fair value of shares awarded under the SEP is calculated as the share price on the grant date.

Share Incentive and Retention Plan (SIRP)

Performance Awards and in some cases Restricted Awards were made to certain senior employees in October 2015. Performance Awards are subject to both a management profit before tax target over a two year performance period and a one year retention period. 50% of the Performance Awards will be measured in the first year of the performance period and 50% in the second year. There is no provision for retesting of performance for the Performance Awards. Restricted Awards will normally be released at the end of a specified deferral period provided that the participant is still employed by GKN. The Restricted Awards are not subject to any performance conditions although they will lapse in the event of resignation during the deferral period. Any awards under the SIRP will be satisfied from shares held in the Employee Share Ownership Plan Trust.

Details of SIRP awards granted during the year are set out below:

	Shares granted during year	Weighted average fair value at measurement date
2015 SIRP awards	4,056,175	2.90

The fair value of shares awarded under the SIRP is calculated as the share price on the grant date.

A reconciliation of ESOS option movements over the year to 31 December 2015 is shown below:

	2015		2014	
	Number 000s	**Weighted average exercise price pence**	Number 000s	Weighted average exercise price pence
Outstanding at 1 January	**3,997**	**139.31**	4,860	143.76
Forfeited	**–**	**–**	(25)	110.08
Exercised	**(1,578)**	**136.74**	(838)	166.00
Outstanding at 31 December	**2,419**	**140.99**	3,997	139.31
Exercisable at 31 December	**2,419**	**140.99**	3,997	139.31

For options outstanding at 31 December the range of exercise prices and weighted average contractual life is shown in the following table:

	2015		2014	
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-145p	**1,901**	**4.06**	3,054	4.92
195p-220p	**518**	**5.25**	943	6.25

The weighted average share price during the year for options exercised over the year was 327.6p (2014: 373.8p). The total charge for the year relating to share-based payment plans was £1 million (2014: £3 million) all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £1 million (2014: £3 million).

Liabilities in respect of share-based payments were not material at either 31 December 2015 or 31 December 2014. There were no vested rights to cash or other assets at either 31 December 2015 or 31 December 2014.

11 Goodwill and other intangible assets

(a) Goodwill

	2015 £m	2014 £m
Cost		
At 1 January	**714**	698
Businesses acquired	**104**	2
Currency variations	**22**	14
At 31 December	**840**	714
Accumulated impairment		
At 1 January	**216**	154
Charge for the year	**23**	57
Currency variations	**10**	5
At 31 December	**249**	216
Net book amount at 31 December	**591**	498

11 Goodwill and other intangible assets *continued*

(a) Goodwill continued

The carrying value of goodwill at 31 December comprised:

Reportable segment	Business	Geographical location	2015 £m	2014 £m
GKN Aerospace	Aerostructures	North America	**34**	32
	Engine Systems	North America & Europe	**42**	39
	Engine Products – West	North America	**91**	97
	Fokker	Europe	**103**	–
GKN Driveline	Driveline	Americas	**119**	118
	Driveline	Europe	**55**	56
GKN Powder Metallurgy	Hoeganaes	North America	**24**	22
GKN Land Systems	Power Management Devices	Europe	**64**	67
			532	431
Other businesses not individually significant to the carrying value of goodwill			**59**	67
			591	498

Impairment charges have been recorded in the Income Statement as an adjusting and non-trading item within the line item 'impairment charges', see note 11c for further details.

(b) Other intangible assets

	2015						
				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 2015	**436**	**141**	**107**	**14**	**475**	**248**	**1,421**
Businesses acquired	**52**	**–**	**–**	**51**	**177**	**43**	**323**
Additions	**66**	**9**	**9**	**–**	**–**	**–**	**84**
Disposals	**(3)**	**–**	**(13)**	**–**	**–**	**–**	**(16)**
Currency variations	**11**	**8**	**2**	**1**	**21**	**12**	**55**
At 31 December 2015	**562**	**158**	**105**	**66**	**673**	**303**	**1,867**
Accumulated amortisation							
At 1 January 2015	**97**	**18**	**86**	**4**	**210**	**62**	**477**
Charge for the year							
Charged to trading profit	**27**	**8**	**8**	**–**	**–**	**–**	**43**
Non-operating intangible assets	**–**	**–**	**–**	**4**	**57**	**19**	**80**
Impairment charges	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Disposals	**(2)**	**–**	**(13)**	**–**	**–**	**–**	**(15)**
Currency variations	**1**	**1**	**1**	**–**	**9**	**4**	**16**
At 31 December 2015	**124**	**27**	**82**	**8**	**276**	**85**	**602**
Net book amount at 31 December 2015	**438**	**131**	**23**	**58**	**397**	**218**	**1,265**

Impairment charges have been recorded in the Income Statement as an adjusting and non-trading item within the line item 'impairment charges', see note 11c for further details.

	2014						
				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 2014	366	128	98	12	461	233	1,298
Businesses acquired	–	–	–	2	–	7	9
Additions	63	9	10	–	–	–	82
Disposals	(6)	–	(1)	–	–	–	(7)
Currency variations	13	4	–	–	14	8	39
At 31 December 2014	436	141	107	14	475	248	1,421
Accumulated amortisation							
At 1 January 2014	78	11	79	3	147	48	366
Charge for the year							
Charged to trading profit	18	7	7	–	–	–	32
Non-operating intangible assets	–	–	–	1	56	12	69
Currency variations	1	–	–	–	7	2	10
At 31 December 2014	97	18	86	4	210	62	477
Net book amount at 31 December 2014	339	123	21	10	265	186	944

Development costs of £130 million (2014: £117 million), £6 million (2014: £7 million) and £12 million (2014: £12 million) in respect of three aerospace programmes are being amortised on a units of production basis. There is £17 million (2014: £26 million) in respect of a customer relationship asset arising from one previous business combination with a remaining amortisation period of two years (2014: three years). There are other intangible assets of £262 million (2014: £279 million) in respect of four programmes with a remaining amortisation period of 22 years (2014: 23 years).

(c) Impairment testing

An impairment test is a comparison of the carrying value of the assets of a business or cash generating unit (CGU) to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment results. For the purposes of carrying out impairment tests, the Group's total goodwill has been allocated to a number of CGUs and each of these CGUs has been separately assessed and tested. The size of a CGU varies but is never larger than a primary or secondary reportable segment. In some cases, a CGU is an individual subsidiary or operation.

Consistent with previous years all goodwill, together with CGUs where there were indicators of impairment, was tested for impairment. An impairment charge of £71 million has been recorded in respect of four CGUs; two in GKN Aerospace, one in GKN Powder Metallurgy and one in Other businesses (2014: £69 million).

An impairment charge in St. Louis, North America (Aerospace) of £49 million follows a downturn in the market and loss of business during the year. The charge comprises goodwill of £8 million, development costs of £1 million and property, plant and equipment of £40 million. The remaining recoverable amount of £70 million represents its value in use, using a discount rate of 12% (2014: 12%). The impairment charge is most sensitive to operating cash flows and a 5% change in this assumption would have impacted the impairment charge by £4 million.

An impairment charge in Astech, North America (Aerospace) of £14 million follows the loss of key business. The charge comprises goodwill of £13 million and property, plant and equipment of £1 million. The remaining recoverable amount of £12 million represents its value in use, using a discount rate of 12% (2014: 12%). The impairment charge is most sensitive to operating cash flows and a 5% change in this assumption would have impacted the impairment charge by £1 million.

An impairment charge in Sinter Brazil (Powder Metallurgy) of £6 million follows a significant downturn in the market during the year and loss of future orders. The charge only comprises property, plant and equipment. The remaining recoverable amount of £4 million represents its value in use, using a discount rate of 25% (2014: 25%). The impairment charge is most sensitive to operating cash flows but a 5% change in this assumption would not have impacted the impairment charge.

There was a further impairment charge in Other businesses of £2 million, comprising only goodwill.

11 Goodwill and other intangible assets *continued*
(c) Impairment testing *continued*
Significant judgements, assumptions and estimates
One CGU within the Group, Power Management Devices (GKN Land Systems), has continued to be assessed for impairment using an estimation of fair value less costs of disposal based on a multiple of EBITDA and recent comparable market prices. Due to market conditions in the year and the short term nature of its order book, value in use was not considered to be a representative assessment for impairment testing. The relevant assets of Power Management Devices have been assessed against fair value less costs of disposal. The assessment used an assumed EBITDA taking into account past performance, and a market based multiple following a review of comparable companies within a peer group. Sensitivity analysis on this CGU is provided below.

All other CGUs' recoverable amounts were measured using value in use. Detailed forecasts for the next five years have been used which are based on approved annual budgets and strategic projections representing the best estimate of future performance. In the case of CGUs within the Group's GKN Aerospace business, value in use was measured using operating cash flow projections covering the next ten years which incorporate the anticipated timing of volumes on current programmes. Management consider forecasting over this period to more appropriately reflect the length of business cycle of those CGU's programmes.

During the year there has been one change in the composition of the Group's CGUs; splitting a CGU in GKN Aerospace North America into two separate CGUs based on changes to the business including management team, market approach and contracts, effective from 1 January 2015. One of these two CGUs, Astech, subsequently lost a key contract in the fourth quarter and as a consequence was impaired (see page 133).

In determining the value in use of CGUs it is necessary to make a series of assumptions to estimate the present value of future cash flows. In each case, these key assumptions have been made by management reflecting past experience and are consistent with relevant external sources of information.

Operating cash flows
The main assumptions within forecast operating cash flow include the achievement of future sales prices and volumes (including reference to specific customer relationships, product lines and the use of industry relevant external forecasts of global vehicle production within Automotive businesses and consideration of specific volumes on certain military and commercial programmes within Aerospace), raw material input costs, the cost structure of each CGU and the ability to realise benefits from annual productivity improvements, the impact of foreign currency rates upon selling price and cost relationships and the levels of maintaining capital expenditure required to support forecast production.

Pre-tax risk adjusted discount rates
Pre-tax risk adjusted discount rates are derived from risk-free rates based on long-term government bonds in the territory, or territories, within which each CGU operates. A relative risk adjustment (or 'beta') has been applied to risk-free rates to reflect the risk inherent in each CGU relative to all other sectors on average, determined using an average of the betas of comparable listed companies.

The range of pre-tax risk adjusted discount rates set out below have been used for impairment testing. The range of rates reflects the mix of geographical territories within CGUs within the reportable segments.

GKN Aerospace:	UK 9% (2014: 9%), Europe 8% (2014: 8%) and North America 12% (2014: 12%)
GKN Driveline:	North and South America 14%-25% (2014: 14%-25%), Europe 9%-12% (2014: 9%-12%) and Japan and Asia Pacific region countries 10%-20% (2014: 10%-20%)
GKN Powder Metallurgy:	Europe 10% (2014: 10%), North America 14% (2014: 14%) and South America 25% (2014: 25%)
GKN Land Systems:	Europe 9%-12% (2014: 9%-12%) and North America 14% (2014: 14%)

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. This results in a range of nominal growth rates:

GKN Aerospace:	UK 3% (2014: 3%), Europe 2% (2014: 2%) and North America 3% (2014: 3%)
GKN Driveline:	North and South America 3%-6% (2014: 3%-6%), Europe 2%-4% (2014: 2%-4%) and Japan and Asia Pacific region countries 2%-10% (2014: 2%-10%)
GKN Powder Metallurgy:	Europe 2% (2014: 2%) and North America 3% (2014: 3%)
GKN Land Systems:	Europe 2%-4% (2014: 2%-4%) and North America 3% (2014: 3%)

Goodwill sensitivity analysis

The results of the Group's impairment tests are dependent on estimates and judgements made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to potential changes in key assumptions has therefore been reviewed.

At 31 December 2015, the date of the Group's annual impairment test, the estimated recoverable amount of one CGU within the Group's Aerospace operations using value in use and one CGU within the Group's Land Systems operations using fair value less costs of disposal exceeded their carrying value by £38 million and £22 million respectively.

The table below shows the discount rate, long-term growth rate and forecast operating cash flow assumptions used in the calculation of value in use and the amount by which each assumption must change in isolation in order for the estimated recoverable amount to equal the carrying value.

Segment	GKN Aerospace
Business	Engine Products – West
Value in use excess over carrying value	£38m
Assumptions used in calculation of value in use	
Pre-tax adjusted discount rate	12%
Long-term growth rate	3%
Total pre-discounted forecast operating cash flow	£467m
Change required for the carrying value to exceed the recoverable amount	
Pre-tax adjusted discount rate	2.1%pts
Long-term growth rate	5.7%pts
Total pre-discounted forecast operating cash flow	20%

The table below shows the assumptions used in the calculation of fair value less costs of disposal and the amount by which each assumption must change in isolation in order for the estimated recoverable amount to equal the carrying value.

Segment	GKN Land Systems
Business	Power Management Devices
Fair value less costs of disposal excess over carrying value	£22m
Assumptions used in calculation of fair value less costs of disposal	
EBITDA	£17m
Multiple	8.5
Change required for the carrying value to exceed the recoverable amount	
EBITDA	15%
Multiple	15%pts

12 Property, plant and equipment

	2015				
	Land and buildings £m	Plant and machinery £m	Other tangible assets £m	Capital work in progress £m	Total £m
Cost					
At 1 January 2015	**780**	**3,923**	**149**	**245**	**5,097**
Businesses acquired	**25**	**34**	**3**	**5**	**67**
Additions	**22**	**122**	**5**	**185**	**334**
Disposals	**(16)**	**(65)**	**(8)**	**–**	**(89)**
Businesses sold	**(1)**	**(3)**	**–**	**–**	**(4)**
Transfers	**8**	**143**	**7**	**(158)**	**–**
Currency variations	**2**	**(13)**	**–**	**8**	**(3)**
At 31 December 2015	**820**	**4,141**	**156**	**285**	**5,402**
Accumulated depreciation and impairment					
At 1 January 2015	**251**	**2,670**	**116**	**–**	**3,037**
Charge for the year					
Charged to trading profit					
Depreciation	**21**	**188**	**9**	**–**	**218**
Impairment charges	**22**	**25**	**–**	**–**	**47**
Disposals	**(14)**	**(62)**	**(8)**	**–**	**(84)**
Businesses sold	**(1)**	**(3)**	**–**	**–**	**(4)**
Currency variations	**1**	**(13)**	**–**	**–**	**(12)**
At 31 December 2015	**280**	**2,805**	**117**	**–**	**3,202**
Net book amount at 31 December 2015	**540**	**1,336**	**39**	**285**	**2,200**

	2014				
	Land and buildings £m	Plant and machinery £m	Other tangible assets £m	Capital work in progress £m	Total £m
Cost					
At 1 January 2014	776	3,806	149	168	4,899
Businesses acquired	–	1	–	–	1
Additions	16	85	4	248	353
Disposals	(13)	(96)	(7)	–	(116)
Transfers	6	164	8	(178)	–
Currency variations	(5)	(37)	(5)	7	(40)
At 31 December 2014	780	3,923	149	245	5,097
Accumulated depreciation and impairment					
At 1 January 2014	237	2,600	117	–	2,954
Charge for the year					
Charged to trading profit					
Depreciation	21	185	10	–	216
Impairments	–	4	–	–	4
Impairment charges	–	8	–	–	8
Disposals	(8)	(90)	(7)	–	(105)
Currency variations	1	(37)	(4)	–	(40)
At 31 December 2014	251	2,670	116	–	3,037
Net book amount at 31 December 2014	529	1,253	33	245	2,060

Included within other tangible assets at net book amount are fixtures, fittings and computers £37 million (2014: £32 million) and commercial vehicles and cars £2 million (2014: £1 million). The net book amount of assets under finance leases is £3 million (2014: £1 million) representing land and buildings only.

Impairment charges have been recorded in the Income Statement as an adjusting and non-trading item within the line item 'impairment charges', see note 11c for further details.

13 Equity accounted investments

Group share of results

	2015 £m	2014 £m
Sales	**458**	474
Operating costs	**(388)**	(399)
Trading profit	**70**	75
Net financing costs	**(1)**	(1)
Profit before taxation	**69**	74
Taxation	**(10)**	(12)
Share of post-tax earnings – before adjusting and non-trading items	**59**	62
Adjusting and non-trading items	**–**	(1)
Share of post-tax earnings	**59**	61

Adjusting and non-trading items represent amortisation of non-operating intangible assets arising on business combinations and other net financing charges.

Group share of net book amount

	2015 £m	2014 £m
At 1 January	**174**	179
Share of post-tax earnings	**59**	61
Dividends paid	**(55)**	(44)
Businesses acquired	**16**	–
Disposals	**–**	(14)
Currency variations	**1**	2
	195	184
Financial guarantee contract	**–**	(10)
At 31 December	**195**	174

	2015 £m	2014 £m
Non-current assets	**153**	116
Current assets	**256**	159
Current liabilities	**(202)**	(95)
Non-current liabilities	**(12)**	(6)
	195	174

Equity accounted investments have no significant contingent liabilities to which the Group is exposed and 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 principal addition within businesses acquired relates to Société Anonyme Belge de Constructions Aéronautiques (SABCA). SABCA was acquired with the purchase of Fokker Technologies Group B.V. (see note 30) and its results from the date of acquisition, on 28 October 2015, were not significant to the Group.

The Group has one significant joint venture within Driveline, Shanghai GKN HUAYU Driveline Systems Co Limited (SDS), with sales of £373 million (2014: £351 million), trading profit of £67 million (2014: £66 million) and a tax charge of £10 million (2014: £11 million) leaving retained profit of £57 million (2014: £55 million). Net assets of £143 million (2014: £138 million) comprise non-current assets of £103 million (2014: £91 million), current assets of £145 million (2014: £122 million), current liabilities of £105 million (2014: £75 million) and non-current liabilities of nil (2014: nil). During 2015, SDS paid a dividend to the Group of £52 million (2014: £42 million). Further information about SDS can be found in note 8 to the GKN plc company accounts.

14 Other receivables and investments

	2015 £m	2014 £m
Investments	**2**	–
Indirect taxes and amounts recoverable under employee benefit plans	**17**	20
Other receivables	**23**	24
	42	44

Included in other receivables is a £7 million (2014: £7 million) indemnity asset.

15 Inventories

	2015 £m	2014 £m
Raw materials	**448**	395
Work in progress	**467**	383
Finished goods	**255**	193
	1,170	971

Inventories of £49 million (2014: £36 million) are carried at net realisable value. The amount of any write down of inventory recognised as an expense in the year was nil (2014: nil).

16 Trade and other receivables

	2015 £m	2014 £m
Trade receivables	**1,094**	1,024
Amounts owed by equity accounted investments	**12**	12
Other receivables	**131**	119
Prepayments	**34**	31
Indirect taxes recoverable	**40**	40
	1,311	1,226
Provisions for doubtful debts against trade receivables		
At 1 January	**(10)**	(8)
Charge for the year		
Additions	**(4)**	(5)
Unused amounts reversed	**4**	1
Amounts used	**1**	2
Currency variations	**(2)**	–
At 31 December	**(11)**	(10)
Trade receivables subject to provisions for doubtful debts	**13**	10
Ageing analysis of trade receivables and amounts owed by equity accounted investments past due but not impaired		
Up to 30 days overdue	**64**	46
31 – 60 days overdue	**16**	8
61 – 90 days overdue	**4**	3
More than 90 days overdue	**31**	8

There is no provision against other receivable categories.

17 Trade and other payables

	2015		2014	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Amounts owed to suppliers and customers	**(1,242)**	**(29)**	(1,202)	(26)
Amounts owed to equity accounted investments	**(12)**	**–**	(8)	–
Accrued interest	**(25)**	**–**	(17)	–
Government refundable advances	**(8)**	**(78)**	(3)	(43)
Deferred and contingent consideration	**–**	**(2)**	(6)	(3)
Payroll taxes, indirect taxes and audit fees	**(98)**	**(31)**	(98)	(1)
Amounts due to employees and employee benefit plans	**(216)**	**(36)**	(176)	(38)
Government grants	**(1)**	**(8)**	(1)	(7)
Customer advances and deferred income	**(155)**	**(241)**	(100)	(84)
	(1,757)	**(425)**	(1,611)	(202)

Government refundable advances are forecast to fall due for repayment between 2016 and 2055.

Non-current deferred and contingent consideration falls due as follows: one to two years £2 million (2014: nil), two to five years nil (2014: £1 million) and over five years nil (2014: £2 million). Non-current amounts owed to suppliers and customers fall due within two years.

Contingent consideration of £2 million (2014: £6 million) will be paid based on achievement of specific technology milestones in Sheets Manufacturing Inc. (SMI), see note 30 for further details. During 2015, a further £6 million was paid in cash relating to the Filton acquisition during 2009, in addition to the first milestone payment of £1 million for SMI.

Included within amounts owed to suppliers and customers is £61 million (2014: £33 million) payable to banks in respect of supply chain finance arrangements.

Customer advances and deferred income comprises cash receipts from customers in advance of the Group completing its performance obligations. Non-current amounts in respect of customer advances and deferred income fall due as follows: one to two years £44 million (2014: £17 million), two to five years £108 million (2014: £21 million) and over five years £89 million (2014: £46 million).

The significant increase during the year has principally arisen following a specific aerospace customer advanced payment in respect of development costs.

18 Net borrowings

(a) Analysis of net borrowings

		Current	Non-current				Total
	Notes	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m	£m
2015							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	(i)	**–**	**–**	**–**	**(445)**	**(445)**	**(445)**
£350 million 6¾% 2019 unsecured bond	(i)	**–**	**–**	**(349)**	**–**	**(349)**	**(349)**
Unsecured committed bank borrowings							
European Investment Bank	(i)	**(16)**	**(16)**	**(32)**	**–**	**(48)**	**(64)**
2019 Committed Revolving Credit Facility		**–**	**–**	**–**	**–**	**–**	**–**
Other (net of unamortised issue costs)		**(9)**	**(11)**	**(8)**	**(3)**	**(22)**	**(31)**
Finance lease obligations	(iii)	**–**	**–**	**(1)**	**(2)**	**(3)**	**(3)**
Bank overdrafts		**(8)**	**–**	**–**	**–**	**–**	**(8)**
Other short-term bank borrowings		**(104)**	**–**	**–**	**–**	**–**	**(104)**
Borrowings		**(137)**	**(27)**	**(390)**	**(450)**	**(867)**	**(1,004)**
Bank balances and cash		**227**	**–**	**–**	**–**	**–**	**227**
Short-term bank deposits	(ii)	**72**	**–**	**–**	**–**	**–**	**72**
Cash and cash equivalents	(iv)	**299**	**–**	**–**	**–**	**–**	**299**
Other financial assets – bank deposits		**5**	**–**	**–**	**–**	**–**	**5**
Net borrowings (excluding cross currency interest rate swaps)		**167**	**(27)**	**(390)**	**(450)**	**(867)**	**(700)**
Cross currency interest rate swaps		**–**	**–**	**–**	**(69)**	**(69)**	**(69)**
Net debt		**167**	**(27)**	**(390)**	**(519)**	**(936)**	**(769)**
2014							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	(i)	–	–	–	(445)	(445)	(445)
£350 million 6¾% 2019 unsecured bond	(i)	–	–	(348)	–	(348)	(348)
Unsecured committed bank borrowings							
European Investment Bank	(i)	(16)	(16)	(48)	–	(64)	(80)
2019 Committed Revolving Credit Facility		–	–	–	–	–	–
Other (net of unamortised issue costs)		(4)	(14)	(5)	–	(19)	(23)
Finance lease obligations	(iii)	–	–	(1)	–	(1)	(1)
Bank overdrafts		(2)	–	–	–	–	(2)
Other short-term bank borrowings		(21)	–	–	–	–	(21)
Borrowings		(43)	(30)	(402)	(445)	(877)	(920)
Bank balances and cash		145	–	–	–	–	145
Short-term bank deposits	(ii)	174	–	–	–	–	174
Cash and cash equivalents	(iv)	319	–	–	–	–	319
Other financial assets – bank deposits		3	–	–	–	–	3
Net borrowings (excluding cross currency interest rate swaps)		279	(30)	(402)	(445)	(877)	(598)
Cross currency interest rate swaps		–	–	–	(26)	(26)	(26)
Net debt		279	(30)	(402)	(471)	(903)	(624)

Unsecured capital market borrowings include: an unsecured £350 million (2014: £350 million) 6¾% bond maturing in 2019 less unamortised issue costs of £1 million (2014: £2 million) and an unsecured £450 million (2014: £450 million) 5⅜% bond maturing in 2022 less unamortised issue costs of £5 million (2014: £5 million).

Unsecured committed bank borrowings include £64 million (2014: £80 million) drawn under the Group's European Investment Bank unsecured facility which attracts a fixed interest rate of 4.1% per annum payable annually in arrears and a borrowing of £15 million (2014: nil) drawn against a KfW amortising unsecured facility which attracts a fixed interest rate of 1.65%. On 22 June 2015, the Group repaid the first of five annual instalments of £16 million. There were no drawings (2014: nil) at the year end against the Group's 2019 Committed Revolving Credit Facilities of £800 million (2014: £800 million). Unamortised issue costs on the 2019 Committed Revolving Credit Facilities were £4 million (2014: £5 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 0.4% (2014: 0.4%). Deposits at both 31 December 2015 and 31 December 2014 had a maturity date of less than one month.

(iii) Finance lease obligations gross of finance charges fall due as follows: £1 million within one year (2014: nil), £1 million in one to five years (2014: £1 million) and £5 million in more than five years (2014: nil).

(iv) £9 million (2014: £8 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

	2015		2014	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings, other financial assets and cash and cash equivalents				
Other borrowings	**(889)**	**(971)**	(896)	(1,025)
Finance lease obligations	**(3)**	**(3)**	(1)	(1)
Bank overdrafts and other short-term bank borrowings	**(112)**	**(112)**	(23)	(23)
Bank balances and cash	**227**	**227**	145	145
Short-term bank deposits and other financial assets	**77**	**77**	177	177
	(700)	**(782)**	(598)	(727)
Trade and other payables				
Government refundable advances	**(86)**	**(104)**	(46)	(51)
Deferred and contingent consideration	**(2)**	**(2)**	(9)	(9)
	(88)	**(106)**	(55)	(60)

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 2015. Bonds included within other borrowings have been valued using quoted closing market values.

19 Financial risk management

The Group's activities give rise to a number of financial risks: market risk, credit risk and liquidity risk. Market risk includes foreign currency risk and cash flow and fair value interest rate risk. The Group has in place risk management policies that seek to limit the effects of financial risk on financial performance. Derivative financial instruments include; forward foreign currency contracts, which are used to hedge risk exposures that arise in the ordinary course of business and cross currency interest rate swaps which hedge cash flows on the Group's debt. Further information is provided in the treasury management section of the Strategic Report.

Risk management policies have been set by the Board and are implemented by a central Treasury Department that receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The Treasury Department has a policy and procedures manual that sets out specific guidelines to manage foreign currency risks, interest rate risk, financial credit risk and liquidity risk and the use of financial instruments to manage these.

19 Financial risk management *continued*

(a) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases by operating subsidiaries in currencies other than the subsidiaries' functional currency. These exposures are forecast on a monthly basis by operating companies and are reported to the central Treasury Department. Under the Group's foreign currency policy, such exposures are hedged on a reducing percentage basis over a number of forecast time horizons using forward foreign currency contracts.

During the year the Group designated a US dollar loan, drawn in relation to the purchase of Fokker Technologies (see note 30), as part of a net investment hedge of US dollar net assets. In the prior year the Group entered a series of cross currency interest rate swap instruments with its relationship banks 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 acquired a portfolio of forward foreign currency contracts with the purchase of Fokker valued on acquisition at a liability of £68 million.

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 of 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 joint ventures by £1 million and £5 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	0.2	(6)	0.3
US dollar	(1.0)	27	2.3

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 2015. 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:

	2015			2014		
	Borrowings £m	**Cash and bank deposits £m**	**Total £m**	Borrowings £m	Cash and cash equivalents £m	Total £m
Sterling	**(856)**	**74**	**(782)**	(869)	188	(681)
US dollar	**(30)**	**61**	**31**	(1)	31	30
Euro	**(81)**	**70**	**(11)**	–	24	24
Others	**(37)**	**99**	**62**	(50)	79	29
	(1,004)	**304**	**(700)**	(920)	322	(598)

(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 2015, 93% (2014: 96%) of the Group's gross borrowings were subject to fixed interest rates.

As at 31 December 2015, £72 million (2014: £174 million) was in bank deposits and £5 million was on deposit with banks on the Isle of Man (2014: £3 million).

(c) Credit risk
The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. In terms of substance, and consistent with the related balance sheet presentation, the Group considers it has two types of credit risk; operational and financial. Operational credit risk relates to non-performance by customers in respect of trade receivables and by suppliers in respect of other receivables. Financial credit risk relates to non-performance by banks and similar institutions in respect of cash and deposits, facilities and financial contracts, including forward foreign currency contracts and cross currency interest rate swaps.

Operational
As tier-one suppliers to aerospace, automotive and land systems original equipment manufacturers the Group may have substantial amounts outstanding with a single customer at any one time. The credit profiles of such original equipment manufacturers are available from credit rating agencies. The failure of any such customer to honour its debts could materially impact the Group's results. However, there are many advantages in these relationships. In Land Systems there are a greater proportion of amounts receivable from small and medium sized customers.

Credit risk and customer relationships are managed at a number of levels within the Group. At a subsidiary level documented credit control reviews are required to be held at least every month. The scope of these reviews includes amounts overdue and credit limits. At a divisional level debtor ratios, overdue accounts and overall performance are reviewed regularly. Provisions for doubtful debts are determined at these levels based upon the customer's ability to pay and other factors in the Group's relationship with the customer.

At 31 December the largest five trade receivables as a proportion of total trade receivables analysed by major segment is as follows:

	2015 %	2014 %
GKN Aerospace	**58**	74
GKN Driveline	**58**	57
GKN Powder Metallurgy	**24**	24
GKN Land Systems	**24**	24

The amount of trade receivables outstanding at the year end does not represent the maximum exposure to operational credit risk due to the normal patterns of supply and payment over the course of a year. Based on management information collected as at month ends the maximum level of trade receivables at any one point during the year was £1,240 million (2014: £1,199 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 (2014: £35 million), however, the Group is not exposed to mark to market risk for forward foreign currency contracts at 31 December 2015 as all counterparties were in a liability position (2014: nil).

(d) Capital risk management
The Group defines capital as total equity. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure which optimises the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

19 Financial risk management *continued*

(d) Capital risk management continued

The Group's two external banking covenants require an EBITDA of subsidiaries to net interest payable and receivable ratio of 3.5 times or more and net debt to EBITDA of subsidiaries ratio of 3 times or less measured at 30 June and 31 December. For the purpose of testing net debt to EBITDA, there is also a requirement to recalculate reported net debt using the Group's average exchange rates, as quoted in the Business Review, over the relevant financial year. The ratios at 31 December 2015 and 2014 were as follows:

	2015 £m	2014 £m
EBITDA	**870**	864
Net interest payable and receivable	**(65)**	(73)
EBITDA to net interest payable and receivable ratio	**13.4 times**	11.8 times

	2015 £m	2014 £m
Net debt	**769**	624
EBITDA	**870**	864
Net debt to EBITDA ratio	**0.9 times**	0.7 times

Net debt for the year ended 31 December 2015 using average exchange rates was £732 million (2014: £593 million) which results in a net debt to EBITDA ratio of 0.8 times (2014: 0.7 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. 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 2015. In addition the Group's European Investment Bank unsecured facility (£64 million) is repayable in four remaining equal annual instalments of £16 million in June 2016-2019. Committed facilities are provided through 14 banks.

The Group also maintains £127 million of uncommitted facilities, provided by 5 banks. There were no drawings against these facilities at 31 December 2015.

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
2015					
Borrowings (note 18)	**(137)**	**(27)**	**(390)**	**(450)**	**(1,004)**
Contractual interest payments and finance lease charges	**(63)**	**(51)**	**(123)**	**(51)**	**(288)**
Government refundable advances	**(8)**	**(13)**	**(21)**	**(122)**	**(164)**
Deferred and contingent consideration	**–**	**(2)**	**–**	**–**	**(2)**
Derivative financial instruments liabilities – receipts	**1,266**	**730**	**1,411**	**657**	**4,064**
Derivative financial instruments liabilities – payments	**(1,410)**	**(829)**	**(1,595)**	**(685)**	**(4,519)**
2014					
Borrowings (note 18)	(43)	(30)	(402)	(445)	(920)
Contractual interest payments and finance lease charges	(53)	(51)	(151)	(74)	(329)
Government refundable advances	(3)	(3)	(12)	(56)	(74)
Deferred and contingent consideration	(6)	–	(2)	(7)	(15)
Derivative financial instruments liabilities – receipts	819	606	1,214	643	3,282
Derivative financial instruments liabilities – payments	(894)	(653)	(1,310)	(662)	(3,519)

There is no significant difference in the contractual undiscounted value of other financial assets and liabilities from the amounts stated in the balance sheet and balance sheet notes.

(f) Categories of financial assets and financial liabilities

	Loans and receivables £m	Amortised cost £m	Held for trading Financial assets £m	Held for trading Financial liabilities £m	Total £m
2015					
Other receivables	**23**	**–**	**–**	**–**	**23**
Trade and other receivables	**1,237**	**–**	**–**	**–**	**1,237**
Derivative financial instruments	**–**	**–**	**34**	**(445)**	**(411)**
Cash and cash equivalents	**299**	**–**	**–**	**–**	**299**
Other financial assets – bank deposits	**5**	**–**	**–**	**–**	**5**
Borrowings	**–**	**(1,004)**	**–**	**–**	**(1,004)**
Trade and other payables	**–**	**(1,396)**	**–**	**–**	**(1,396)**
Provisions	**–**	**(33)**	**–**	**–**	**(33)**
	1,564	**(2,433)**	**34**	**(445)**	**(1,280)**
2014					
Other receivables	24	–	–	–	24
Trade and other receivables	1,155	–	–	–	1,155
Derivative financial instruments	–	–	26	(224)	(198)
Cash and cash equivalents	319	–	–	–	319
Other financial assets – bank deposits	3	–	–	–	3
Borrowings	–	(920)	–	–	(920)
Trade and other payables	–	(1,308)	–	–	(1,308)
Provisions	–	(66)	–	–	(66)
	1,501	(2,294)	26	(224)	(991)

IFRS 13

The financial instruments that are measured subsequent to initial recognition at fair value are forward currency contracts, cross currency interest rate swaps and embedded derivatives. All of these financial instruments are classified as Level 2 fair value measurements, as defined by IFRS 7, being those derived from inputs other than quoted prices that are observable.

The fair values of financial assets and financial liabilities have been determined with reference to available market information at the balance sheet date, using the methodologies described in their relevant notes:

- forward foreign currency contracts, cross currency interest rate swaps and embedded derivatives, see note 20
- unsecured bank overdrafts, other short-term bank borrowings, bank balances and cash, short-term bank deposits and other financial assets, see note 18
- fair value less costs of disposal for impairment testing of one CGU, see note 11
- bonds included within other borrowings, see note 18
- fair values of trade receivables and payables, short-term investments and cash and cash equivalents are assumed to approximate to cost due to the short-term maturity of the instruments and as the impact of discounting is not significant.

The discounted contingent element of deferred and contingent consideration of £2 million (2014: £6 million) is categorised as a Level 3 fair value measurement, see note 17. All other financial assets and liabilities together with calculations for fair value less costs of disposal were categorised as Level 2.

20 Derivative financial instruments

The balances at 31 December 2015 comprise:

	2015					2014				
	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	3	10	(214)	(150)	(351)	4	7	(116)	(75)	(180)
Embedded derivatives	18	3	(11)	(1)	9	12	3	(6)	(1)	8
Cross currency interest rate swaps	–	–	(69)	–	(69)	–	–	(26)	–	(26)
	21	13	(294)	(151)	(411)	16	10	(148)	(76)	(198)

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 2015	(180)	8	(26)	(198)
Charge to 'change in value of derivative and other financial instruments' or 'other net financing charges'	(103)	1	(17)	(119)
Businesses acquired	(68)	–	–	(68)
Charge to equity	–	–	(26)	(26)
At 31 December 2015	(351)	9	(69)	(411)

Net investment hedging

In addition to the £26 million charge (2014: £30 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 £11 million charge (2014: nil) from foreign exchange movements on loans designated as net investment hedges. This £37 million charge (2014: £30 million charge) is recorded in other comprehensive income.

Cash flow hedging

In order to mitigate exposure to foreign currency risk on the consideration paid to acquire Fokker (see note 30), the Group entered into a number of forward currency contracts to fix the sterling value of the euro denominated consideration. Cash flow hedge accounting was applied as the purchase was deemed a highly probable transaction, which resulted in a 'gain' of £5 million being taken to the hedging reserve. On settlement of the consideration on 28 October 2015, the £5 million gain was recycled into the purchase price used for calculating goodwill.

Significant judgement and estimates

Forward foreign currency contracts, cross currency interest rate swaps and embedded derivatives are marked to market using market observable rates and published prices together with forecast cash flow information where applicable. The amounts in respect of embedded derivatives represent commercial contracts denominated in US dollars between European aerospace subsidiaries and customers outside the US.

21 Provisions

	Contract provisions £m	Warranty £m	Claims and litigation £m	Employee obligations £m	Other £m	Total £m
At 1 January 2015	**(66)**	**(44)**	**(17)**	**(23)**	**(13)**	**(163)**
Businesses acquired	**(1)**	**(5)**	**(27)**	**–**	**–**	**(33)**
Net (charge)/credit for the year:						
Additions	**(1)**	**(20)**	**(12)**	**(3)**	**(3)**	**(39)**
Unused amounts reversed	**32**	**16**	**3**	**1**	**2**	**54**
Unwind of discounts	**(5)**	**(1)**	**–**	**–**	**–**	**(6)**
Amounts used	**8**	**13**	**4**	**3**	**5**	**33**
Currency variations	**–**	**(2)**	**(1)**	**1**	**–**	**(2)**
At 31 December 2015	**(33)**	**(43)**	**(50)**	**(21)**	**(9)**	**(156)**
Due within one year	(6)	(22)	(40)	(3)	(7)	(78)
Due in more than one year	(27)	(21)	(10)	(18)	(2)	(78)
	(33)	**(43)**	**(50)**	**(21)**	**(9)**	**(156)**

Significant judgements and estimates
Whilst estimating provisions requires judgement, the range of reasonably possible outcomes is narrow. After consideration of sensitivity analysis, amounts stated represent management's best estimate of the likely outcome. Further detail of movements in the year are disclosed in note 2b.

Contract provisions
The Group has a small number of onerous contracts and a non-beneficial lease arrangement, primarily arising on business combinations and contractual dispute matters. Onerous contracts relate to customer programmes where the unavoidable costs of delivering product are in excess of contracted sales prices. Utilisation of the provision due in more than one year is estimated as £5 million in 2017 and £22 million from 2018.

Warranty
Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations attaching to the supply of goods or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. In the event of a claim, settlement will be negotiated with the customer based on supply of replacement products and compensation for the customer's associated costs. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer. Utilisation of the provision due in more than one year is estimated as £14 million in 2017 and £7 million from 2018.

Claims and litigation
Claims provisions are held in the Group's captive insurance company and amount to £9 million (2014: £9 million). Claims provisions and charges are established in accordance with external insurance and actuarial advice.

Legal provisions amounting to £36 million (2014: £5 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. Included in businesses acquired is an amount in relation to Fokker's services division who voluntarily disclosed violations to US regulators before the Group's acquisition relating to historical conduct involving transactions and customers in US sanctioned countries. 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 (2014: £3 million) are provided.

Utilisation of the claims and litigation provision due in more than one year is estimated as £5 million in 2017 and £5 million from 2018.

21 Provisions *continued*

Employee obligations

Long service non-pension and other employee related obligations arising primarily in the Group's continental European subsidiaries amount to £21 million (2014: £23 million). Utilisation of the provision due in more than one year is estimated as £6 million in 2017 and £12 million from 2018.

Other

Other provisions include £1 million (2014: £2 million) in relation to previous reorganisation arising from the Group's strategic restructuring programmes and £8 million (2014: £11 million) relating to other customer and supplier exposures. Utilisation of the provision due in more than one year is estimated as nil in 2017 and £2 million from 2018.

22 Share capital

	Issued and fully paid	
	2015 £m	2014 £m
Ordinary shares of 10p each	**173**	166

	2015 Number 000s	2014 Number 000s
Ordinary shares of 10p each		
At 1 January	**1,660,530**	1,660,530
Shares issued	**65,574**	–
At 31 December	**1,726,104**	1,660,530

At 31 December 2015, there were 12,168,928 ordinary shares of 10p each, with a total nominal value of £1 million, held as treasury shares (2014: 17,797,916 ordinary shares of 10p each, with a total nominal value of £2 million). A total of 5,628,988 (2014: 2,760,865) shares were transferred out of treasury during 2015 to satisfy the exercise of options by participants under share option schemes. The remaining treasury shares, which represented 0.7% (2014: 1.1%) 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 2015, the GKN Employee Share Ownership Plan Trust ('the Trust') held 2,518,624 ordinary shares (2014: 186,652). A total of 2,476,894 shares were purchased by the Trust in the open market during 2015 for cash consideration of £7 million (2014: 130,000 shares were purchased for cash consideration of less than £1 million). During the year a total of 144,922 (2014: 1,831,013) shares were transferred out of the Trust to satisfy the vesting and exercise of awards of ordinary shares made under the Group's share-based incentive arrangements. The remaining Trust shares will be used to satisfy future exercises. 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 £2 million (2014: £1 million).

On 30 July 2015 the Company conducted an equity placing of 65,573,771 ordinary shares of 10p each with a total nominal value of £7 million, at a price of £3.05 per share, to raise a total of £200 million before transaction costs of £2 million, which have been taken to the Share Premium Account, as a deduction from equity.

23 Cash flow reconciliations

Cash generated from operations	2015 £m	2014 £m
Operating profit	**323**	289
Adjustments for:		
Depreciation, impairment and amortisation of fixed assets		
Charged to trading profit		
Depreciation	**218**	216
Impairment	**–**	4
Amortisation	**43**	32
Amortisation of non-operating intangible assets arising on business combinations	**80**	69
Impairment charges	**71**	69
Change in value of derivative and other financial instruments	**122**	209
Gains and losses on changes in Group structure	**1**	(24)
Amortisation of government capital grants	**(2)**	(2)
Net profits on sale and realisation of fixed assets	**(3)**	(2)
Charge for share-based payments	**1**	3
Movement in post-employment obligations	**(51)**	(65)
Change in inventories	**(33)**	(31)
Change in receivables	**110**	(76)
Change in payables and provisions	**5**	74
	885	765

Movement in net debt		
Movement in cash and cash equivalents	**(11)**	132
Net movement in other borrowings and deposits	**(60)**	–
Costs associated with refinancing	**–**	3
Movement on finance leases	**(2)**	–
Movement on cross currency interest rate swaps	**(43)**	(26)
Movement on other net investment hedges	**(11)**	–
Amortisation of debt issue costs	**(2)**	(3)
Currency variations	**(16)**	2
Movement in year	**(145)**	108
Net debt at beginning of year	**(624)**	(732)
Net debt at end of year	**(769)**	(624)

Reconciliation of cash and cash equivalents		
Cash and cash equivalents per balance sheet	**299**	319
Bank overdrafts included within 'current liabilities – borrowings'	**(8)**	(2)
Cash and cash equivalents per cash flow	**291**	317

Cash outflow in respect of previous restructuring plans was £1 million (2014: £2 million).

24 Post-employment obligations

Post-employment obligations as at the year end comprise:		2015 £m	2014 £m
Pensions	– funded	**(977)**	(1,067)
	– unfunded	**(505)**	(564)
Medical	– funded	**(30)**	(28)
	– unfunded	**(46)**	(52)
		(1,558)	(1,711)

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 includes 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 2015. 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 – significant judgements, assumptions and estimates

Key assumptions:

	UK		Americas	Europe	ROW
	GKN1 %	GKN2 %	%	%	%
2015					
Rate of increase in pensionable salaries (past/future service)	**n/a**	**4.10/4.15**	**n/a**	**2.50**	**–**
Rate of increase in payment and deferred pensions	**3.05**	**3.10**	**n/a**	**1.75**	**n/a**
Discount rate (past/future service)	**3.55**	**3.85/4.05**	**4.30**	**2.40**	**0.80**
Inflation assumption (past/future service)	**3.05**	**3.10/3.15**	**n/a**	**1.75**	**n/a**
Rate of increase in medical costs:					
Initial/long term	**5.4/5.4**		**7.0/5.0**	**n/a**	**n/a**
2014					
Rate of increase in pensionable salaries (past/future service)	n/a	4.05/4.10	n/a	2.50	–
Rate of increase in payment and deferred pensions	3.05	3.05	n/a	1.75	n/a
Discount rate (past/future service)	3.25	3.55/3.80	3.90	1.90	0.80
Inflation assumption (past/future service)	3.05	3.05/3.10	n/a	1.75	n/a
Rate of increase in medical costs:					
Initial/long term	5.5/5.5		7.0/5.0	n/a	n/a

The assumptions table above specifies separate assumptions for past and future service in relation to the UK pension scheme. This approach is consistent with that taken in 2014, whereby a different, 'future service' set of assumptions will be used to determine the service cost for the following year. This reflects evolving market practice and is based on the premise that active members of the scheme are younger and have, on average, longer remaining life expectancy than an average scheme member. Given that yield curves typically rise over time, this longer duration implies a higher discount rate for the 'active' sub-set of members which has been set at 4.05%, as at 31 December 2015.

The UK schemes each use a duration specific discount rate derived from the Mercer pension discount yield curve, which is based on corporate bonds with two or more AA-ratings. The European discount rate was calculated with reference to Aon Hewitt's German discount rate yield curve. For the USA, the discount rate referenced the Citigroup intermediate pension liability index, the Merrill Lynch US corporate AA 10+ years index and the Towers Watson Rate:LINK benchmark. The approach taken in each territory is consistent with prior year.

The underlying mortality assumptions for the major schemes, are as follows:

United Kingdom

The key current year mortality assumptions for both GKN1 and GKN2 use S1NA year of birth mortality tables (adjusted for GKN experience) with CMI 2013 improvements and a 1.25% p.a. long term improvement trend. These assumptions give the following expectations for each scheme: for GKN1 a male aged 65 lives for a further 21.8 years and a female aged 65 lives for a further 23.9 years while a male aged 45 is expected to live a further 23.6 years from age 65 and a female aged 45 is expected to live a further 25.8 years from age 65. For GKN2 a male aged 65 lives for a further 22.8 years and a female aged 65 lives for a further 25.2 years while a male aged 45 is expected to live a further 24.7 years from age 65 and a female aged 45 is expected to live a further 27.1 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 21.2 years (female 23.2 years) while in Germany a male aged 65 lives for a further 18.6 years (female 22.8 years). The longevity assumption for a US male currently aged 45 is that he also lives for a further 22.9 years once attaining 65 years (female 24.9 years), with the German equivalent assumption for a male being 21.5 years (female 25.5 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 2015 is set out below:

	UK	Americas	Europe	ROW
	Liabilities £m	Liabilities £m	Liabilities £m	Liabilities £m
Discount rate +1%	468	35	75	3
Discount rate -1%	(603)	(43)	(96)	(2)
Rate of inflation +1%	(532)	(1)	(62)	–
Rate of inflation -1%	408	–	52	–
Life expectancy +1 year	(102)	(8)	(18)	–
Life expectancy -1 year	102	8	16	–
Health cost trend +1%	(2)	(2)	–	–
Health cost trend -1%	1	1	–	–

The above sensitivity analyses are based on isolated changes in each assumption, whilst 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.

Judgements and estimates

Buy-in

During the year, a second bulk annuity pensioner 'buy-in' was transacted in relation to the UK pension scheme, GKN 1, as a result of which an increased proportion of GKN 1 liabilities are now fully insured. The transaction involved a payment to Rothesay Life of £53 million, made from GKN 1's assets in addition to a refund due from the previous policy following the pension increase exchange exercise (see below). The additional bulk annuity covers £47 million of pensioner liabilities valued on an IAS 19 accounting basis, as at 31 December 2015.

24 Post-employment obligations *continued*

(a) Defined benefit schemes – significant judgements, assumptions and estimates continued

Judgements and estimates *continued*

Pension partnership interest

During the year the Group has paid £30 million (2014: £30 million) to the two UK pension schemes through its pension partnership arrangement and this is included within the amount of contributions/benefits paid.

Pension increase exchange

A pension increase exchange was completed in the UK scheme, GKN 1, during 2015. This involved pensioners being offered a no obligation opportunity to exchange future inflationary increases to their pensions in return for a one-off rise with no future increases. Due to differences in the inflation assumptions between those used to determine the offer and those used for accounting purposes, the increase has led to a past service credit in the income statement of £7 million. This was partially offset by a past service cost of £1 million in the GKN 2 scheme in respect of early retirement funding for a small number of members.

(b) Defined benefit schemes – reporting

The amounts included in operating profit are:

	Total £m
2015	
Current service cost and administrative expenses	**(53)**
Past service credit – net	**4**
	(49)
2014	
Current service cost and administrative expenses	(52)
Settlements/curtailment	9
	(43)

The amounts recognised in the balance sheet are:

	2015					
	UK £m	**Americas £m**	**Europe £m**	**ROW £m**	**Total £m**	2014 £m
Present value of unfunded obligations	**(15)**	**(39)**	**(495)**	**(2)**	**(551)**	(616)
Present value of funded obligations	**(3,219)**	**(280)**	**(36)**	**(32)**	**(3,567)**	(3,722)
Fair value of plan assets	**2,322**	**186**	**33**	**19**	**2,560**	2,627
Net obligations recognised in the balance sheet	**(912)**	**(133)**	**(498)**	**(15)**	**(1,558)**	(1,711)

In the UK, the Group is required to complete a statutory valuation of its pension schemes at least every three years and to agree a recovery plan to eliminate any resulting deficit. At the date of the last valuation on 5 April 2013 the Group's UK pension funding deficit was lower than the equivalent UK accounting deficit.

Additional UK deficit recovery payments of £10 million per year commenced in 2014 and the potential for further additional payments commences in 2016, contingent upon asset performance. In addition the Group has an obligation to pay £2 million per year until 2017 to UK scheme, GKN1, to cover a funding requirement arising from the £123 million bulk annuity purchase transacted in 2014.

The combined contribution for deficit funding and future accrual expected to be paid by the Group during 2016 to the UK schemes is £44 million. In addition, a distribution of £30 million is expected to be made from the UK pension partnership to the UK schemes in the first half of 2016, which brings the total expected UK cash requirement for 2016 to £74 million. The expected 2016 contribution to overseas schemes is £26 million.

Cumulative remeasurement of defined benefit plan differences recognised in equity are as follows:

	2015 £m	2014 £m
At 1 January	**(1,212)**	(727)
Remeasurement of defined benefit plans	**139**	(485)
At 31 December	**(1,073)**	(1,212)

Movement in schemes' obligations (funded and unfunded) during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2015	**(3,382)**	**(331)**	**(593)**	**(32)**	**(4,338)**
Current service cost	**(40)**	**–**	**(8)**	**(2)**	**(50)**
Past service credit/(cost)	**6**	**–**	**(2)**	**–**	**4**
Businesses acquired	**–**	**–**	**(7)**	**–**	**(7)**
Settlements and curtailments	**–**	**–**	**1**	**–**	**1**
Administrative expenses	**(2)**	**(1)**	**–**	**–**	**(3)**
Interest	**(115)**	**(13)**	**(11)**	**–**	**(139)**
Remeasurement of defined benefit plans	**150**	**27**	**39**	**–**	**216**
Benefits and administrative expenses paid	**149**	**16**	**20**	**2**	**187**
Currency variations	**–**	**(17)**	**30**	**(2)**	**11**
At 31 December 2015	**(3,234)**	**(319)**	**(531)**	**(34)**	**(4,118)**
At 1 January 2014	(2,989)	(290)	(491)	(33)	(3,803)
Current service cost	(37)	(1)	(9)	(2)	(49)
Settlements and curtailments	–	9	–	–	9
Administrative expenses	(2)	(1)	–	–	(3)
Interest	(130)	(14)	(16)	–	(160)
Remeasurement of defined benefit plans	(367)	(54)	(139)	(1)	(561)
Benefits and administrative expenses paid	143	39	22	2	206
Currency variations	–	(19)	40	2	23
At 31 December 2014	(3,382)	(331)	(593)	(32)	(4,338)

Movement in schemes' assets during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2015	**2,377**	**195**	**37**	**18**	**2,627**
Interest	**81**	**8**	**1**	**–**	**90**
Settlements and curtailments	**–**	**–**	**(1)**	**–**	**(1)**
Remeasurement of defined benefit plans	**(64)**	**(14)**	**1**	**–**	**(77)**
Contributions by Group	**75**	**4**	**–**	**2**	**81**
Benefits paid	**(147)**	**(16)**	**(3)**	**(2)**	**(168)**
Currency variations	**–**	**9**	**(2)**	**1**	**8**
At 31 December 2015	**2,322**	**186**	**33**	**19**	**2,560**
At 1 January 2014	2,275	203	36	18	2,532
Interest	99	10	1	–	110
Remeasurement of defined benefit plans	70	1	4	1	76
Contributions by Group	75	7	1	2	85
Benefits paid	(142)	(37)	(2)	(2)	(183)
Currency variations	–	11	(3)	(1)	7
At 31 December 2014	2,377	195	37	18	2,627

24 Post-employment obligations *continued*

(b) Defined benefit schemes – reporting continued

Remeasurement gains and losses in relation to schemes' obligations are as follows:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
2015					
Experience gains and losses	**2**	**5**	**(3)**	**–**	**4**
Changes in financial assumptions	**148**	**15**	**42**	**–**	**205**
Change in demographic assumptions	**–**	**7**	**–**	**–**	**7**
	150	**27**	**39**	**–**	**216**
2014					
Experience gains and losses	–	(5)	–	–	(5)
Changes in financial assumptions	(367)	(31)	(139)	(1)	(538)
Change in demographic assumptions	–	(18)	–	–	(18)
	(367)	(54)	(139)	(1)	(561)

The fair values of the assets in the schemes were:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 31 December 2015					
Equities (inc. hedge funds)	**855**	**82**	**–**	**10**	**947**
Diversified growth funds	**257**	**–**	**–**	**–**	**257**
Bonds – government	**361**	**41**	**–**	**6**	**408**
Bonds – corporate	**537**	**57**	**–**	**–**	**594**
Property	**135**	**–**	**–**	**–**	**135**
Cash, derivatives and net current assets	**1**	**6**	**–**	**1**	**8**
Other assets	**176**	**–**	**33**	**2**	**211**
	2,322	**186**	**33**	**19**	**2,560**
At 31 December 2014					
Equities (inc. hedge funds)	936	93	–	8	1,037
Diversified growth funds	250	–	–	–	250
Bonds – government	349	27	–	6	382
Bonds – corporate	567	70	–	1	638
Property	121	–	–	–	121
Cash, derivatives and net current assets	9	5	–	–	14
Other assets	145	–	37	3	185
	2,377	195	37	18	2,627

As at 31 December 2015, the equities in the UK asset portfolio were split 26% domestic (2014: 26%); 74% foreign (2014: 74%), while bond holdings were 88% domestic (2014: 91%) and 12% foreign (2014: 9%). The equivalent proportions for the USA plans were: equities 42%/58% (2014: 41%/59%); bonds 88%/12% (2014: 91%/9%).

(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 outperform 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, whilst 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:

		2015	2014
UK	GKN 1	**11**	11
	GKN 2	**17**	17
US		**13**	13
Germany		**14**	16

Defined benefit obligations are classified into those representing 'active' members of a scheme or plan (i.e. those who are currently employed by the Group), 'deferred' members (i.e. those who have accrued benefit entitlements, but who are no longer employed by the Group and are not yet drawing a pension) and 'pensioner' members (ie. those who are currently in receipt of a pension). Additional information regarding the average age, number of members and value of the defined benefit obligation in each of these categories for the UK, US and Germany are given below:

		Active			Deferred			Pensioner		
		Age	Number	Value (£m)	Age	Number	Value (£m)	Age	Number	Value (£m)
UK	GKN 1	–	–	–	53	6,839	102	78	18,712	746
	GKN 2	46	5,743	738	52	6,743	718	72	7,231	915
US		54	2,564	101	56	1,221	35	75	4,483	171
Germany		54	2,473	213	58	852	36	72	3,035	229

Within the UK, there are two pension schemes referred to as GKN1 and GKN2. GKN1 is a mature scheme, comprised primarily of pensioner members, which is already at peak annual cash outflow (benefit payments); while GKN2 is less mature, with a larger active and deferred population. Benefit payments from GKN2 are forecast to continue to rise until the mid 2030s, when they will peak, before beginning to decline.

(e) Defined contribution schemes

The Group operates a number of defined contribution schemes. The charge to the income statement in the year was £42 million (2014: £35 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 2015 or 31 December 2014.

In the case of certain businesses, performance bonds and customer finance obligations have been entered into in the normal course of business.

26 Operating lease commitments – minimum lease payments

The minimum lease payments which the Group is committed to make at 31 December are:

	2015		2014	
	Property £m	**Vehicles, plant and equipment £m**	Property £m	Vehicles, plant and equipment £m
Payments under non-cancellable operating leases:				
Within one year	**39**	**16**	30	13
Later than one year and less than five years	**132**	**27**	106	22
After five years	**200**	**2**	158	2
	371	**45**	294	37

27 Capital expenditure

Contracts placed against capital expenditure sanctioned at 31 December 2015 which are not provided by subsidiaries amounted to £148 million property, plant and equipment, £20 million intangible assets (2014: £126 million property, plant and equipment, £19 million intangible assets) and the Group's share not provided by equity accounted investments amounted to £9 million property, plant and equipment, nil intangible assets (2014: £9 million property, plant and equipment, nil intangible assets).

28 Related party transactions

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and equity accounted investment companies priced on an arm's length basis. Sales by subsidiaries to equity accounted investments in 2015 totalled £35 million (2014: £45 million). The amount due at the year end in respect of such sales was £12 million (2014: £12 million). Purchases by subsidiaries from equity accounted investments in 2015 totalled £7 million (2014: £5 million). The amount due at the year end in respect of such purchases was £2 million (2014: £1 million).

At 31 December 2015, a Group subsidiary had £10 million payable to equity accounted investments companies in respect of unsecured financing facilities bearing interest at 1 month LIBOR plus 1/8% (2014: £7 million).

During the year, a child of a member of key management was employed by a subsidiary company. The remuneration expense during the period of employment on an arm's length basis amounted to £2,336 (2014: £6,815).

29 Subsidiaries and other undertakings

The subsidiary and other undertakings of the GKN Group at 31 December 2015 are shown in note 8 of the GKN plc company accounts. Subsidiaries were included in the consolidation and are held indirectly by GKN plc through intermediate holding companies. The undertakings located overseas operate principally in the country of incorporation. The equity share capital of these undertakings is wholly owned by the GKN Group.

30 Business combinations

Acquisition of Fokker Technologies Group B.V.

GKN Aerospace acquired Stork Topco B.V. which owns Fokker Technologies Group B.V., a specialist global tier one aerospace supplier from Arle Capital on 28 October 2015. The Group acquired 100% of the equity. The entities acquired are together referred to as 'Fokker'.

Fokker is a leading global aerospace specialist that develops and manufactures highly engineered advanced aircraft systems and components for aircraft manufacturers and provides integrated maintenance services and products for aircraft owners and operators. Fokker is headquartered in the Netherlands and also operates facilities in Romania, Turkey, Canada, Mexico, USA, China, India and Singapore, employing approximately 4,900 people.

Fokker has four divisions: aerostructures, electrical wiring systems, landing gear and services serving customers across commercial, military and business jet end markets and is a leader in advanced composites including thermoplastics and GLARE (glass-reinforced aluminium laminates). Fokker also has strong electrical wiring technology.

The following amounts represent a provisional determination of the fair value of identifiable assets acquired and liabilities assumed. Final determination of the fair value of certain assets and liabilities will be completed within the one year measurement period as required by IFRS 3 'Business Combinations'. The size and complexity of the Fokker acquisition along with proximity to the reporting date will necessitate the use of this measurement period to further analyse and assess a number of factors used in establishing the asset and liability fair values as of the acquisition date including contractual and operational factors underlying the customer related intangible assets, the assumptions underpinning certain provisions such as those for legal claims and the related tax impacts of any changes made. Any potential adjustments could be material in relation to the preliminary values presented on page 157.

	£m
Intangible assets arising on business combinations	
– marketing related	51
– customer related	177
– technology based	37
Operating intangible assets	
– development costs	52
Property, plant and equipment	66
Investments	
– equity accounted investments	16
– other investments	2
Loans	(371)
Inventories	149
Trade and other receivables	186
Trade and other payables	(249)
Government refundable advances	(38)
Post-employment obligations	(7)
Derivative financial instruments	(68)
Provisions	(33)
Deferred tax	38
Provisional goodwill	101
	109
Satisfied by:	
Fair value of consideration – cash and cash equivalents	109

From the date of the acquisition to the balance sheet date, Fokker contributed £102 million to statutory sales and a £5 million loss within trading profit excluding acquisition related charges of £13 million. If the acquisition had been completed on 1 January 2015 the Group's statutory sales and trading profit for the year ended 31 December 2015 are estimated at £7,704 million and £650 million respectively.

Acquisition related charges of £13 million have been recorded in the income statement within trading profit (see note 2 for details).

Goodwill (which is not tax deductible) is attributable to the value of the assembled workforce, expected future synergies from combination with the Group's existing Aerospace business and likelihood of future business awards.

Significant judgements, assumptions and estimates in the acquisition accounting for Fokker

Valuation of intangible assets — methodology

A fair value exercise was carried out in conjunction with third party experts and considered the existence of the intangible assets relevant and attributable to the business.

The intangible assets inherent in Fokker's customer relationships/contracts were valued using an excess earnings method. This methodology places a value on the asset as a function of (a) management's estimate of the expected cash flows arising from the customer contracts; (b) discount rates reflective of the risks inherent in the cash flows; and (c) a contributory charge attributable to assets needed to generate the operating cash flows. An after tax discount rate of 10% to 12% was applied to the forecast cash flows.

The tradename of Fokker was deemed to have measurable value as it is well recognised in its industry. It has been valued using a relief from royalty methodology based on projected cash flows attributable to the tradename and an assumed royalty rate of 1% that would be charged if the name were subject to licence within a comparable trade situation and an appropriate discount rate (12%) reflecting inherent risk in the projected cash flows. A total fair value of £51 million has been recognised for tradenames.

30 Business combinations *continued*

Significant judgements, assumptions and estimates in the acquisition accounting for Fokker continued

Valuation of intangible assets — methodology *continued*

The proprietary technology and know-how has been valued using a relief from royalty methodology. The cash flow forecasts supporting this valuation reflect the future sales to be generated in conjunction with the technology. The fair value attributed to proprietary technology represents the theoretical costs avoided by Fokker from not having to pay a licence fee for the technology. The royalty rates used in the valuation were 2% to 4%, based on a review of licence agreements for comparable technologies in a similar segment. An after tax discount rate of 11% was applied to the forecast cash flows, a rate that reflects the inherent risk within cash flows and is comparable with the weighted average cost of capital for the acquisition.

The valuation of all intangible assets reflects the tax benefit of amortisation, which has meant a benefit assessed primarily with reference to the Netherland tax laws.

In order to attribute value to pre-existing development costs a review of capitalised costs as compared with Group policy and an impairment exercise under IAS 36 was performed based on acquisition date information. The value recognised for 'operating intangible assets' together with the value recognised for customer related 'intangible assets arising on business combinations' is supported by underlying contract valuations prepared under IFRS 3.

Valuation of other assets and liabilities — methodology

Adjustments were made to property, plant and equipment and investment balances to reflect fair values following external third party appraisal.

Inventories acquired were assessed for scrap and obsolete items before being fair valued. Inventories acquired have been valued at current replacement cost for raw materials and selling price, adjusted for costs of completion and disposal and associated margin, for finished goods and work-in-progress. The fair value of the inventory uplift was £12 million.

Provisions and liabilities include an amount in respect of a legal matter with the Department of Justice and other US regulators (see note 21), government refundable advances and other contractual obligations.

A liability of £38 million is included in the acquisition balance sheet for a contractual requirement to repay refundable advances provided by the Netherlands Government under a risk sharing arrangement. The liability has been valued based on forecast cash flows and effective interest rates.

In addition a deferred tax asset of £92 million has been recognised in respect of previous taxable losses. This has been valued by reference to the expected future profitability of entities, together with an assessment of timing compared to restrictions under relevant jurisdictions.

Other acquisition

On 8 June 2015 the Group acquired 100% of the equity share capital of Sheets Manufacturing Inc (SMI). SMI specialises in metallic spin forming and is a technology leader in the manufacture of aircraft engine inlet lip skins.

The fair value of consideration was £9 million and comprises an initial cash payment of £6 million plus contingent consideration estimated at £3 million. The range of the contingent consideration, based on achievement of specific technology milestones is between nil and £3 million. The fair value of net assets acquired of £9 million comprises; property, plant and equipment of £1 million, receivables of £2 million, payables of £2 million, a technology based non-operating intangible asset of £6 million, a deferred tax liability of £1 million and goodwill of £3 million.

A further £2 million was paid for acquisition of outstanding share capital in a previously equity accounted investment.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GKN PLC

Report on the Company financial statements

Our opinion

In our opinion, GKN plc's Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Balance sheet as at 31 December 2015; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, 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.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 98, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of GKN plc for the year ended 31 December 2015.

Ian Chambers (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

22 February 2016

BALANCE SHEET OF GKN PLC

Company number: 4191106
At 31 December 2015

	Notes	2015 £m	2014 £m
Non-current assets			
Investment in subsidiaries	3	**3,602**	3,601
Current assets			
Amounts owed by subsidiaries		**6**	7
Total assets		**3,608**	3,608
Current liabilities			
Amounts owed to subsidiaries		**(1,994)**	(2,056)
Net assets		**1,614**	1,552
Capital and reserves			
Share capital	4	**173**	166
Capital redemption reserve	5	**298**	298
Share premium account	5	**330**	139
Retained earnings	5	**813**	949
Total equity	6	**1,614**	1,552

The financial statements on pages 161 to 167 were approved by the Board of Directors and authorised for issue on 22 February 2016. They were signed on its behalf by:

Nigel Stein, Adam Walker
Directors

NOTES TO THE FINANCIAL STATEMENTS OF GKN PLC

1 Significant accounting policies and basis of preparation

The separate financial statements of the Company, incorporated and domiciled in the UK, are presented as required by the Companies Act 2006. They have been prepared on a going concern basis under the historical cost convention except where other measurement bases are required to be applied and in accordance with IFRS under Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In accordance with FRS 101 the Company has taken advantage of the exemption not to disclose transactions with related parties. As the consolidated financial statements have been prepared in accordance with IFRS 7, the Company is exempt from further disclosure of financial instruments in accordance with FRS 101.

The principal accounting policies are summarised below. They have been applied consistently in both years presented.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Treasury shares

GKN shares which have been purchased and not cancelled are held as treasury shares and deducted from shareholders' equity.

Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest.

Income Statement

Interest income is recognised using the effective interest 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 whilst interim dividends are charged in the period they are paid.

2 Income statement

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own Income Statement for the year. The profit for the year ended 31 December 2015 was £3 million (2014: £306 million).

Auditors' remuneration for audit services to the Company was £0.5 million (2014: £0.5 million).

3 Fixed asset investments

Cost and net book amount	£m
At 1 January 2015	**3,601**
Additions – share-based payments	**1**
At 31 December 2015	**3,602**

A full list of investments in subsidiaries and other undertakings is disclosed in note 8.

4 Share capital

Share capital disclosure is shown in note 22 of the consolidated financial statements.

5 Reserves

	Capital redemption reserve £m	Share premium account £m	Retained earnings £m
At 1 January 2015	**298**	**139**	**949**
Profit for the year	–	–	**3**
Share-based payments	–	–	**1**
Dividends paid to equity shareholders	–	–	**(142)**
Proceeds from exercise of share options	–	–	**2**
Net proceeds from share placement	–	**191**	–
At 31 December 2015	**298**	**330**	**813**

6 Reconciliation of movements in equity

	2015 £m	2014 £m
At 1 January	**1,552**	1,375
Profit for the year	**3**	306
Share-based payments	**1**	3
Dividends paid to equity shareholders	**(142)**	(133)
Proceeds from exercise of share options	**2**	1
Net proceeds from share placement	**198**	–
At 31 December	**1,614**	1,552

7 Impact of transition to FRS 101

This is the first year the financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The last financial statements under 'old' UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 101 was 1 January 2014. Preparation of the financial statements in accordance with FRS 101 has resulted in no adjustments on transition.

8 Subsidiaries and other undertakings

Details of the Group's subsidiaries, joint ventures and associated undertakings as at 31 December 2015 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 contact agreement.

Name	Country of incorporation	Class of shares held/interest
Transmisiones Homocineticas Argentinas SA (49%)	Argentina	Ordinary B[1]
Unidrive Pty Ltd (60%)	Australia	Ordinary
GKN Service Austria GmbH	Austria	Ordinary
Société Anonyme Belge de Constructions Aéronautiques (43.57%)	Belgium	Ordinary
GKN Aerospace Transparency Systems do Brasil Ltda	Brazil	Quota capital
GKN do Brasil Limitada	Brazil	Quota capital
GKN Sinter Metals Ltda	Brazil	Quota capital
GKN Stromag Brasil Equipamentos Ltda	Brazil	Quota capital
Fokker Elmo Canada Inc	Canada	Common stock
GKN Sinter Metals St Thomas Ltd	Canada	Common stock
Fokker Elmo (Langfang) Electrical Systems Co. Ltd	China	Registered investment
GKN China Holding Co Ltd	China	Registered investment
GKN Danyang Industries Company Limited	China	Registered investment
GKN Power Solutions (Liuzhou) Company Limited	China	Registered investment
GKN Sinter Metals Yizheng Co Ltd	China	Registered investment
GKN (Taicang) Co Ltd	China	Registered investment
GKN Zhongyuan Cylinder Liner Company Limited (59%)	China	Registered investment
Lianyungang GKN Hua Ding Wheels Co Ltd (80%)	China	Registered investment
Shanghai GKN Driveline Sales Co Ltd (49%)	China	Registered investment
Shanghai GKN HUAYU Driveline Systems Company Limited (50%)[2]	China	Registered investment
Transejes Transmisiones Homocineticas de Colombia SA (49%)	Colombia	Ordinary
GKN Stromag Brno s.r.o	Czech Republic	Ordinary
GKN Walterscheid Service & Distribution A/S	Denmark	Ordinary
GKN Wheels Nagbol A/S	Denmark	Ordinary
Automotive Group Services	France	Ordinary
GKN Automotive SAS	France	Ordinary
GKN Driveline Ribemont SARL	France	Ordinary
GKN Driveline SA (99.99%)	France	Ordinary
GKN Freight Services EURL	France	Ordinary
GKN Land Systems SAS	France	Ordinary
GKN Service France SAS	France	Ordinary
GKN Stromag France S.A.S	France	Ordinary

8 Subsidiaries and other undertakings *continued*

Name	Country of incorporation	Class of shares held/interest
GKN Aerospace Deutschland GmbH	Germany	Ordinary
GKN Driveline Deutschland GmbH	Germany	Ordinary
GKN Driveline International GmbH	Germany	Ordinary
GKN Driveline Trier GmbH	Germany	Ordinary
GKN Freight Services GmbH	Germany	Ordinary
GKN Gelenkwellenwerk Kaiserslautern GmbH	Germany	Ordinary
GKN Holdings Deutschland GmbH	Germany	Ordinary
GKN Service International GmbH	Germany	Ordinary
GKN Sinter Metals Components GmbH	Germany	Ordinary
GKN Sinter Metals Engineering GmbH	Germany	Ordinary
GKN Sinter Metals Filters GmbH, Radevormwald	Germany	Ordinary
GKN Sinter Metals GmbH, Radevormwald	Germany	Ordinary
GKN Sinter Metals GmbH, Bad Bruckenau	Germany	Ordinary
GKN Sinter Metals GmbH, Bad Langensalza	Germany	Ordinary
GKN Sinter Metals Holding GmbH	Germany	Ordinary
GKN Stromag AG	Germany	Ordinary
GKN Stromag Dessau GmbH	Germany	Ordinary
GKN Stromag Holding GmbH	Germany	Ordinary
GKN Walterscheid Getriebe GmbH	Germany	Ordinary
GKN Walterscheid GmbH	Germany	Ordinary
Hoeganaes Corporation Europe GmbH	Germany	Ordinary
Drivetech Accessories Limited	India	Ordinary
Fokker Elmo SASMOS Interconnection Systems Limited (49%)[3]	India	Ordinary
GKN Driveline (India) Limited (97.03%)	India	Ordinary
GKN Land Systems India Private Limited	India	Ordinary
GKN Sinter Metals Private Limited	India	Ordinary
GKN Driveline Beshel Private Joint Stock Company (59.99%)	Iran, Islamic Republic of	Ordinary
Ipsley Insurance Limited	Isle of Man	Ordinary
GKN Driveline Brunico SpA	Italy	Ordinary
GKN Driveline Firenze SpA	Italy	Ordinary
GKN Italia SpA	Italy	Ordinary
GKN Service Italia SpA	Italy	Ordinary
GKN Sinter Metals SpA	Italy	Ordinary
GKN Wheels Carpenedolo SpA	Italy	Ordinary
GKN Driveline Japan Ltd	Japan	Ordinary
GKN Driveline Tochigi Holdings KK	Japan	Ordinary
Matsui-Walterscheid Ltd (40%)[4]	Japan	Common stock
GKN Finance Limited	Jersey	Ordinary
GKN Driveline Korea Limited	Korea, Republic of	Common stock
GKN Driveline Malaysia Sdn Bhd (68.42%)	Malaysia	Ordinary
FAE Aerostructures SA de CV	Mexico	Ordinary
GKN Aerospace San Luis Potosi S. de R.L. de C.V.	Mexico	Fixed equity
GKN Driveline Celaya SA de CV (99.85%)	Mexico	Ordinary
GKN Driveline Mexico Services SA de CV (98%)	Mexico	Ordinary
GKN Driveline Mexico Trading SA de CV (98%)	Mexico	Ordinary
GKN Driveline Villagran SA de CV (98%)	Mexico	Ordinary
Business Park Aviolanda B.V. (20%)	Netherlands	Ordinary
Cooperative Delivery of Retrokits (CDR) V.O.F. (50%)[5]	Netherlands	Registered investment
Fabriek Slobbengors Beheer B.V. (49%)[6]	Netherlands	Ordinary
Fabriek Slobbengors C.V. (49%)[7]	Netherlands	Registered investment
Fokker Aerospace B.V.	Netherlands	Ordinary
Fokker Aerostructures B.V.	Netherlands	Ordinary
Fokker Aircraft Services B.V.	Netherlands	Ordinary
Fokker (CDR) B.V.	Netherlands	Ordinary
Fokker Elmo B.V.	Netherlands	Ordinary
Fokker Engineers & Contractors B.V.	Netherlands	Ordinary
Fokker Landing Gear B.V.	Netherlands	Ordinary
Fokker Procurement Combination B.V.	Netherlands	Ordinary
Fokker Services B.V.	Netherlands	Ordinary
Fokker Technologies Group B.V.	Netherlands	Ordinary
Fokker Technologies Holding B.V.	Netherlands	Ordinary
Fokker Technology B.V.	Netherlands	Ordinary
GKN Aerospace Netherlands B.V.	Netherlands	Ordinary

Name	Country of incorporation	Class of shares held/interest
GKN Service Benelux B.V.	Netherlands	Ordinary
GKN UK Holdings B.V.	Netherlands	Ordinary
Structural Laminates Industries B.V.	Netherlands	Ordinary
GKN Aerospace Norway AS	Norway	Ordinary
Kongsberg Technology Training Centre AS (50%)[8]	Norway	Ordinary
Kongsberg Terotech AS (33.33%)[9]	Norway	Ordinary
GKN Driveline Polska Sp z o o	Poland	Ordinary
GKN Service Polska Sp. z o.o	Poland	Ordinary
FOAR S.R.L. (49%)[10]	Romania	Ordinary
Fokker Engineering Romania S.R.L.	Romania	Ordinary
Hoeganaes Corporation Europe SA	Romania	Ordinary
Driveline Systems (RUS) LLC	Russian Federation	Ordinary
GKN Driveline Togliatti LLC	Russian Federation	Ordinary
GKN Engineering (RUS) LLC	Russian Federation	Ordinary
Fokker Services Asia Pte Ltd	Singapore	Ordinary
GKN Driveline Singapore Pte Ltd	Singapore	Ordinary
GKN Driveline Slovenija d o o	Slovenia	Ordinary
GKN Sinter Metals Cape Town (Pty) Limited	South Africa	Ordinary
GKN Ayra Servicio, SA	Spain	Ordinary
GKN Driveline Vigo, SA	Spain	Ordinary
GKN Driveline Zumaia, SA	Spain	Ordinary
Stork Prints Iberia SA	Spain	Ordinary
GKN Aerospace Applied Composites AB	Sweden	Ordinary
GKN Aerospace Sweden AB	Sweden	Ordinary
GKN Driveline Köping AB	Sweden	Ordinary
GKN Driveline Service Scandinavia AB	Sweden	Ordinary
GKN Sinter Metals AB	Sweden	Ordinary
GKN Stromag Scandinavia AB	Sweden	Ordinary
GKN Sweden Holdings AB	Sweden	Ordinary
Industrigruppen “IG” JAS AB (20%)	Sweden	Ordinary
Taiway Limited (36.25%)	Taiwan	Common stock
GKN Aerospace Transparency Systems (Thailand) Limited	Thailand	Ordinary
GKN Driveline (Thailand) Limited	Thailand	Ordinary
GKN Driveline Manufacturing Ltd	Thailand	Ordinary
Fokker Elmo Havacilik Sanayi Ve Ticaret Limited Sirketi	Turkey	Ordinary
GKN Eskisehir Automotive Products Manufacture and Sales A.S.	Turkey	Ordinary
A. P. Newall & Company Limited	United Kingdom	Ordinary
Alder Miles Druce Limited	United Kingdom	Ordinary
Ball Components Limited	United Kingdom	Ordinary
Birfield Limited	United Kingdom	Ordinary
British Hovercraft Corporation Limited	United Kingdom	Ordinary
Chassis Systems Limited (50%)[11]	United Kingdom	Ordinary
F.P.T. Industries Limited	United Kingdom	Ordinary
FAD (UK) Limited	United Kingdom	Ordinary
Firth Cleveland Limited	United Kingdom	Ordinary
GKN Aerospace Services Limited	United Kingdom	Ordinary
GKN Aerospace Transparency Systems (Kings Norton) Limited	United Kingdom	Ordinary
GKN Aerospace Transparency Systems (Luton) Limited	United Kingdom	Ordinary
GKN Automotive Limited	United Kingdom	Ordinary and preference
GKN AutoStructures Limited	United Kingdom	Ordinary
GKN Birfield Extrusions Limited	United Kingdom	Ordinary
GKN Bound Brook Limited	United Kingdom	Ordinary
GKN Building Services Europe Limited	United Kingdom	Ordinary
GKN CEDU Limited	United Kingdom	Ordinary
GKN Composites Limited	United Kingdom	Ordinary
GKN Computer Services Limited	United Kingdom	Ordinary
GKN Countertrade Limited	United Kingdom	Ordinary
GKN Defence Holdings Limited	United Kingdom	Ordinary
GKN Defence Limited	United Kingdom	Ordinary
GKN Driveline Birmingham Limited	United Kingdom	Ordinary
GKN Driveline Mexico (UK) Limited	United Kingdom	Ordinary
GKN Driveline Service Limited	United Kingdom	Ordinary
GKN Euro Investments Limited	United Kingdom	Ordinary

8 Subsidiaries and other undertakings *continued*

Name	Country of incorporation	Class of shares held/interest
GKN EVO eDrive Systems Limited	United Kingdom	Ordinary
GKN Export Services Limited	United Kingdom	Ordinary
GKN Fasteners Limited	United Kingdom	Ordinary
GKN Finance (UK) Limited	United Kingdom	Ordinary
GKN Firth Cleveland Limited	United Kingdom	Ordinary
GKN Freight Services Limited	United Kingdom	Ordinary and cumulative preference
GKN Group Pension Trustee (No.2) Limited	United Kingdom	Ordinary
GKN Group Pension Trustee Limited	United Kingdom	Ordinary
GKN Group Services Limited	United Kingdom	Ordinary and redeemable preference
GKN Hardy Spicer Limited	United Kingdom	Ordinary
GKN Holdings plc (held directly by GKN plc)	United Kingdom	Ordinary and deferred
GKN Hybrid Power Limited	United Kingdom	Ordinary
GKN Industries Limited	United Kingdom	Ordinary
GKN International Trading (Holdings) Limited	United Kingdom	Ordinary
GKN Investments LP[12]	United Kingdom	Registered investment
GKN Land Systems Limited	United Kingdom	Ordinary
GKN Marks Limited	United Kingdom	Ordinary
GKN OffHighway Limited	United Kingdom	Ordinary
GKN Overseas Holdings Limited	United Kingdom	Ordinary
GKN Pistons Limited	United Kingdom	Ordinary
GKN Powder Met. Limited	United Kingdom	Ordinary
GKN Quest Trustee Limited	United Kingdom	Ordinary
GKN Sankey Finance Limited	United Kingdom	Ordinary and deferred
GKN Sankey Limited	United Kingdom	Ordinary
GKN SEK Investments Limited	United Kingdom	Ordinary
GKN Service UK Limited	United Kingdom	Ordinary
GKN Sheepbridge Limited	United Kingdom	Ordinary
GKN Sheepbridge Stokes Limited	United Kingdom	Ordinary
GKN Sinter Metals Holdings Limited	United Kingdom	Ordinary
GKN Sinter Metals Limited	United Kingdom	Ordinary
GKN Stromag UK Limited	United Kingdom	Ordinary
GKN Technology Limited	United Kingdom	Ordinary
GKN Thompson Chassis Limited	United Kingdom	Ordinary
GKN Trading Limited	United Kingdom	Ordinary
GKN UK Investments Limited	United Kingdom	Ordinary
GKN (United Kingdom) public limited company	United Kingdom	Ordinary
GKN U.S. Investments Limited	United Kingdom	Ordinary
GKN USD Investments Limited	United Kingdom	Ordinary
GKN Ventures Limited	United Kingdom	Ordinary
GKN Westland Aerospace (Avonmouth) Limited	United Kingdom	Ordinary
GKN Westland Aerospace Advanced Materials Limited	United Kingdom	Ordinary and convertible preference
GKN Westland Aerospace Aviation Support Limited	United Kingdom	Ordinary
GKN Westland Aerospace Holdings Limited	United Kingdom	Ordinary
GKN Westland Design Services Limited	United Kingdom	Ordinary
GKN Westland Limited	United Kingdom	Ordinary
GKN Westland Overseas Holdings Limited	United Kingdom	Ordinary
GKN Westland Services Limited	United Kingdom	Ordinary
Guest, Keen and Nettlefolds, Limited	United Kingdom	Ordinary
Laycock Engineering Limited	United Kingdom	Ordinary
P.F.D. Limited	United Kingdom	Ordinary
Raingear Limited	United Kingdom	Ordinary
Rigby Metal Components Limited	United Kingdom	Ordinary
Ryvoan Limited (32.3%)	United Kingdom	Ordinary
Rzeppa Limited	United Kingdom	Ordinary and redeemable preference
Sheepbridge Stokes Limited	United Kingdom	Ordinary
Westland Group plc	United Kingdom	Ordinary

Name	Country of incorporation	Class of shares held/interest
Westland Group Services Limited	United Kingdom	Ordinary
Westland System Assessment Limited	United Kingdom	Ordinary
Aerotron AirPower Inc	United States	Common stock
Fokker Aerostructures Inc	United States	Common stock
Fokker Elmo Inc	United States	Common stock
Fokker Services Inc	United States	Common stock
GENIL, Inc	United States	Ordinary
GKN Aerospace Aerostructures, Inc	United States	Ordinary
GKN Aerospace Bandy Machining, Inc	United States	Ordinary
GKN Aerospace Camarillo, Inc.	United States	Ordinary
GKN Aerospace Chem-tronics Inc	United States	Ordinary
GKN Aerospace Cincinnati, Inc.	United States	Ordinary
GKN Aerospace Monitor, Inc	United States	Ordinary
GKN Aerospace Muncie, Inc	United States	Ordinary
GKN Aerospace New England, Inc	United States	Ordinary
GKN Aerospace Newington LLC[13]	United States	Ordinary
GKN Aerospace North America, Inc	United States	Common stock
GKN Aerospace Precision Machining, Inc	United States	Ordinary
GKN Aerospace Services Structures Corporation	United States	Common stock
GKN Aerospace South Carolina, Inc	United States	Common stock
GKN Aerospace Transparency Systems Inc	United States	Common stock
GKN Aerospace US Holdings LLC[14]	United States	Membership interest (no share capital)
GKN Aerospace, Inc	United States	Common stock
GKN America Corp	United States	Common stock
GKN Armstrong Wheels, Inc	United States	Ordinary
GKN Driveline Bowling Green, Inc	United States	Common stock
GKN Driveline Newton LLC[15]	United States	Membership interest (no share capital)
GKN Driveline North America, Inc	United States	Common stock
GKN Freight Services, Inc	United States	Common stock
GKN North America Investments, Inc	United States	Ordinary
GKN North America Services, Inc	United States	Common stock
GKN Rockford Inc	United States	Ordinary
GKN Sinter Metals, LLC[16]	United States	Membership interest (no share capital)
GKN Stromag, Inc	United States	Common stock
GKN Walterscheid, Inc	United States	Ordinary
GKN Westland Aerospace, Inc	United States	Common stock
Hoeganaes Corporation	United States	Common stock
XIK LLC[17]	United States	Membership interest (no share capital)
GKN Driveline Uruguay SA	Uruguay	Ordinary

1 100% of the Ordinary Class B shares with total ownership of 49% in the company.
2 Principal place of business is No. 900 KangShen Road, KangQiao Industrial Zone, Pudong, Shanghai 201315, China.
3 Company's last financial year ended 31 March 2015.
4 Company's last financial year ended 31 March 2015.
5 Principal place of business is Industrieweg 4, 3351 LB, Papendrecht, the Netherlands.
6 Principal place of business is Markt 22, 3351 PB, Papendrecht, the Netherlands.
7 Principal place of business is Markt 22, 3351 PB, Papendrecht, the Netherlands.
8 Principal place of business is Kirkegårdsveien 45, 3616 Kongsberg, Norway.
9 Principal place of business is Kirkegårdsveien 45, 3616 Kongsberg, Norway.
10 Principal place of business is Str. Condorilor 9, 600302, Bacau, Romania.
11 Principal place of business is Hadley Castle Works, Telford, Shropshire TF1 6AA, UK.
12 Registered office address is 15 Atholl Crescent, Edinburgh, EH3 8HA, UK. 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.
13 Principal place of business is 179 Louis Street , Newington CT 06111, USA.
14 Principal place of business is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire B98 0TL, UK.
15 Principal place of business is 1848 GKN Way, Newton NC 28658, USA.
16 Principal place of business is 2200 North Opdyke Road, Auburn Hills MI 48326, USA.
17 Principal place of business is 2715 Davey Road, Suite 300, Woodridge, Illinois , 60517-5064, USA.

GROUP FINANCIAL RECORD

	2015 £m	2014 £m	2013 £m	2012[2] £m	2011 £m
Consolidated income statements					
Sales	**7,231**	6,982	7,136	6,510	5,746
Trading profit	**609**	612	597	504	419
Change in value of derivative and other financial instruments	**(122)**	(209)	26	126	(31)
Amortisation of non-operating intangible assets arising on business combinations	**(80)**	(69)	(75)	(37)	(22)
Gains and losses on changes in Group structure	**(1)**	24	12	5	8
Reversal of inventory fair value adjustment arising on business combinations	**(12)**	–	–	(37)	–
Pension scheme curtailments	**–**	–	–	63	–
Impairment charges	**(71)**	(69)	–	–	–
Operating profit	**323**	289	560	624	374
Share of post-tax earnings of continuing joint ventures	**59**	61	52	38	38
Net financing costs	**(137)**	(129)	(128)	(94)	(61)
Profit before taxation from continuing operations	**245**	221	484	568	351
Taxation	**(43)**	(47)	(77)	(80)	(45)
Profit for the year	**202**	174	407	488	306
Profit attributable to non-controlling interests	**(5)**	(5)	(12)	(23)	(27)
Profit attributable to equity shareholders	**197**	169	395	465	279
Earnings per share – pence[2]	**11.8**	10.3	24.2	29.3	18.0
Dividend per share – pence[2]	**8.7**	8.4	7.9	7.2	6.0
Management performance measures[1]					
Sales	**7,689**	7,456	7,594	6,904	6,112
Trading profit	**679**	687	661	553	468
Profit before taxation	**603**	601	578	493	417
Earnings per share – pence[2]	**27.8**	29.0	28.7	26.3	22.6
Consolidated balance sheets					
Non-current assets					
Intangible assets (including goodwill)	**1,856**	1,442	1,476	1,544	958
Property, plant and equipment	**2,200**	2,060	1,945	1,960	1,812
Equity accounted investments	**195**	174	179	153	147
Deferred tax assets	**388**	407	225	302	224
Other non-current assets	**63**	60	104	92	58
	4,702	4,143	3,929	4,051	3,199
Current assets					
Inventories	**1,170**	971	931	885	749
Trade and other receivables	**1,311**	1,226	1,142	1,102	962
Cash and cash equivalents and other financial assets	**246**	322	184	181	156
Other (including assets held for sale)	**22**	18	53	51	21
	2,749	2,537	2,310	2,219	1,888
Current liabilities					
Borrowings	**(79)**	(43)	(27)	(115)	(228)
Trade and other payables	**(1,757)**	(1,611)	(1,485)	(1,392)	(1,308)
Current income tax liabilities	**(121)**	(125)	(135)	(157)	(138)
Other current liabilities (including liabilities associated with assets held for sale)	**(229)**	(127)	(66)	(58)	(76)
	(2,186)	(1,906)	(1,713)	(1,722)	(1,750)
Non-current liabilities					
Borrowings	**(867)**	(877)	(889)	(937)	(466)
Deferred tax liabilities	**(157)**	(223)	(178)	(204)	(96)
Other non-current liabilities	**(719)**	(350)	(274)	(367)	(192)
Provisions	**(78)**	(112)	(119)	(135)	(91)
Post-employment obligations	**(1,558)**	(1,711)	(1,271)	(978)	(868)
	(3,379)	(3,273)	(2,731)	(2,621)	(1,713)
Net assets	**1,886**	1,501	1,795	1,927	1,624
Net debt	**(769)**	(624)	(732)	(871)	(538)

1 Management sales and trading profit aggregate the sales and trading profit of subsidiaries (excluding certain subsidiary businesses sold and closed) 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.

2 As restated for the impact of IAS 19 (revised) and for the impact of the changes to the acquisition balance sheet related to the purchase of Volvo Aerospace on 1 October 2012.

SHAREHOLDER INFORMATION

Financial calendar 2016

Ex-dividend date for 2015 final dividend	7 April 2016
2015 final dividend record date	8 April 2016
Final date for receipt of DRIP mandates	22 April 2016
Annual general meeting	5 May 2016
2015 final dividend payable	16 May 2016
Ex-dividend date for 2016 interim dividend[1]	11 August 2016
2016 interim dividend record date[1]	12 August 2016
2016 interim dividend payable[1]	19 September 2016

1 Please note that these dates are provisional and may be subject to change.

Annual general meeting

The annual general meeting (AGM) will be held on Thursday 5 May 2016 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
P.O. Box 30170
College Station TX 77842-3170

Tel: +1 888-269-2377 (toll-free number in the US)
Tel: +1 201 680 6825 (international)
Website: www.mybnymdr.com
E-mail: 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.

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 2015.

	Shareholders		Shares	
Holdings	Number	%	Number	%
1–500	6,227	26.4	1.3	0.1
501–1,000	3,823	16.2	2.9	0.2
1,001–5,000	9,697	41.0	23.0	1.3
5,001–50,000	3,138	13.3	37.0	2.1
50,001–100,000	141	0.6	10.2	0.6
100,001–500,000	289	1.2	68.6	4.0
500,001–1,000,000	86	0.4	62.8	3.7
above 1,000,000	219	0.9	1,508.2	88.0
	23,620	100	1,714	100
Shareholder type				
Individuals	17,888	75.7	47.1	2.8
Institutions	1,518	6.4	1,473.6	85.9
Other corporates	4,214	17.9	193.3	11.3
	23,620	100	1,714	100

In addition, GKN held 12,168,928 ordinary shares in treasury as at 31 December 2015.

Shareholder security

We are aware that a small number of shareholders have received unsolicited telephone calls concerning their investment in GKN. These calls are from overseas-based organisations who offer to buy GKN shares for considerably more than the current market price. In some cases the caller has suggested that there is currently a takeover offer for GKN. There is no such offer and we suspect that the calls are bogus.

Shareholders are advised to be very wary of any unsolicited investment advice, offers to buy shares or offers of free company reports. Operations, commonly known as 'boiler rooms', are targeting UK shareholders, and callers can be very persistent and extremely persuasive. We are aware that they attempt to persuade individuals to provide email addresses or other personal information; shareholders are strongly advised not to provide any such details.

The Financial Conduct Authority (FCA) provides the following guidance should you be contacted in this manner:

- obtain the name of the person calling and the organisation they represent
- check that they are properly authorised by checking the FCA register of regulated firms at www.fca.org.uk/firms/systems-reporting/register/search
- call the organisation back to verify their identity using the telephone number listed for them on the FCA register
- search the FCA list of unauthorised firms and individuals to avoid doing business with at www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/unauthorised-firms-to-avoid. If you deal with an unauthorised firm you will not be eligible to receive payment under the Financial Services Compensation Scheme
- report any suspicions to the FCA either by calling 0800 111 6768 or completing the online form at www.fca.org.uk/consumers/scams/report-scam/share-fraud-form and
- 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 on 0345 070 0707 or 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.

CONTACT INFORMATION

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Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

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(+44 121 415 7039 from outside UK)

Fax 0871 384 2100
(+44 1903 833113 from outside UK)

www.equiniti.com
www.shareview.co.uk

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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GKN

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