INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC

Opinion on financial statements of GKN plc

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's and the parent company's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

The financial statements that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated Cash Flow Statement;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the related notes to the consolidated financial statements 1 to 30; and
- the related notes to the Company financial statements 1 to 5.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules, we have reviewed the Directors' statement on going concern and the longer-term viability of the Group contained within the strategic report on page 38.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 40-49 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statements on page 38 and in note 1 to the Company financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 38 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described overleaf are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC CONTINUED

Carrying value of assets including goodwill, intangible and tangible asset recoverability

Risk description
Refer to page 76 (Audit & Risk Committee report), note 1 (Accounting policies and presentation), note 11a and note 11c (Goodwill and other intangible assets) and note 12 (Property, plant and equipment).

The Group holds goodwill of £0.6 billion, other intangible assets of £1.3 billion and tangible assets of £2.7 billion at 31 December 2016. The Group recognised impairment charges of £52 million in 2016.

There are significant judgements attached to management's impairment review including forecast cash flows, pre-tax risk adjusted discount rates and long-term growth rates which together give rise to a risk that assets subject to impairment testing are not valued correctly. We identified four key risks as follows:

- Assumptions used within the forecast cash flows for those cash generating units (CGUs) which have been identified in our risk assessment as having material asset balances, low headroom and potential indicators of impairment, being St. Louis, Engine Products West, Engine Products East and Wheels China.
- Value-in-use calculations are sensitive to assumptions derived by management including discount rates and long-term growth rates. We have identified the use of an appropriate and consistent methodology to determine discount rates to represent a key risk. Long-term growth rates are calculated from external sources using an established methodology.
- The appropriate application of IAS 36 in the identification of cash generating units.
- Presentation in accordance with IAS 36 where the outcome of the impairment model is that a reasonably possible change in assumptions may give rise to an impairment.

How the scope of our audit responded to the risk
We have obtained and understood the Directors' impairment models for those CGUs including assets where the carrying value is subject to significant management judgement. We have challenged management's key assumptions around the business drivers of the cash flow forecasts, discount rates and long-term growth rates.

In evaluating the forecast cash flows presented we have:

- obtained external support for proposed sales growth;
- verified cost savings to detailed management plans and savings already achieved;
- considered future margins relative to historical performance for each CGU;
- compared the position set out by management to our understanding of industry factors relevant to that CGU;
- directed our internal valuation specialists to calculate an independent expectation of the discount rates for material CGUs where there is a risk of impairment, considering the risks specific to the assets and markets being tested for impairment; and
- recalculated growth rates including a comparison of the inputs to macroeconomic forecasts.

We have directed our internal valuation specialists to derive an independent expectation of the discount rates specific to the assets and markets being tested for impairment. We also compared the long-term growth rates applied by the Directors to economic forecasts for regional productivity.

In determining the identification of CGUs we have made enquiries of management and challenged the fact pattern, including considering the independence of cash inflows and the current level of interaction between plants.

We have audited the disclosures within note 11 to determine whether material disclosures have been made in accordance with IAS 36.

Key observations
From our work performed, we are satisfied with the carrying value of assets recognised.

Recoverability of material contract related assets

Risk description
Refer to page 77 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 11b (Goodwill and other intangible assets).

There are material assets, including operating and non-operating intangible assets, recorded related to key aerospace contracts that require management judgement to assess recoverability. We have identified a key risk in relation to the recoverability (and therefore existence and valuation) of non-recurring cost (NRC) associated with significant Aerospace programmes. We have focussed on this risk because the Directors' assessment of the recoverability of these assets involves complex and subjective judgements and assumptions about the future results of these programmes, including future production rates and cost reductions.

How the scope of our audit responded to the risk
In response to the risk identified, we have challenged the underlying assumptions within management's impairment assessment on material programmes including:

- assessment of programme volume forecasts against external analyst and industry expectations including specific consideration of the increase in production on the A350 programme;
- challenge of labour and overhead cost forecasts based on historical performance and assumptions regarding increases in production rates;
- agreement of forecast pricing to contractual agreements;
- engagement of specialists to assess the appropriateness of discount rate assumptions through validating inputs and independently recalculating the rates being used; and
- calculation of value in use under sensitised scenarios, where successful production increases are not achieved, compared to the carrying value of assets.

We have assessed the appropriateness of the methodology applied by management in line with IAS 36.

Key observations
From our work performed, we are satisfied with the carrying value of assets recognised.

Revenue recognition

Risk description
Refer to note 1 (Accounting policies and presentation) and note 2 (Segmental analysis).

Sales are made worldwide on a number of different terms. Each division has some areas of complexity. However those that represent a key risk to the Group relate to the judgements taken within material risk and revenue sharing partnerships (RRSP) in the Aerospace division. These complexities and judgements arise where GKN is entitled to a set percentage of revenue per engine as contractually agreed with the programme partner. The Directors exercise judgement as to how much revenue to recognise, reflecting the quantum of products despatched by the engine manufacturer and the difference in pricing of original engine manufacturer parts and spare parts. This risk specifically arises in Engine Systems, focussing on the timing at which risks and rewards are transferred and revenue recognised.

We have also identified a key risk in the accuracy and occurrence of other material contract variations on existing contracts that have arisen in the year and material new contracts in the year. We note that contracts with customers sometimes contain multiple performance obligations and require the Directors to exercise judgement over the appropriateness of the accounting treatment for each individual part of the contract or arrangement.

How the scope of our audit responded to the risk
For each material RRSP contract, we have verified the amount of revenue recognised to check that it has been calculated in accordance with IAS 18 'Revenue', the contractual agreement and the latest correspondence with the customer. In particular, we have:

- agreed the percentage of revenue entitlement to the customer contract;
- reviewed correspondence with the customer in the period;
- challenged estimations made by the Directors at the year end by taking account of historical settlements and reviewing previous estimation accuracy; and
- performed an assessment of the timing at which risks and rewards are transferred and revenue is recognised by identifying the performance obligations from the contract and verifying the recognition triggers.

In order to identify material new contracts or contract variations, we have performed enquiries with the Directors and others in the Group and a review of Board meeting minutes and contracts subject to senior approval under the delegation of authority.

For material contracts identified, we have reviewed the contract terms and verified assumptions made in determining the revenue recognition in accordance with IAS 18, including consideration of discounts, performance penalties and other cost implications of the contract.

Key observations
We are satisfied that the key assumptions made in determining the fair value of revenue recognised on RRSP contracts and new contracts in the year is appropriate.

Presentation and disclosure of non-trading items

Risk description
Refer to page 77 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 3 (Adjusted performance measures).

Trading profit, a non-statutory measure, is used by the Group to report the business performance to investors and wider stakeholders. We have identified a key audit risk in the presentation of the financial performance of the Group, including the separate identification of 'non-trading' items in arriving at the 'trading profit' measure, and the completeness of items separately identified.

Non-trading items of £349 million were disclosed in 2016, which consisted of changes in value of derivatives and other financial instruments, losses related to changes in Group structure, amortisation of non-operating intangible assets, acquisition related restructuring charges and impairment charges.

How the scope of our audit responded to the risk
We challenged and understood management's rationale for including certain items outside trading profit to ensure appropriate disclosure in the financial statements. This was performed in the context of recent regulatory guidance, ensuring the purpose of using alternative performance measures was set out and that they were clearly defined, consistent over time and included appropriate reconciliations to statutory financial information.

We assessed the completeness of items separately identified as non-trading items through an examination of costs recorded to determine whether they only related to those non-trading items defined above. We agreed the amounts recorded through to underlying financial records and other audit support to verify the amounts disclosed were complete and accurate.

We focussed our review of the Group financial statements on the financial statement and narrative presentation of items which may be considered to be non-recurring in nature to determine whether principles are being consistently applied and the resulting financial presentation is true and fair. We have checked that the narrative within the financial statements is balanced and that there are no items in trading profit which are outside of the ordinary course of business and materially distort the result.

We tested, on a sample basis, restructuring costs recorded within trading profit and confirmed the validity of these costs by agreeing amounts to supporting contracts and payments. We performed a detailed assessment of the completeness and calculation of the restructuring provision held at 31 December 2016 to determine whether the provision recorded was consistent with the requirements of IAS 37 'Provisions, contingent liabilities and contingent assets'.

Key observations
We are satisfied that the items excluded from trading profit and the related disclosure of these items in the financial statements is appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC CONTINUED

Assumptions made in determining pension liabilities

Risk description
Refer to page 48 (Principal risks and uncertainties), page 77 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 24 (Post-employment obligations).

The Group has a number of defined benefit obligation schemes with a gross liability of £4.6 billion, the majority of which relates to schemes in the UK, US and Germany. We have identified a key audit risk on the valuation of the pension scheme liabilities in the UK, US and Germany with specific focus on management judgements exercised in selecting the discount rates used to determine the pension liability in accordance with IAS 19. A relatively small change in assumptions could cause a material impact on the liability.

How the scope of our audit responded to the risk
We used our internal actuarial experts to assess the key assumptions for the UK, US and German schemes. Our assessment included reviewing available yield curves to recalculate a reasonable range for the key assumptions.

We challenged management to understand the sensitivity of changes in key assumptions and quantify a range of reasonable rates that could be used in their calculation. Additionally, we benchmarked key assumptions against other listed companies to identify any outliers in the data used.

Key observations
From the work performed, we are satisfied that the significant assumptions applied in respect of the valuation of the scheme liabilities are appropriate.

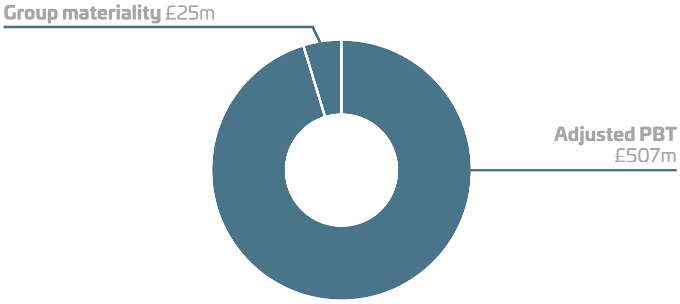
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	We determined materiality for the Group to be £25 million.
Basis for determining materiality	Materiality was determined as approximately 5% of adjusted pre-tax profit which was determined on the basis of profit before tax adjusted to exclude the impact of changes in valuation of derivatives and other financial instruments, impairment charges and losses arising as a result of changes in group structure.
Rationale for the benchmark applied	We determine materiality using profit before tax adjusted to exclude the impact of changes in valuation of derivatives and other financial instruments, impairment charges and losses arising as a result of changes in Group structure ('Adjusted PBT') as it provides us with a consistent year-on-year basis for determining materiality.



We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £1 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Component materiality was set based on quantitative and qualitative factors on a reporting unit basis between £5.3 million and £12.7 million. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

During the year the Group was structured along four segments:

- GKN Aerospace, mainly located in the UK, Sweden and the Netherlands.
- GKN Driveline, mainly located in Europe and North America as well as a joint venture in China.
- GKN Powder Metallurgy, mainly located in North America as well as sites in Europe and Asia Pacific.
- GKN Land Systems mainly located in Europe and North America.

Each division consists of a number of reporting units and manages operations on a geographical and functional basis. There are 235 reporting units in total, each of which is responsible for maintaining its own accounting records and controls and using an integrated consolidation system to report to UK head office.

Our audit was scoped by obtaining a detailed understanding of the nature of the Group including both the markets and geographies it operates in. We also considered the controls exercised by management at a business, divisional and Group level. We have specifically considered the quantitative and qualitative risk factors identified through this analysis when performing the scoping of our Group audit.

As this was the first year of our audit engagement, during the first half of the year we directed local Deloitte audit teams to perform preliminary visits to 18 of the most material businesses, and senior members of the Group audit team visited each of these locations. We also performed a review of controls in place in the central finance team including the consolidation and treasury functions.

Based on our understanding of the Group and the preliminary visits performed above, we selected 71 reporting units where we requested components' auditors to perform a full scope audit of the components' financial information. Together these businesses represented 68% of the Group's revenue. A full audit was also performed at the SDS joint venture in China, which represented 86% of the share of post-tax earnings of equity accounted investments.

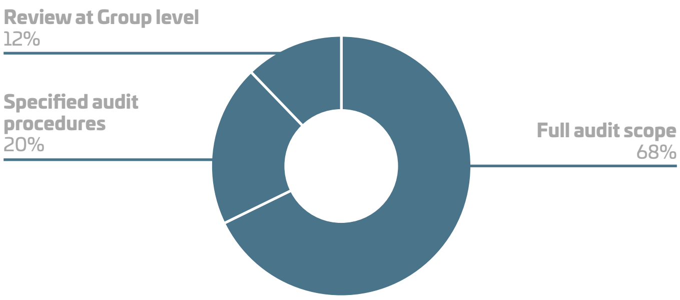
We also requested component auditors to perform specified audit procedures on certain account balances and transactions at a further 47 reporting units. These units represented 20% of the Group's revenue.

In order to support our opinion that there were no significant risks of material misstatement in the remaining components not subject to detailed audit procedures, we tested the consolidation process and carried out analytical review procedures at a divisional level. The Group engagement team based at the head office also performed central procedures on post-employment obligations, derivative financial instruments, UK and corporate taxation and goodwill and intangible asset impairment assessments. The Company was also subject to a full scope audit.

In addition to those sites visited during the first half of the year, the Group engagement team visited a further 14 locations based on significance and/or risk characteristics, as well as on a rotational basis to ensure coverage across the Group. Going forward, we will follow a programme of planned visits that has been designed so that senior members of the audit team will continue to visit new sites as well as returning to the largest and most complex sites on a rotational basis or when our ongoing risk assessment identifies such a need.

The Group engagement team had ongoing communication with component audit teams throughout the year. Senior members of the Group audit team were in contact, at each stage of the audit, with all component teams including holding global planning calls on a Group, divisional and reporting unit basis which provided an opportunity for component teams to discuss the detailed instructions issued by the Group audit team and escalate any findings during the year. For a number of the component teams, the Group team was in physical attendance at either the local audit planning or close meetings. The Group audit team participated in every audit close meeting of full scope entities and discussed the detailed findings of the audit with the component team.

Revenue



Opinion on other matters prescribed by the Companies Act 2006

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

- the part of the Directors' remuneration report to be audited has been properly prepard in accordance with the Companies Act 2006;
- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the Directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC CONTINUED

Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: ◆ we have not received all the information and explanations we require for our audit; or ◆ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or ◆ the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report arising from these matters.**
Corporate governance statement Under the Listing Rules we are also required to review part of the corporate governance statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.	**We have nothing to report arising from our review.**
Our duty to read other information in the annual report Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: ◆ materially inconsistent with the information in the audited financial statements; or ◆ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or ◆ otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit & Risk Committee which we consider should have been disclosed.	**We confirm that we have not identified any such inconsistencies or misleading statements.**

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ian Waller

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

27 February 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Sales	2	**8,822**	7,231
Trading profit	2	**684**	609
Change in value of derivative and other financial instruments	4	**(154)**	(122)
Amortisation of non-operating intangible assets arising on business combinations	4	**(103)**	(80)
Gains and losses on changes in Group structure	4	**(9)**	(1)
Acquisition-related restructuring charges	4	**(31)**	–
Impairment charges	11	**(52)**	(71)
Reversal of inventory fair value adjustment arising on business combinations		**–**	(12)
Operating profit		**335**	323
Share of post-tax earnings of equity accounted investments	13	**73**	59
Interest payable		**(86)**	(72)
Interest receivable		**7**	7
Other net financing charges		**(37)**	(72)
Net financing costs	5	**(116)**	(137)
Profit before taxation		**292**	245
Taxation	6	**(48)**	(43)
Profit after taxation for the year		**244**	202
Profit attributable to non-controlling interests		**2**	5
Profit attributable to owners of the parent		**242**	197
		244	202
Earnings per share – pence	7		
Continuing operations – basic		**14.1**	11.8
Continuing operations – diluted		**14.0**	11.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Profit after taxation for the year		**244**	202
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency variations – subsidiaries			
Arising in year		**671**	74
Reclassified in year	4	**2**	4
Currency variations – equity accounted investments			
Arising in year	13	**22**	1
Derivative financial instruments – transactional hedging			
Arising in year	20	**–**	5
Reclassified in year	20	**–**	(5)
Net investment hedge changes in fair value			
Arising in year	20	**(177)**	(37)
Taxation	6	**(14)**	(5)
		504	37
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plans			
Subsidiaries	24	**(396)**	139
Taxation	6	**63**	(42)
		(333)	97
Other comprehensive income for the year		**171**	134
Total comprehensive income for the year		**415**	336
Total comprehensive income attributable to non-controlling interests		**6**	4
Total comprehensive income attributable to owners of the parent		**409**	332
		415	336

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Notes	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Other reserves: Exchange reserve £m	Other reserves: Hedging reserve £m	Other reserves: Other reserves £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2016		**173**	**298**	**330**	**1,217**	**243**	**(264)**	**(134)**	**1,863**	**23**	**1,886**
Profit for the year		**–**	**–**	**–**	**242**	**–**	**–**	**–**	**242**	**2**	**244**
Other comprehensive income/(expense)		**–**	**–**	**–**	**(333)**	**638**	**(138)**	**–**	**167**	**4**	**171**
Total comprehensive income		**–**	**–**	**–**	**(91)**	**638**	**(138)**	**–**	**409**	**6**	**415**
Share-based payments	10	**–**	**–**	**–**	**5**	**–**	**–**	**–**	**5**	**–**	**5**
Share options exercised	22	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Addition of non-controlling interest	30	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9**	**9**
Purchase of non-controlling interest	30	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**	**(1)**	**(2)**
Dividends paid to equity shareholders	8	**–**	**–**	**–**	**(150)**	**–**	**–**	**–**	**(150)**	**–**	**(150)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
At 31 December 2016		**173**	**298**	**330**	**981**	**881**	**(402)**	**(134)**	**2,127**	**35**	**2,162**
At 1 January 2015		166	298	139	1,069	168	(227)	(134)	1,479	22	1,501
Profit for the year		–	–	–	197	–	–	–	197	5	202
Other comprehensive income/(expense)		–	–	–	97	75	(37)	–	135	(1)	134
Total comprehensive income		–	–	–	294	75	(37)	–	332	4	336
Share-based payments	10	–	–	–	1	–	–	–	1	–	1
Share options exercised	22	–	–	–	2	–	–	–	2	–	2
Proceeds from share issue	22	7	–	191	–	–	–	–	198	–	198
Purchase of own shares by Employee Share Ownership Plan Trust	22	–	–	–	(7)	–	–	–	(7)	–	(7)
Dividends paid to equity shareholders	8	–	–	–	(142)	–	–	–	(142)	–	(142)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(3)	(3)
At 31 December 2015		173	298	330	1,217	243	(264)	(134)	1,863	23	1,886

Other reserves include accumulated reserves where distribution has been restricted due to legal or fiscal requirements and accumulated adjustments in respect of piecemeal acquisitions.

CONSOLIDATED BALANCE SHEET

At 31 December 2016

	Notes	2016 £m	2015 £m
Assets			
Non-current assets			
Goodwill	11	**588**	591
Other intangible assets	11	**1,320**	1,265
Property, plant and equipment	12	**2,670**	2,200
Equity accounted investments	13	**233**	195
Other receivables and investments	14	**49**	42
Derivative financial instruments	20	**25**	21
Deferred tax assets	6	**557**	388
		5,442	4,702
Current assets			
Inventories	15	**1,431**	1,170
Trade and other receivables	16	**1,648**	1,311
Current tax assets	6	**7**	9
Derivative financial instruments	20	**19**	13
Other financial assets	18	**5**	5
Cash and cash equivalents	18	**411**	299
		3,521	2,807
Total assets		**8,963**	7,509
Liabilities			
Current liabilities			
Borrowings	18	**(64)**	(137)
Derivative financial instruments	20	**(206)**	(151)
Trade and other payables	17	**(2,186)**	(1,757)
Current tax liabilities	6	**(142)**	(121)
Provisions	21	**(71)**	(78)
		(2,669)	(2,244)
Non-current liabilities			
Borrowings	18	**(842)**	(867)
Derivative financial instruments	20	**(521)**	(294)
Deferred tax liabilities	6	**(227)**	(157)
Trade and other payables	17	**(427)**	(425)
Provisions	21	**(82)**	(78)
Post-employment obligations	24	**(2,033)**	(1,558)
		(4,132)	(3,379)
Total liabilities		**(6,801)**	(5,623)
Net assets		**2,162**	1,886
Shareholders' equity			
Share capital	22	**173**	173
Capital redemption reserve		**298**	298
Share premium account		**330**	330
Retained earnings		**981**	1,217
Other reserves		**345**	(155)
Equity attributable to equity holders of the parent		**2,127**	1,863
Non-controlling interests		**35**	23
Total equity		**2,162**	1,886

The financial statements on pages 118 to 166 were approved by the Board of Directors and authorised for issue on 27 February 2017. They were signed on its behalf by:

Nigel Stein, Adam Walker, Directors

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	23	**778**	885
Interest received		**7**	15
Interest paid		**(83)**	(69)
Tax paid		**(93)**	(111)
Dividends received from equity accounted investments	13	**57**	55
		666	775
Cash flows from investing activities			
Purchase of property, plant and equipment		**(416)**	(332)
Receipt of government capital grants		**6**	2
Purchase of intangible assets		**(84)**	(81)
Repayment of government refundable advance		**(6)**	–
Proceeds from sale and realisation of fixed assets		**37**	9
Payment of deferred and contingent consideration		**(1)**	(7)
Acquisition of subsidiaries (net of cash acquired)	30	**(17)**	(117)
Repayment of debt acquired in business combinations		**–**	(371)
Purchase of investment	14	**(5)**	–
Proceeds from disposal of subsidiary, net of cash	4	**151**	–
Equity accounted investments loan settlement		**4**	3
		(331)	(894)
Cash flows from financing activities			
Purchase of own shares by Employee Share Ownership Plan Trust	22	**–**	(7)
Purchase of non-controlling interests	30	**(2)**	–
Proceeds from exercise of share options	22	**1**	2
Gross proceeds from issuance of ordinary shares	22	**–**	200
Costs associated with issuance of ordinary shares	22	**–**	(2)
Amounts placed on deposit		**–**	(2)
Proceeds from borrowing facilities		**102**	485
Repayment of other borrowings		**(243)**	(423)
Dividends paid to shareholders	8	**(150)**	(142)
Dividends paid to non-controlling interests		**(2)**	(3)
		(294)	108
Movement in cash and cash equivalents		**41**	(11)
Cash and cash equivalents at 1 January		**291**	317
Currency variations on cash and cash equivalents		**53**	(15)
Cash and cash equivalents at 31 December	23	**385**	291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1 Accounting policies and presentation

The Group's significant accounting policies are summarised below.

Basis of preparation
The consolidated financial statements (the 'statements') have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union. These statements have been prepared under the historical cost method except where other measurement bases are required to be applied under IFRS as set out below.

These statements have been prepared using all standards and interpretations required for financial periods beginning 1 January 2016. No standards or interpretations have been adopted before the required implementation date.

Standards, revisions and amendments to standards and interpretations
The Group adopted all applicable amendments to standards with an effective date in 2016 with no material impact on its results, assets and liabilities. All other accounting policies have been applied consistently.

Basis of consolidation
The statements incorporate the financial statements of the Company and its subsidiaries (together 'the Group') and the Group's share of the results and equity of its joint ventures and associates (together 'equity accounted investments').

Subsidiaries are entities over which, either directly or indirectly, the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries acquired or sold during the year are included in the Group's results from the date of acquisition or up to the date of disposal. All business combinations are accounted for by the purchase method. Assets, liabilities and contingent liabilities acquired in a business combination are measured at fair value.

Intra-group balances, transactions, income and expenses are eliminated.

Non-controlling interests represent the portion of shareholders' earnings and equity attributable to third-party shareholders.

Equity accounted investments
Joint ventures are entities in which the Group has a long-term interest and exercises joint control with its partners over their financial and operating policies. In all cases, voting rights are 50% or lower. Associated undertakings are entities, being neither a subsidiary nor a joint venture, where the Group has a significant influence. Equity accounted investments are accounted for by the equity method. The Group's share of equity includes goodwill arising on acquisition.

Foreign currencies
Subsidiaries and equity accounted investments account in the currency of their primary economic environment of operation, determined having regard to the currency which mainly influences sales and input costs. Transactions are translated at exchange rates approximating to the rate ruling on the date of the transaction except in the case of material transactions when actual spot rate may be used where it more accurately reflects the underlying substance of the transaction. Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Such transactional exchange differences are taken into account in determining profit before tax.

Material foreign currency movements arising on the translation of intra-group balances where there is no intention of repayment are treated as part of the net investment in a subsidiary and are recognised through equity. Movements on other intra-group balances are recognised through the income statement.

The Group's presentational currency is sterling. On consolidation, results and cash flows of foreign subsidiaries and equity accounted investments are translated to sterling at average exchange rates except in the case of material transactions when the actual spot rate is used where it more accurately reflects the underlying substance of the transaction. Assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Such translational exchange differences are taken to equity.

Profits and losses on the realisation of foreign currency net investments include the accumulated net exchange differences that have arisen on the retranslation of the foreign currency net investments since 1 January 2004 up to the date of realisation.

Presentation of the income statement
IFRS is not fully prescriptive as to the format of the income statement. Line items and subtotals have been presented on the face of the income statement in addition to those required under IFRS.

Sales shown in the income statement are those of subsidiaries.

Operating profit is profit before taxation, finance costs and the share of post-tax earnings of equity accounted investments. In order to achieve consistency and comparability between reporting periods, operating profit is analysed to show separately the results of normal trading performance and individually significant charges and credits. Such items arise because of their size or nature and comprise:

- the impact of the annual goodwill impairment review;
- asset impairment and restructuring charges which arise from events that are significant to any reportable segment;
- amortisation of the fair value of non-operating intangible assets arising on business combinations;
- changes in the fair value of derivative financial instruments and material currency translation movements arising on intra-group funding;
- gains or losses on changes in Group structure which do not meet the definition of discontinued operations or which the Group views as capital rather than revenue in nature;
- profits or losses arising from business combinations including fair value adjustments to pre-combination shareholdings, changes in estimates of contingent consideration made after the provisional fair value period and material expenses and charges incurred on a business combination; and
- significant pension scheme curtailments and settlements.

1 Accounting policies and presentation continued

Presentation of the income statement continued

The Group's post-tax share of equity accounted investment earnings is shown as a separate component of profit before tax. The Group's share of material restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations and other net financing charges and their related taxation are separately identified in the related note.

Net financing costs are analysed to show separately interest payable, interest receivable and other net financing charges. Other net financing charges include the interest charge on net defined benefit plans, specific changes in fair value on net investment hedges and unwind of discounts on fair value amounts established on business combinations.

Revenue recognition

Sales

Revenue from the sale of goods is measured at the fair value of the consideration receivable which generally equates to the invoiced amount, excluding sales taxes and net of allowances for returns, early settlement discounts and rebates. The Group has three principal revenue streams:

Sales of product

This revenue stream accounts for the overwhelming majority of Group sales. Contracts in the Automotive and Land Systems segments operate almost exclusively on this basis, and it also covers a high proportion of the Aerospace segment revenues.

Invoices for goods are raised when the risks and rewards of ownership have passed which, dependent upon contractual terms, may be at the point of despatch, acceptance by the customer or, in Aerospace, certification by the customer.

Many businesses in Automotive and Land Systems recognise an element of revenue via a surcharge or similar raw material cost recovery mechanism. The surcharge invoiced or credited is generally based on prior period movement in raw material price indices applied to current period deliveries. Other cost recoveries are recorded according to the customer agreement. In those instances where recovery of such increases is guaranteed, irrespective of the level of future deliveries, revenue is recognised, or due allowance made, in the same period as the cost movement takes place.

Risk and revenue sharing partnerships (RRSPs)

This revenue stream affects a small number of businesses, exclusively in the Aerospace segment. Revenue is recognised under RRSPs for both the sale of product as detailed above and sales of services, which are recognised by reference to the stage of completion based on services performed to date. The assessment of the stage of completion is dependent on the nature of the contract, but will generally be based on: costs incurred to the extent these relate to services performed up to the reporting date; achievement of contractual milestones where appropriate; or flying hours or equivalent for long-term aftermarket arrangements.

In most RRSP contracts there are two separate phases where the Group earns revenue; sale of products principally to engine manufacturers and aftermarket support. Due to the nature of the industry, the sale of products to engine manufacturers can be deeply discounted with more favourable pricing in the aftermarket phase. The Group accounts for the sale of product in early phases of contracts distinct from the sale of product/service in the aftermarket phase. This generally has the effect of lower margins recognised during the early phase of contracts with higher margins earned during the aftermarket phase. The Group does not believe that margin should be spread evenly over the two distinct phases of RRSP contracts or that accounting losses should be deferred, because it does not consider there is sufficient contractual certainty over the future revenue, should programme volumes not materialise.

Design and build

This revenue stream affects a discrete number of businesses, primarily in the Aerospace segment but also on a smaller scale in the Automotive segment. Generally revenue is only recognised on the sale of product as detailed above, however, on occasions cash is received in advance of work performed to compensate the Group for costs incurred in design and development activities. Where such amounts are received and the risk and rewards of ownership over the development assets are not deemed to have been transferred, amounts are deferred on the balance sheet (in 'customer advances and deferred income') and taken to revenue as the Group performs its contractual obligations either on delivery of product or milestones.

Due to the nature of the design and build contracts there can be significant 'learning curves' while the Group optimises its production processes. During this early phase of these contracts, all costs including any start-up losses are taken directly to the income statement.

Other income

Interest income is recognised using the effective interest rate method.

Sales and other income is recognised in the income statement when it can be reliably measured and its collectability is reasonably assured.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges.

Cost

Cost comprises the purchase price plus costs directly incurred in bringing the asset into use and borrowing costs on qualifying assets, defined as an asset or programme where the period of capitalisation is more than 12 months and the capital value is more than £25 million. Where freehold and long leasehold properties were carried at valuation on 23 March 2000, these values have been retained as book values and therefore deemed cost at the date of the IFRS transition.

Where assets are in the course of construction at the balance sheet date they are classified as capital work in progress. Transfers are made to other asset categories when they are available for use.

Depreciation

Depreciation is not provided on freehold land or capital work in progress. In the case of all other categories of property, plant and equipment, depreciation is provided on a straight-line basis over the course of the financial year from the date the asset is available for use.

Depreciation is applied to specific classes of asset so as to reduce them to their residual values over their estimated useful lives, which are reviewed annually.

The range of depreciation lives are:

	Years
Freehold buildings	Up to 50
Steel powder production plant	18
General plant, machinery, fixtures and fittings	6 to 15
Computers	3 to 5
Commercial vehicles and cars	4 to 5

Property, plant and equipment is reviewed at least annually for indications of impairment. Where an impairment charge arises in the ordinary course of business it is recorded in trading profit. If an impairment charge arises as a part of a wider review of a cash generating unit it is presented separately within operating profit.

Financial assets and liabilities
Financial liabilities are recorded for arrangements where payments, or similar transfers of financial resources, are unavoidable or guaranteed. Interest payable on these balances is recognised using the effective interest rate method.

Borrowings are measured initially at fair value which usually equates to proceeds received and includes transaction costs. Borrowings are subsequently measured at amortised cost.

Cash and cash equivalents comprise cash on hand and demand deposits, and overdrafts together with highly liquid investments of less than 90 days maturity. Other financial assets comprise investments with more than 90 days until maturity. Unless an enforceable right of set-off exists and there is an intention to net settle, the components of cash and cash equivalents are reflected on a gross basis in the balance sheet.

Other financial assets and liabilities, including short-term receivables and payables, are initially recognised at fair value and subsequently measured at amortised cost less any impairment provision unless the impact of the time value of money is considered to be material.

Derivative financial instruments
The Group does not trade in derivative financial instruments. Derivative financial instruments including forward foreign currency contracts and cross-currency interest rate swaps are used by the Group to manage its exposure to risk associated with the variability in cash flows in relation to both recognised assets or liabilities or forecast transactions. All derivative financial instruments are measured at fair value at the balance sheet date.

Where derivative financial instruments are not designated as or not determined to be effective hedges, any gain or loss on remeasurement is taken to the income statement. Where derivative financial instruments are designated as and are effective as cash flow hedges, any gain or loss on remeasurement is held in equity and recycled through the income statement when the designated item is transacted, unless related to the purchase of a business, when recycled against consideration. Where derivative financial instruments are designated as and are effective as net investment hedges, any gain or loss on remeasurement is held in equity and only recycled when the underlying investment is sold or disposed.

If there is a small amount of ineffectiveness but the overall effectiveness is still in the range 80% to 125%, this ineffectiveness is taken to the income statement. Gains or losses on derivative financial instruments no longer designated as effective hedges are also taken directly to the income statement.

Derivatives embedded in non-derivative host contracts are recognised at their fair value when the nature, characteristics and risks of the derivative are not closely related to the host contract. Gains and losses arising on the remeasurement of these embedded derivatives at each balance sheet date are taken to the income statement.

Goodwill
Goodwill consists of the excess of the fair value of the consideration over the fair value of the identifiable intangible and tangible assets net of the fair value of the liabilities including contingencies of businesses acquired at the date of acquisition. Acquisition-related expenses are charged to the income statement as incurred.

Goodwill in respect of business combinations of subsidiaries is recognised as an intangible asset. Goodwill arising on the acquisition of an equity accounted investment is included in the carrying value of the investment.

Goodwill is not amortised but tested at least annually for impairment. Goodwill is carried at cost less any recognised impairment losses that arise from the annual assessment of its carrying value. To the extent that the carrying value exceeds the recoverable amount, determined as the higher of estimated discounted future net cash flows or recoverable amount on a fair value less cost of disposal basis, goodwill is written down to the recoverable amount and an impairment charge is recognised in the income statement.

Other intangible assets
Other intangible assets are stated at cost less accumulated amortisation and impairment charges.

Development costs and participation fees
Where development expenditure results in a new or substantially improved product or process and it is probable that this expenditure will be recovered, it is capitalised. Cost comprises development expenditure and borrowing costs on qualifying assets or fair value on initial recognition when as a result of a business combination. In addition, payments made to engine manufacturers and original equipment manufacturers for participation fees relating to risk and revenue sharing partnerships and long-term agreements, are carried forward in intangible assets to the extent that they can be recovered from future sales.

Amortisation is charged from the date the asset is available for use. In Aerospace, amortisation is charged over the asset's life up to a maximum of 15 years for all programmes other than risk and revenue sharing partnerships where a maximum life of 25 years is assumed, either on a straight-line basis or, where sufficient contractual terms exist providing clarity over volumes that do not reflect a linear progression, a unit of production method is applied. In Automotive, amortisation is charged on a straight-line basis over the asset's life up to a maximum of seven years.

Capitalised development costs, including participation fees, are subject to annual impairment reviews with any resulting impairments charged to the income statement.

Research expenditure and development expenditure not qualifying for capitalisation is written off as incurred.

1 Accounting policies and presentation continued

Other intangible assets continued

Computer software

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised and categorised as intangible assets. Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. Amortisation is provided on a straight-line basis over its useful economic life which is in the range of three to five years.

Assets acquired on business combinations – non-operating intangible assets

Non-operating intangible assets are intangible assets that are acquired as a result of a business combination, which arise from contractual or other legal rights and are not transferable or separable. On initial recognition they are measured at fair value. Amortisation is charged on a straight-line basis to the income statement over their expected useful lives which are:

	Years
Marketing-related assets	
– brands and trademarks	20 to 50
– agreements not to compete	Life of agreement
Customer-related assets	
– order backlog	Length of backlog
– other customer contracts and relationships	2 to 25
Technology-based assets	5 to 25

Inventories

Inventories are valued at the lower of cost and estimated net realisable value with due allowance being made for obsolete or slow-moving items. Cost is determined on a first in, first out or weighted average cost basis. Cost includes raw materials, direct labour, other direct costs and the relevant proportion of works overheads assuming normal levels of activity. Net realisable value is the estimated selling price less estimated selling costs and costs to complete.

Taxation

Current tax and deferred tax are recognised in the income statement unless they relate to items recognised directly in other comprehensive income when the related tax is also recognised in other comprehensive income.

Full provision is made for deferred tax on all temporary differences resulting from the difference between the carrying value of an asset or liability in the consolidated financial statements and its tax base. The amount of deferred tax reflects the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are reviewed at each balance sheet date and are only recognised to the extent that it is probable that they will be recovered against future taxable profits.

Deferred tax is recognised on the unremitted profits of joint ventures. No deferred tax is recognised on the unremitted profits of overseas branches and subsidiaries except to the extent that it is probable that such earnings will be remitted to the parent in the foreseeable future.

Pensions and post-employment benefits

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world. In the UK and in certain overseas companies, pension arrangements are made through externally funded defined benefit schemes, the contributions to which are based on the advice of independent actuaries or in accordance with the rules of the schemes. In other overseas companies, funds are retained within the business to provide for retirement obligations.

The Group also operates a number of defined contribution and defined benefit arrangements which provide certain employees with defined post-employment healthcare benefits.

The Group accounts for all post-employment defined benefit schemes through recognition of the schemes' surpluses or deficits on the balance sheet at the end of each year. Remeasurement of defined benefit plans is included in other comprehensive income. Current and past service costs, curtailments and settlements are recognised within operating profit. Interest charges on net defined benefit plans are recognised in other net financing charges.

For defined contribution arrangements, the cost charged to the income statement represents the Group's contributions to the relevant schemes in the year in which they fall due.

Government refundable advances

Government refundable advances are reported in 'Trade and other payables' in the balance sheet. Refundable advances include amounts advanced by government, accrued interest and directly attributable costs. Refundable advances are provided to the Group to part-finance expenditures on specific development programmes. The advances are provided on a risk sharing basis, i.e. repayment levels are determined subject to the success of the related programme. Balances are held at amortised cost and interest is calculated using the effective interest rate method.

Share-based payments

Share options granted to employees and share-based arrangements put in place since 7 November 2002 are valued at the date of grant or award using an appropriate option pricing model and are charged to operating profit over the performance or vesting period of the scheme. The annual charge is modified to take account of shares forfeited by employees who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely the option will vest.

Provisions

Provisions for onerous or loss-making contracts, warranty exposures, environmental matters, restructuring, employee obligations and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in provisions due to discounting, only recorded where material, is recognised as interest expense within other net financing charges.

Standards, revisions and amendments to standards and interpretations issued but not yet adopted

The Group does not intend to adopt any standard, revision or amendment before the required implementation date. At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 'Financial Instruments' (effective from 1 January 2018).
- IFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018).
- IFRS 16 'Leases' (effective from 1 January 2019).

These standards and other revisions to standards and interpretations which have an implementation date in 2017 or thereafter are being assessed. Further details on the potential implications of IFRS 9 and IFRS 16 will be provided when conclusions have been drawn from assessment work.

IFRS 15

Background

The Group will adopt IFRS 15 'Revenue from Contracts with Customers' for the year ending 31 December 2018 which will change the way that revenue is recognised and expand disclosure for revenue arrangements. This new standard may be adopted using the full retrospective method, where changes would be applied to the comparative information and the cumulative effect recorded at 1 January 2017 or the modified retrospective method, where the cumulative effect of applying the standard would be recorded at 1 January 2018. The implications of this choice are still being assessed.

As IFRS 15 will supersede all existing revenue guidance, it could impact revenue and cost recognition on a significant number of contracts across all our business segments, as well as business processes and information technology systems. With the breadth of this assessment across our multinational group and complexity of judgements involved, particularly in the Aerospace business, evaluation of the effect of IFRS 15 will continue through 2017.

While the timing of revenue could be changed, there will be no impact on either timing or quantum of cash flows.

Progress towards adoption

We have monitored the standard setting process, including amendments to the standard following its issuance and participated in aerospace and defence forums to understand the impact on this division.

We commenced our evaluation of the implications of IFRS 15 during 2016, by evaluating its impact on a select number of contracts across our divisions. With this baseline understanding, we have now developed a draft project plan in order to adopt the new standard on 1 January 2018. We have briefed executive management, the senior finance community and the Group's Audit Committee on our progress towards adoption and anticipate being able to estimate the impacts of adopting IFRS 15 in the second half of 2017.

Implications for the Group

As noted in the revenue recognition accounting policy, the Group currently has three principal revenue streams:

- Sales of product.
- Risk and revenue sharing partnerships (RRSPs).
- Design and build.

Sale of product

The overwhelming majority of Group revenue is earned from the sale of product, with a majority of the contracts in the Automotive businesses and a high proportion of the Aerospace business deriving sales on this basis.

Under IFRS 15 sales will be recognised as the customer obtains control of the goods and services promised in contracts (i.e. performance obligations) and this is likely to be similar to the point when risks and rewards of ownership are passed to the customer, either at the point of despatch or acceptance by the customer. Accordingly there is expected to be little impact on this revenue stream from adoption of the new standard.

However, as part of the impact assessment phase, contractual price downs have been identified in some contracts and under IFRS 15 the value of this 'material right' for the customer would need to be recognised on all relevant product sold. Effectively the new standard takes a view that where products sold are substantially the same, a relatively consistent price should apply to all sales. This would have the impact of deferring some early invoiced revenue to later units sold.

RRSP contracts

While RRSP contracts only affect a small number of businesses in the Group, exclusively in the Aerospace division, the implications of the new accounting standard could be most significant on these revenues during both the sale of product phase and sales of services aftermarket phase.

Due to the nature of RRSP contracts, OE products sold to engine manufacturers are deeply discounted with more favourable pricing in the aftermarket phase. It is likely that IFRS 15 will spread revenues more evenly over the performance obligations identified in the arrangement. Interpretation is evolving in this area as the implication of increasing margins during the early phase of contracts through recognition of contract assets (i.e. unbilled receivables) on the balance sheet, without contractual certainty over future volumes, needs to be fully considered and understood. In addition, IFRS 15 could also significantly impact contracts where the Group has already delivered most of its performance obligations during the OE phase and has little or no further work to perform in the aftermarket phase. In this scenario, revenue that is currently recognised during the aftermarket phase would be recorded earlier, on completion of performance obligations, based on the best estimate of total expected variable consideration.

1 Accounting policies and presentation continued

IFRS 15 continued

Implications for the Group continued

Design and build

This revenue stream affects a discrete number of businesses, primarily in the Aerospace division but also on a smaller scale in the Automotive division. Where cash is received from customers in advance of work performed to compensate the Group for costs incurred in design and development activities, such amounts are considered in the context of risk and rewards of ownership over the development assets. This can lead to deferred income on the balance sheet, which is subsequently taken to revenue as the Group performs its contractual obligations either on delivery of product or on meeting certain performance milestones.

Often the 'non-recurring' price is collected over a specific number of products, based on the expected volume of orders at the time of negotiating the framework agreement. However, similar to the price down example noted earlier, IFRS 15 considers there to be a 'material right' for the customer where they are able to buy future units at a reduced price for expected volumes exceeding the recovery period of incremental pricing. This is also the case in contracts where customers contract to explicitly fund capital expenditure.

In both of these examples a proportion of revenue invoiced could be deferred under IFRS 15 from earlier products sold to units sold later in the arrangement. However, further assessment needs to be undertaken to take account of any changes in pricing that reflect the impact of potential transfer of intellectual property rights.

Other matters

- Participation fees, which are currently amortised through cost of sales will likely be taken as a reduction of revenue.
- In a limited number of arrangements, the Group receives free issue raw materials and is deemed to be the 'principal not agent' in a transaction, taking control of these materials before integrating them with other goods and selling the combined outputs back to the customer. In this scenario there will be a requirement to recognise the cost of materials at fair value and gross up revenues for an equivalent amount.

Significant judgements, key assumptions and estimates

The Group's significant accounting policies are set out above. The preparation of financial statements, in conformity with IFRS, requires the use of estimates, subjective judgement and assumptions that may affect the amounts of assets and liabilities at the balance sheet date and reported profit and earnings for the year. The Directors base these estimates, judgements and assumptions on a combination of past experience, professional expert advice and other evidence that is relevant to the particular circumstance.

Accounting policies where the Directors consider the more complex estimates, judgements and assumptions have to be made are those in respect of post-employment obligations (note 24), derivative and other financial instruments (notes 4b and 20), provisions (note 21) and impairment of non-current assets (note 11c). Details of the principal judgements, assumptions and estimates made are set out in the related notes as identified.

2 Segmental analysis

The Group's reportable segments have been determined based on reports reviewed by the Executive Committee led by the Chief Executive. The operating activities of the Group are largely structured according to the markets served; aerospace, automotive and the land systems markets. Automotive is managed according to product groups; driveline and powder metallurgy. Further to disposal of the Stromag business on 30 December 2016 (see note 4(d) for further details) the Group will change its segments to remove GKN Land Systems for reporting in 2017. The two businesses remaining in the Group that were part of GKN Land Systems will be reported as follows: Wheels and Structures in Other Businesses and Driveshafts and Aftermarket Services in GKN Driveline. Reportable segments derive their sales from the manufacture of products and sale of service. Revenue from royalties is not significant.

(a) Sales

		Automotive			
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2016					
Subsidiaries	**3,352**	**3,716**	**1,032**	**683**	
Equity accounted investments	**71**	**500**	**–**	**21**	
	3,423	**4,216**	**1,032**	**704**	**9,375**
Other businesses					**39**
Management sales					**9,414**
Less: equity accounted investments					**(592)**
Income statement – sales					**8,822**
2015					
Subsidiaries	2,387	3,124	906	670	
Equity accounted investments	–	424	–	23	
	2,387	3,548	906	693	7,534
Acquisitions					
Subsidiaries	102	–	–	–	
Equity accounted investments	11	–	–	–	
	113	–	–	–	113
Other businesses					42
Management sales					7,689
Less: equity accounted investments					(458)
Income statement – sales					7,231

Subsidiary sales comprise £8,281 million (2015: £6,895 million) from the manufacture of product and £541 million (2015: £336 million) from the sale of service.

2 Segmental analysis continued

(b) Trading profit

	GKN Aerospace £m	Automotive GKN Driveline £m	Automotive GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2016					
Trading profit before depreciation and amortisation	**464**	**374**	**164**	**32**	
Depreciation of property, plant and equipment	**(78)**	**(122)**	**(44)**	**(16)**	
Amortisation of operating intangible assets	**(51)**	**(11)**	**(2)**	**(1)**	
Trading profit – subsidiaries	**335**	**241**	**118**	**15**	
Trading profit – equity accounted investments	**4**	**82**	**–**	**3**	
	339	**323**	**118**	**18**	**798**
Other businesses					**(4)**
Corporate and unallocated costs					**(21)**
Management trading profit					**773**
Less: equity accounted investments trading profit					**(89)**
Income statement – trading profit					**684**
2015					
Trading profit before depreciation and amortisation	383	329	148	39	
Depreciation of property, plant and equipment	(59)	(101)	(38)	(15)	
Amortisation of operating intangible assets	(33)	(7)	(1)	(1)	
Trading profit – subsidiaries	291	221	109	23	
Trading profit – equity accounted investments	–	69	–	1	
	291	290	109	24	714
Acquisitions					
Subsidiaries	(5)	–	–	–	
Acquisition-related charges	(13)	–	–	–	
	(18)				(18)
Other businesses					1
Corporate and unallocated costs					(18)
Management trading profit					679
Less: equity accounted investments trading profit					(70)
Income statement – trading profit					609

Acquisition-related charges in 2015 comprise integration costs of £3 million and transaction professional fees of £10 million. There was also a £5 million restructuring charge within the trading profit of Fokker.

No income statement items between trading profit and profit before tax are allocated to management trading profit, which is the Group's segmental measure of profit or loss (see note 3).

During the year ended 31 December 2016, the Group recorded a charge of £39 million in trading profit in respect of a Group-wide restructuring programme. The charge arises in; GKN Aerospace £10 million, GKN Driveline £10 million, GKN Powder Metallurgy £3 million, GKN Land Systems £14 million and Corporate costs £2 million.

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

	GKN Aerospace £m	Automotive: GKN Driveline £m	Automotive: GKN Powder Metallurgy £m	GKN Land Systems £m	Total £m
2016					
Property, plant and equipment and operating intangible assets	**1,373**	**1,350**	**475**	**125**	**3,323**
Working capital	**319**	**15**	**131**	**55**	**520**
Net operating assets	**1,692**	**1,365**	**606**	**180**	
Goodwill and non-operating intangible assets	**868**	**289**	**39**	**25**	
Net investment	**2,560**	**1,654**	**645**	**205**	
2015					
Property, plant and equipment and operating intangible assets	1,208	1,049	375	128	2,760
Working capital	159	22	97	64	342
Net operating assets	1,367	1,071	472	192	
Goodwill and non-operating intangible assets	841	258	29	134	
Net investment	2,208	1,329	501	326	

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

	GKN Aerospace £m	Automotive: GKN Driveline £m	Automotive: GKN Powder Metallurgy £m	GKN Land Systems £m	Other £m	Total £m
2016						
Fixed asset additions						
– property, plant and equipment	**126**	**206**	**63**	**19**	**4**	**418**
– intangible assets	**56**	**31**	**2**	**–**	**–**	**89**
Equity accounted investments	**21**	**205**	**–**	**7**	**–**	**233**
Other non-cash items						
– share-based payments	**1**	**1**	**1**	**–**	**2**	**5**
– impairment charges	**47**	**–**	**–**	**5**	**–**	**52**
2015						
Fixed asset additions						
– property, plant and equipment	99	157	59	14	5	334
– intangible assets	62	18	2	1	1	84
Equity accounted investments	16	171	–	8	–	195
Other non-cash items						
– share-based payments	–	1	–	–	–	1
– impairment charges	63	–	6	–	2	71

2 Segmental analysis continued

(e) Country analysis

	UK £m	US £m	Germany £m	Other countries £m	Total non-UK £m	Total £m
2016						
Management sales by origin	**1,047**	**2,840**	**984**	**4,543**	**8,367**	**9,414**
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	**447**	**1,193**	**369**	**2,802**	**4,364**	**4,811**
2015						
Management sales by origin	956	2,517	863	3,353	6,733	7,689
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	472	999	428	2,352	3,779	4,251

(f) Other sales information

Subsidiary segmental sales gross of inter segment sales are: GKN Aerospace £3,352 million (2015: £2,489 million), GKN Driveline £3,775 million (2015: £3,176 million), GKN Powder Metallurgy £1,036 million (2015: £908 million) and GKN Land Systems £684 million (2015: £672 million). Inter segment transactions take place on an arm's-length basis using normal terms of business.

In 2016 and 2015, no customer accounted for 10% or more of subsidiary sales or management sales.

Management sales by product line are: GKN Aerospace – aerostructures 50% (2015: 48%), engine components and sub-systems 36% (2015: 44%), wiring and special products 9% (2015: 7%) and services 5% (2015: 1%). GKN Driveline – CVJ systems 61% (2015: 60%), all-wheel drive and e-drive systems 38% (2015: 39%) and other goods 1% (2015: 1%). GKN Powder Metallurgy – sintered components 85% (2015: 84%) and metal powders 15% (2015: 16%). GKN Land Systems – power management devices 43% (2015: 40%), wheels and structures 29% (2015: 33%) and aftermarket 28% (2015: 27%).

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

	2016 £m	2015 £m
Segmental analysis – property, plant and equipment and operating intangible assets	**3,323**	2,760
Segmental analysis – goodwill and non-operating intangible assets	**1,221**	1,262
Goodwill	**(588)**	(591)
Other businesses	**25**	25
Corporate assets	**9**	9
Balance sheet – property, plant and equipment and other intangible assets	**3,990**	3,465

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

	2016 £m	2015 £m
Segmental analysis – working capital	**520**	342
Other businesses	**11**	13
Corporate items	**(22)**	(45)
Accrued interest	**(25)**	(25)
Restructuring provisions	**(10)**	(1)
Equity accounted investment funding	**(10)**	(10)
Deferred and contingent consideration	**(6)**	(3)
Government refundable advances	**(96)**	(86)
Balance sheet – inventories, trade and other receivables, trade and other payables and provisions	**362**	185

3 Adjusted performance measures

(a) Reconciliation of reported and management performance measures

	2016			
	As reported £m	**Equity accounted investments £m**	**Adjusting and non-trading items £m**	**Management basis £m**
Sales	**8,822**	**592**	**–**	**9,414**
Trading profit	**684**	**89**	**–**	**773**
Change in value of derivative and other financial instruments	**(154)**	**–**	**154**	**–**
Amortisation of non-operating intangible assets arising on business combinations	**(103)**	**–**	**103**	**–**
Gains and losses on changes in Group structure	**(9)**	**–**	**9**	**–**
Acquisition-related restructuring charges	**(31)**	**–**	**31**	**–**
Impairment charges	**(52)**	**–**	**52**	**–**
Operating profit	**335**	**89**	**349**	**773**
Share of post-tax earnings of equity accounted investments	**73**	**(89)**	**–**	**(16)**
Interest payable	**(86)**	**–**	**–**	**(86)**
Interest receivable	**7**	**–**	**–**	**7**
Other net financing charges	**(37)**	**–**	**37**	**–**
Net financing costs	**(116)**	**–**	**37**	**(79)**
Profit before taxation	**292**	**–**	**386**	**678**
Taxation	**(48)**	**–**	**(96)**	**(144)**
Profit after tax for the year	**244**	**–**	**290**	**534**
Profit attributable to non-controlling interests	**(2)**	**–**	**(2)**	**(4)**
Profit attributable to owners of the parent	**242**	**–**	**288**	**530**
Earnings per share – pence	**14.1**	**–**	**16.9**	**31.0**

	2015			
Sales	7,231	458	–	7,689
Trading profit	609	70	–	679
Change in value of derivative and other financial instruments	(122)	–	122	–
Amortisation of non-operating intangible assets arising on business combinations	(80)	–	80	–
Gains and losses on changes in Group structure	(1)	–	1	–
Impairment charges	(71)	–	71	–
Reversal of inventory fair value adjustment arising on business combinations	(12)	–	12	–
Operating profit	323	70	286	679
Share of post-tax earnings of equity accounted investments	59	(70)	–	(11)
Interest payable	(72)	–	–	(72)
Interest receivable	7	–	–	7
Other net financing charges	(72)	–	72	–
Net financing costs	(137)	–	72	(65)
Profit before taxation	245	–	358	603
Taxation	(43)	–	(90)	(133)
Profit after tax for the year	202	–	268	470
Profit attributable to non-controlling interests	(5)	–	–	(5)
Profit attributable to owners of the parent	197	–	268	465
Earnings per share – pence	11.8	–	16.0	27.8

Basic and management earnings per share use a weighted average number of shares of 1,712.1 million (2015: 1,674.1 million). Also see note 7.

3 Adjusted performance measures continued

(b) Summary of management performance measures by segment

	2016			2015		
	Sales £m	**Trading profit £m**	**Margin**	Sales £m	Trading profit £m	Margin
GKN Aerospace	**3,423**	**339**	**9.9%**	2,387	291	12.2%
GKN Driveline	**4,216**	**323**	**7.7%**	3,548	290	8.2%
GKN Powder Metallurgy	**1,032**	**118**	**11.4%**	906	109	12.0%
GKN Land Systems	**704**	**18**	**2.6%**	693	24	3.5%
Other businesses	**39**	**(4)**		42	1	
Corporate and unallocated costs	**–**	**(21)**		–	(18)	
Acquisition – Fokker (GKN Aerospace)	**–**	**–**		113	(18)	
	9,414	**773**	**8.2%**	7,689	679	8.8%

4 Operating profit

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

(a) Trading profit

	2016 £m	2015 £m
Sales by subsidiaries	**8,822**	7,231
Operating costs		
Change in stocks of finished goods and work in progress	**68**	16
Raw materials and consumables	**(3,850)**	(3,177)
Staff costs (note 9)	**(2,309)**	(1,887)
Redundancy and other employee-related amounts (ii)	**(43)**	(22)
Depreciation of property, plant and equipment (iii)	**(263)**	(218)
Amortisation of operating intangible assets	**(67)**	(43)
Operating lease rentals payable:		
Plant and equipment	**(25)**	(18)
Property	**(43)**	(33)
Impairment of trade receivables	**(5)**	(4)
Amortisation of government capital grants	**2**	2
Net exchange differences on foreign currency transactions	**(25)**	2
Acquisition-related charges	**–**	(13)
Other costs	**(1,578)**	(1,227)
	(8,138)	(6,622)
Trading profit	**684**	609

(i) EBITDA is subsidiary trading profit before depreciation and amortisation charges included in trading profit. EBITDA was £1,014 million (2015: £870 million).
(ii) Reorganisation costs reflect actions in the ordinary course of business to reduce costs, improve productivity and rationalise facilities in continuing operations. This cost is included in trading profit, and includes a charge of £39 million in respect of a Group-wide restructuring programme, see note 2b for further details.
(iii) Including depreciation charged on assets held under finance leases of less than £1 million (2015: less than £1 million).
(iv) Research and development expenditure in subsidiaries was £186 million (2015: £157 million), net of customer and government funding.

Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	2016 £m	2015 £m
Fees payable to the Group's auditors for the audit of the parent company	**(0.4)**	(0.5)
Fees payable to the Group's auditors and their associates for other services to the Group:		
– Audit of the financial statements of subsidiaries	**(4.5)**	(4.6)
Total audit fees payable to the Group's auditors	**(4.9)**	(5.1)
– Audit-related assurance services	**(0.2)**	(0.1)
– Tax advisory services	**–**	(0.3)
– Tax compliance services	**–**	(0.5)
– Other services	**–**	(0.2)
Total fees for other services	**(0.2)**	(1.1)
Fees payable to the Group's auditors and their associates in respect of associated pension schemes:		
– Audit	**–**	(0.1)
	–	(0.1)
Total fees payable to the Group's auditors and their associates	**(5.1)**	(6.3)

£0.1 million of audit fees in relation to the audit of subsidiaries' financial statements was payable to other audit firms in addition to the amounts above.

All fees payable to the Group's auditors include amounts in respect of expenses. All fees payable to the Group's auditors have been charged to the income statement. Deloitte LLP replaced PricewaterhouseCoopers LLP as the Group's auditors for 2016.

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

	2016 £m	2015 £m
Forward currency contracts (not hedge accounted)	**(135)**	(103)
Embedded derivatives	**4**	1
	(131)	(102)
Net gains and losses on intra-group funding		
Arising in year	**(23)**	(20)
	(154)	(122)

IAS 39 requires derivative financial instruments to be valued at the balance sheet date and reflected in the balance sheet as an asset or liability. Any subsequent change in value is reflected in the income statement unless hedge accounting is achieved. Such movements do not affect cash flow or the economic substance of the underlying transaction.

(c) Amortisation of non-operating intangible assets arising on business combinations

	2016 £m	2015 £m
Marketing-related	**(4)**	(4)
Customer-related	**(67)**	(57)
Technology-based	**(32)**	(19)
	(103)	(80)

4 Operating profit continued

(d) Gains and losses on changes in Group structure

	2016 £m	2015 £m
Businesses disposed	**9**	(5)
Business closures	**(18)**	–
Gain on contingent consideration	**–**	4
	(9)	(1)

On 30 December 2016, the Group sold its Stromag business (part of the GKN Land Systems division) to Altra Industrial Motion Corp. for cash consideration of £159 million excluding an overdraft disposed of £7 million and before professional and completion fees. The profit on sale of £9 million comprises an £11 million profit on disposal of net assets and £2 million loss from reclassification of previous currency variations from other reserves.

On 17 November 2016, the Group confirmed the closure of its GKN Aerospace business in Yeovil. The company previously had a contract to make airframes for the Royal Navy AW159 Wild Cat helicopters but its main customer which assembles the helicopters, announced that it was taking this contract in-house. The site closure, which is expected to conclude by the end of 2017, has necessitated a reorganisation charge of £12 million comprising: redundancy of £4 million; impairment of property, plant and equipment of £4 million; write down of inventories of £2 million; and other associated costs of £2 million. There has also been a further decision to curtail operations of a GKN Driveline business with an associated reorganisation charge of £6 million comprising redundancy of £4 million and impairment of goodwill of £2 million.

On 30 January 2015, the Group sold GKN Sinter Metals Argentina SA for a cash consideration of £1 million before professional fees. The loss on sale of £5 million comprises a £1 million loss on disposal of net assets and £4 million loss from reclassification of previous currency variations from other reserves.

During 2015, following reassessment of fair value, £4 million of contingent consideration was released to the income statement.

(e) Acquisition-related restructuring charges

	2016 £m	2015 £m
Redundancy and other employee-related amounts	**(27)**	–
Integration and other expenses	**(4)**	–
Restructuring charges	**(31)**	–

Restructuring charges, separately identified, relate to the recently acquired Fokker Technologies Group B.V. business within GKN Aerospace.

5 Net financing costs

	2016 £m	2015 £m
(a) Interest payable and fee expense		
Short-term bank and other borrowings	**(12)**	(10)
Repayable within five years	**(41)**	(34)
Repayable after five years	**(27)**	(25)
Government refundable advances	**(6)**	(3)
	(86)	(72)
Interest receivable		
Short-term investments, loans and deposits	**7**	3
Tax case net interest recovery (see note 6)	**–**	4
	7	7
Net interest payable and receivable	**(79)**	(65)

	2016 £m	2015 £m
(b) Other net financing charges		
Interest charge on net defined benefit plans	**(53)**	(49)
Fair value changes on cross-currency interest rate swaps	**18**	(17)
Unwind of discounts	**(2)**	(6)
	(37)	(72)

6 Taxation

(a) Tax expense

Analysis of charge in year	2016 £m	2015 £m
Current tax (charge)/credit		
Current year charge	**(67)**	(121)
Utilisation of previously unrecognised tax losses and other assets	**1**	38
Net movement on provisions for uncertain tax positions	**9**	(23)
Adjustments in respect of prior years	**9**	–
	(48)	(106)
Deferred tax (charge)/credit		
Origination and reversal of temporary differences	**–**	30
Tax on change in value of derivative financial instruments	**14**	31
Other changes in unrecognised deferred tax assets	**(3)**	1
Adjustments in respect of prior years	**(11)**	1
	–	63
Total tax charge for the year	**(48)**	(43)

Analysed as:

	2016 £m	2015 £m
Tax in respect of management profit		
Current tax	**(40)**	(107)
Deferred tax	**(104)**	(26)
	(144)	(133)
Tax in respect of items excluded from management profit		
Current tax	**(8)**	1
Deferred tax	**104**	89
	96	90
Total for tax charge for the year	**(48)**	(43)

Book tax rate

The net movement on provisions of £9 million principally follows resolution of disputes in Turkey, France and Italy.

In 2015, the Group used £38 million of previously unrecognised tax losses against taxable profits reducing the prior year current tax charge. The uncertainties preventing recognition of these losses will not be resolved until 2017 at the earliest and a corresponding provision was created against their use.

Management tax rate

The tax charge arising on management profits of subsidiaries of £605 million (2015: £544 million) was £144 million (2015: £133 million) giving an effective tax rate of 24% (2015: 24%).

6 Taxation continued

(a) Tax expense continued

Judgements and estimates

The Group operates in many jurisdictions and is subject to tax audits which are often complex and can take several years to conclude. Therefore, the accrual for current tax includes provisions for uncertain tax positions which require estimates for each matter and the exercise of judgement in respect of the interpretation of tax laws and the likelihood of challenge to historical tax positions. Management uses in-house tax experts, professional advisers and previous experience when assessing tax risks. Where appropriate, estimates of interest and penalties are included in these provisions. As amounts provided for in any year could differ from eventual tax liabilities, subsequent adjustments which have a material impact on the Group's tax rate and/or cash tax payments may arise. Tax payments comprise payments on account and payments on the final resolution of open items and, as a result, there can be substantial differences between the charge in the income statement and cash tax payments. Where companies utilise brought forward tax losses such that little or no tax is paid, this also results in differences between the tax charge and cash tax payments. With regard to deferred tax, judgement is required for the recognition of deferred tax assets, which is based on expectations of future financial performance in particular legal entities or tax groups.

	2016		2015	
Tax reconciliation	**£m**	**%**	£m	%
Profit before taxation	**292**		245	
Less share of post-tax earnings of equity accounted investments	**(73)**		(59)	
Profit before taxation excluding equity accounted investments	**219**		186	
Tax charge calculated at 20% (2015: 20.25%) standard UK corporate tax rate	**(44)**	**(20)**	(38)	(20)
Differences between UK and overseas corporate tax rates	**(30)**	**(13)**	(34)	(18)
Non-deductible and non-taxable items	**36**	**16**	19	10
Recognition of previously unrecognised tax losses	**–**	**–**	1	1
Utilisation of previously unrecognised tax losses and other assets	**1**	**–**	38	20
Changes in tax rates	**(17)**	**(8)**	(2)	(1)
Other changes in deferred tax assets	**(1)**	**–**	(5)	(3)
Tax charge on ordinary activities	**(55)**	**(25)**	(21)	(11)
Net movement on provision for uncertain tax positions	**9**	**4**	(23)	(12)
Adjustments in respect of prior years	**(2)**	**(1)**	1	–
Total tax charge for the year	**(48)**	**(22)**	(43)	(23)

Non-deductible and non-taxable items include foreign exchange movements that are not taxable (£45 million), impairment of assets which are not deductible for tax purposes (£11 million) and other items including tax incentives (£2 million). Foreign exchange movements in 2016 were unusually high. The rate change primarily relates to the change of rate in the UK discussed below.

(b) Tax included in other comprehensive income

Analysis of credit/(charge) in year	**2016 £m**	2015 £m
Deferred tax on post-employment obligations	**60**	(46)
Deferred tax on hedged foreign currency gains and losses	**39**	–
Deferred tax on other foreign currency gains and losses on intra-group funding	**(3)**	1
Current tax on post-employment obligations	**3**	4
Current tax on foreign currency gains and losses on intra-group funding	**(50)**	(6)
	49	(47)

(c) Current tax

	2016 £m	2015 £m
Assets	**7**	9
Liabilities	**(142)**	(121)
	(135)	(112)

(d) Recognised deferred tax

	2016 £m	2015 £m
Assets	**557**	388
Liabilities	**(227)**	(157)
	330	231

There is no deferred tax charge in the income statement in the year (2015: £63 million credit) and a deferred tax credit of £96 million recorded directly in other comprehensive income (2015: £45 million charge). These movements are impacted by the recognition and use of deferred tax assets (primarily in respect of actuarial losses).

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below:

	Assets			Liabilities		
	Post-employment obligations £m	Tax losses £m	Other £m	Fixed assets £m	Other £m	Total £m
At 1 January 2016	**245**	**176**	**157**	**(339)**	**(8)**	**231**
Businesses disposed	**(1)**	**1**	**(1)**	**15**	**–**	**14**
Included in the income statement	**(2)**	**(19)**	**18**	**5**	**(2)**	**–**
Included in other comprehensive income	**60**	**–**	**36**	**–**	**–**	**96**
Currency variations	**23**	**19**	**19**	**(72)**	**–**	**(11)**
At 31 December 2016	**325**	**177**	**229**	**(391)**	**(10)**	**330**
At 1 January 2015	285	93	95	(283)	(6)	184
Included in the income statement	6	(10)	42	28	(3)	63
Included in other comprehensive income	(46)	–	1	–	–	(45)
Businesses acquired	2	92	17	(74)	–	37
Currency variations	(2)	1	2	(10)	1	(8)
At 31 December 2015	245	176	157	(339)	(8)	231

The primary territories which have tax losses and other temporary differences are the UK and the Netherlands. These territories have both recognised and unrecognised deferred tax assets. Deferred tax assets are recognised where, based on management projections, the future availability of taxable profits to absorb the deductions before any applicable time limits expire is probable. Deferred tax assets (including tax losses) are not recognised where the Group's ability to utilise them is not probable, for example where management projections indicate there will be insufficient future profits before losses expire, or in cases where the quantum of losses is uncertain (i.e. subject to cases such as the FII GLO).

'Other' deferred tax arises mainly in relation to items that are taxable or tax deductible in a different period than the income or expense is accrued in the financial statements. Other deferred tax assets include £139 million relating to derivatives (2015: £85 million).

(e) Unrecognised deferred tax assets

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

	2016			2015		
	Tax value £m	Gross £m	Expiry period	Tax value £m	Gross £m	Expiry period
Tax losses – with expiry: national	**120**	**474**	**2017-2026**	106	421	2016-2034
Tax losses – with expiry: local	**8**	**277**	**2017-2036**	6	190	2016-2034
Tax losses – without expiry	**50**	**258**		49	287	
Total tax losses	**178**	**1,009**		161	898	
Other temporary differences	**15**	**46**		6	32	
Unrecognised deferred tax assets	**193**	**1,055**		167	930	

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries except where the distribution of such profits is planned. If these earnings were remitted in full, tax of £41 million (2015: £18 million) would be payable.

6 Taxation continued

(f) Changes in UK tax rate

The effective tax rate for the year was 20% following a reduction to the rate on 1 April 2015. A further reduction to 19% from 1 April 2017 and 17% from 1 April 2020 have been substantively enacted. UK temporary differences are measured at the rate at which they are expected to reverse.

New legislation will become effective in April 2017 which will restrict the use of brought forward losses in the UK. This legislation is not substantively enacted. It is anticipated this will not affect the ability to use recognised deferred tax assets but may affect the period over which the losses can be utilised.

(g) Franked investment income – litigation

Since 2003, the Group has been involved in litigation with HMRC in respect of various advance corporate tax payments and corporate tax paid on certain foreign dividends which, in its view, were levied by HMRC in breach of the Group's EU community law rights. The most recent Court of Appeal judgment in the case was published in November 2016. This judgment was broadly positive, but HMRC has sought leave to appeal.

The continuing complexity of the remaining case and uncertainty over the issues raised (and in particular which points HMRC may seek to appeal) means that it is not possible to predict the final outcome of the litigation with any reasonable degree of certainty. A successful outcome could result in the Group being able to recognise additional deferred tax assets in the UK and receiving cash payments from HMRC.

GKN has previously received payments from HMRC in respect of the case, principally interest, which have been recognised as received. In August 2015, the Group agreed a settlement of £12 million with HMRC in respect of the Foreign Income Dividends element of the claim. This resulted in an interest receipt, net of restitutional and other charges, of £4 million.

7 Earnings per share

	2016			2015		
	Earnings £m	**Weighted average number of shares million**	**Earnings per share pence**	Earnings £m	Weighted average number of shares million	Earnings per share pence
Basic	**242**	**1,712.1**	**14.1**	197	1,674.1	11.8
Dilutive securities	**–**	**13.9**	**(0.1)**	–	7.7	(0.1)
Diluted	**242**	**1,726.0**	**14.0**	197	1,681.8	11.7

Management basis earnings per share of 31.0p (2015: 27.8p) is presented in note 3 and uses the weighted average number of shares consistent with basic earnings per share calculations.

8 Dividends

	Paid or proposed in respect of		Recognised		
	2016 pence	2015 pence	2017 £m	**2016 £m**	2015 £m
2014 final dividend paid	**–**	–	–	**–**	92
2015 interim dividend paid	**–**	2.9	–	**–**	50
2015 final dividend paid	**–**	5.8	–	**99**	–
2016 interim dividend paid	**2.95**	–	–	**51**	–
2016 final dividend proposed	**5.9**	–	101	**–**	–
	8.85	8.7	101	**150**	142

The 2016 final proposed dividend will be paid on 17 May 2017 to shareholders who are on the register of members at close of business on 7 April 2017.

9 Employees including Directors

Employee benefit expense	2016 £m	2015 £m
Wages and salaries	**(1,849)**	(1,513)
Social security costs	**(350)**	(285)
Post-employment costs	**(105)**	(88)
Share-based payments	**(5)**	(1)
	(2,309)	(1,887)

Redundancy costs are not included in the above table, see note 4(a) for further details.

Average monthly number of employees (including Executive Directors)	2016 Number	2015 Number
By business		
GKN Aerospace	**16,729**	13,046
GKN Driveline	**21,874**	20,986
GKN Powder Metallurgy	**6,739**	6,669
GKN Land Systems	**4,615**	4,933
Other businesses	**1,204**	1,215
Corporate	**220**	214
Total	**51,381**	47,063

Key management

The key management of the Group comprises GKN plc Board Directors and members of the Group's Executive Committee during the year and their aggregate compensation is shown below. More detailed disclosure on Directors' remuneration is set out in the Directors' remuneration report.

Key management compensation	2016 £m	2015 £m
Salaries and short-term employee benefits	**7.7**	7.3
Post-employment benefits	**1.1**	0.4
Share-based and medium-term incentives and benefits	**0.6**	0.3
	9.4	8.0

The amount outstanding at 31 December 2016 in respect of annual short-term variable remuneration payable in cash was £2.2 million (2015: £2.0 million). Key management participate in certain incentive arrangements where the key performance metric is management earnings per share using the cash tax rate which is discussed in the Strategic Report. Management EPS using the cash tax rate is 33.8p (2015: 30.4p). A total of £250,493 in dividends was received by key management in 2016 (2015: £331,136).

10 Share-based payments

The total charge for the year relating to share-based payment plans was £5 million (2015: £1 million) all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £5 million (2015: £1 million). The current year's charge includes amounts for the Share Incentive and Retention Plan awards granted in 2015 (£4 million) and various awards under the Sustainable Earnings Plan (£1 million), including the 2016 grant (see below for further details).

The Group has granted options over shares to employees for a number of years under different schemes. Where grants were made after 7 November 2002 they have been accounted for as required by IFRS 2 'Share-based payment'. Details of awards made in the year that impact the 2016 accounting charge relate to the Sustainable Earnings Plan (SEP):

Sustainable Earnings Plan (SEP)
Awards comprising Core and Sustainability Awards were made to Directors and certain senior employees in August 2012, March 2013, March 2014, March 2015 and March 2016. Core and Sustainability Awards are subject to performance targets with Core Awards subject to achievement of EPS growth targets over an initial three-year performance period, and Sustainability Awards subject to the highest level of EPS attained in any year during the core performance period being achieved or exceeded in years four and five. Sustainability Awards will be reduced to the extent that the target in the core performance period has not been met. Sustainability Awards are measured independently in years four and five. 50% of Core Awards will be released at the end of year three; the balance of Core Awards and any Sustainability Awards will be released at the end of year five. There is no provision for retesting performance for either the Core or Sustainability Awards. On vesting, dividends are treated as having accrued on the shares from the date of grant to the date of release with the value delivered in either shares or cash.

Details of SEP (Core Award and Sustainability Awards) granted during the year are set out below:

	Shares granted during year	Weighted average fair value at measurement date
2016 SEP awards	9,611,028	£2.72

The fair value of shares awarded under the SEP is calculated as the share price on the grant date.

Executive Share Option Scheme (ESOS)
The only outstanding share options are under the ESOS and movements over the year to 31 December 2016 are shown below:

	2016		2015	
	Number 000s	**Weighted average exercise price pence**	Number 000s	Weighted average exercise price pence
Outstanding at 1 January	**2,419**	**140.99**	3,997	139.31
Forfeited	**(10)**	**134.60**	–	–
Exercised	**(422)**	**142.84**	(1,578)	136.74
Outstanding at 31 December	**1,987**	**140.63**	2,419	140.99
Exercisable at 31 December	**1,987**	**140.63**	2,419	140.99

For options outstanding at 31 December, the range of exercise prices and weighted average contractual life is shown in the following table:

	2016		2015	
Range of exercise price	**Number of shares 000s**	**Contractual weighted average remaining life years**	Number of shares 000s	Contractual weighted average remaining life years
110p to 145p	**1,588**	**3.08**	1,901	4.06
195p to 220p	**399**	**4.25**	518	5.25

The weighted average share price during the year for options exercised over the year was 295.1p (2015: 327.6p).

Liabilities in respect of share-based payments were not material at either 31 December 2016 or 31 December 2015. There were no vested rights to cash or other assets at either 31 December 2016 or 31 December 2015.

11 Goodwill and other intangible assets

(a) Goodwill

	2016 £m	2015 £m
Cost		
At 1 January	**840**	714
Businesses acquired	**4**	104
Businesses disposed	**(74)**	–
Currency variations	**154**	22
At 31 December	**924**	840
Accumulated impairment		
At 1 January	**249**	216
Charge for the year	**40**	23
Currency variations	**47**	10
At 31 December	**336**	249
Net book amount at 31 December	**588**	591

There has been no change to the provisional goodwill arising on the Group's acquisition of Fokker Technologies Group B.V. in 2015.

The carrying value of goodwill at 31 December comprised:

Reportable segment	Business	Geographical location	2016 £m	2015 £m
GKN Aerospace	Aerostructures	North America	**41**	34
	Engine Systems	North America and Europe	**50**	42
	Engine Products – West	North America	**79**	91
	Fokker	Europe	**121**	103
GKN Driveline	Driveline	Americas	**145**	119
	Driveline	Europe	**61**	55
GKN Powder Metallurgy	Hoeganaes	North America	**28**	24
GKN Land Systems	Power Management Devices	Europe	**–**	64
			525	532
Other businesses not individually significant to the carrying value of goodwill			**63**	59
			588	591

Impairment charges of £38 million (2015: £23 million) have been recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges', see note 11c for further details. There is a further £2 million impairment charge following a decision to curtail operations of a business in GKN Driveline, which has been recorded in the Income Statement as an adjusting and non-trading item within the line 'gains and losses on changes in group structure', see note 4d for further details.

11 Goodwill and other intangible assets continued

(b) Other intangible assets

	2016						
				Assets arising on business combinations			
	Development costs £m	Participation fees £m	Computer software £m	Marketing-related £m	Customer-related £m	Technology-based £m	Total £m
Cost							
At 1 January 2016	**562**	**158**	**105**	**66**	**673**	**303**	**1,867**
Additions	**68**	**11**	**10**	**–**	**–**	**–**	**89**
Disposals	**(4)**	**–**	**(2)**	**–**	**–**	**–**	**(6)**
Businesses disposed	**–**	**–**	**(1)**	**(5)**	**(50)**	**(23)**	**(79)**
Currency variations	**59**	**32**	**15**	**11**	**106**	**55**	**278**
At 31 December 2016	**685**	**201**	**127**	**72**	**729**	**335**	**2,149**
Accumulated amortisation							
At 1 January 2016	**124**	**27**	**82**	**8**	**276**	**85**	**602**
Charge for the year							
Charged to trading profit	**46**	**10**	**11**	**–**	**–**	**–**	**67**
Non-operating intangible assets	**–**	**–**	**–**	**4**	**67**	**32**	**103**
Disposals	**–**	**–**	**(2)**	**–**	**–**	**–**	**(2)**
Businesses disposed	**–**	**–**	**(1)**	**(1)**	**(18)**	**(12)**	**(32)**
Currency variations	**10**	**7**	**12**	**1**	**45**	**16**	**91**
At 31 December 2016	**180**	**44**	**102**	**12**	**370**	**121**	**829**
Net book amount at 31 December 2016	**505**	**157**	**25**	**60**	**359**	**214**	**1,320**

	2015						
Cost							
At 1 January 2015	436	141	107	14	475	248	1,421
Businesses acquired	52	–	–	51	177	43	323
Additions	66	9	9	–	–	–	84
Disposals	(3)	–	(13)	–	–	–	(16)
Currency variations	11	8	2	1	21	12	55
At 31 December 2015	562	158	105	66	673	303	1,867
Accumulated amortisation							
At 1 January 2015	97	18	86	4	210	62	477
Charge for the year							
Charged to trading profit	27	8	8	–	–	–	43
Non-operating intangible assets	–	–	–	4	57	19	80
Impairment charges	1	–	–	–	–	–	1
Disposals	(2)	–	(13)	–	–	–	(15)
Currency variations	1	1	1	–	9	4	16
At 31 December 2015	124	27	82	8	276	85	602
Net book amount at 31 December 2015	438	131	23	58	397	218	1,265

Impairment charges in 2015 were recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges', see note 11c for further details.

Development costs of £148 million (2015: £130 million), £12 million (2015: £6 million) and £12 million (2015: £12 million) in respect of three aerospace programmes are being amortised on a units of production basis. There is £9 million (2015: £17 million) in respect of a customer relationship asset arising from one previous business combination with a remaining amortisation period of one year (2015: two years). There are other intangible assets of £296 million (2015: £262 million) in respect of four programmes with a remaining amortisation period of up to 21 years (2015: 22 years).

(c) Impairment testing

An impairment test is a comparison of the carrying value of the assets of a business or cash generating unit (CGU) to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment results. For the purposes of carrying out impairment tests, the Group's total goodwill has been allocated to a number of CGUs and each of these CGUs has been separately assessed and tested. The size of a CGU varies but is never larger than a primary or secondary reportable segment. In some cases, a CGU is an individual subsidiary or operation.

Consistent with previous years, all goodwill, together with CGUs where there were indicators of impairment, was tested for impairment. An impairment charge of £52 million (2015: £71 million) has been recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges' in respect of three CGUs; two in GKN Aerospace and one in GKN Land Systems.

An impairment charge in Engine Products – West, North America (GKN Aerospace) of £29 million follows loss of key business during the year. The charge comprises goodwill only. The remaining recoverable amount of £161 million represents its value in use, using a discount rate of 13% (2015: 12%). The impairment charge is most sensitive to operating cash flows and a 5% change in this assumption would have impacted the impairment charge by £9 million.

An impairment charge in Engine Products – East, North America (GKN Aerospace) of £18 million follows a market change in demand for the electrochemical machining technology offered by this business. The charge comprises goodwill of £7 million and property, plant and equipment of £11 million. The remaining recoverable amount of £51 million represents its value in use, using a discount rate of 13% (2015: 12%). The impairment charge is most sensitive to operating cash flows and a 5% change in this assumption would have impacted the impairment charge by £3 million.

An impairment charge in Wheels China (GKN Land Systems) of £5 million following a significant period of market decline and loss of future orders. The charge comprises goodwill of £2 million and property, plant and equipment of £3 million. The remaining recoverable amount of £19 million represents its value in use, using a discount rate of 14% (2015: 13%). The impairment charge is most sensitive to operating cash flows and a 1% change in this assumption would have impacted the impairment charge by £3 million.

Significant judgements, assumptions and estimates

All CGUs' recoverable amounts were measured using value in use. Detailed forecasts for the next five years in Automotive and GKN Land Systems CGUs, and ten years in GKN Aerospace have been used which are based on approved annual budgets and strategic projections representing the best estimate of future performance. Operating cash flow projections covering the next ten years are used in GKN Aerospace as they incorporate the anticipated timing of volumes on current programmes. Management consider forecasting over this period to more appropriately reflect the length of business cycle of those CGUs' programmes.

Assumptions and estimates

In determining the value in use of CGUs it is necessary to make a series of assumptions to estimate the present value of future cash flows. In each case, these key assumptions have been made by management reflecting past experience and are consistent with relevant external sources of information.

Operating cash flows

The main assumptions within forecast operating cash flow include the achievement of future sales prices and volumes (including reference to specific customer relationships, product lines and the use of industry-relevant external forecasts of global vehicle production within Automotive businesses and consideration of specific volumes on certain military and commercial programmes within GKN Aerospace), raw material input costs, the cost structure of each CGU and the ability to realise benefits from annual productivity improvements, the impact of foreign currency rates upon selling price and cost relationships and the levels of maintaining capital expenditure required to support forecast production.

Pre-tax risk adjusted discount rates

Pre-tax risk adjusted discount rates are derived from risk-free rates based on long-term government bonds in the territory, or territories, within which each CGU operates or is exposed. A relative risk adjustment (or 'beta') has been applied to risk-free rates to reflect the risk inherent in each CGU relative to all other sectors on average, determined using an average of the betas of comparable listed companies.

The range of pre-tax risk adjusted discount rates set out below have been used for impairment testing. The range of rates reflects the mix of geographical territories within CGUs within the reportable segments.

GKN Aerospace:	UK 9% (2015: 9%), Europe 9% (2015: 8%) and North America 13% (2015: 12%).
GKN Driveline:	North and South America 16%-26% (2015: 14%-25%), Europe 10%-13% (2015: 9%-12%) and Japan and Asia Pacific region countries 12%-21% (2015: 10%-20%).
GKN Powder Metallurgy:	Europe 11% (2015: 10%), North America 16% (2015: 14%) and South America 26% (2015: 25%).
GKN Land Systems:	Europe 10%-13% (2015: 9%-12%), North America 16% (2015: 14%) and Asia Pacific 14% (2015: 13%).

Long-term growth rates

To forecast beyond the detailed cash flows into perpetuity, a long-term average growth rate has been used. In each case, this is not greater than the published International Monetary Fund average growth rate in gross domestic product for the next five-year period in the territory or territories where the CGU is primarily based or has exposure. This results in a range of nominal growth rates:

GKN Aerospace:	UK 3% (2015: 3%), Europe 3% (2015: 2%) and North America 3% (2015: 3%).
GKN Driveline:	North and South America 3%-5% (2015: 3%-6%), Europe 2%-4% (2015: 2%-4%) and Japan and Asia Pacific region countries 2%-9% (2015: 2%-10%).
GKN Powder Metallurgy:	Europe 3% (2015: 2%) and North America 3% (2015: 3%).
GKN Land Systems:	Europe 2%-3% (2015: 2%-4%) and North America 3% (2015: 3%).

12 Property, plant and equipment

	2016				
	Land and buildings £m	Plant and machinery £m	Other tangible assets £m	Capital work in progress £m	Total £m
Cost					
At 1 January 2016	**820**	**4,141**	**156**	**285**	**5,402**
Businesses acquired	**–**	**15**	**–**	**–**	**15**
Additions	**33**	**168**	**8**	**209**	**418**
Disposals	**(5)**	**(124)**	**(8)**	**–**	**(137)**
Businesses disposed	**(11)**	**(16)**	**(8)**	**(1)**	**(36)**
Transfers	**13**	**211**	**9**	**(233)**	**–**
Currency variations	**143**	**715**	**27**	**47**	**932**
At 31 December 2016	**993**	**5,110**	**184**	**307**	**6,594**
Accumulated depreciation and impairment					
At 1 January 2016	**280**	**2,805**	**117**	**–**	**3,202**
Charge for the year					
Charged to trading profit					
Depreciation	**26**	**226**	**11**	**–**	**263**
Impairment charges	**3**	**15**	**–**	**–**	**18**
Disposals	**(1)**	**(99)**	**(7)**	**–**	**(107)**
Businesses disposed	**(2)**	**(10)**	**(5)**	**–**	**(17)**
Currency variations	**50**	**497**	**18**	**–**	**565**
At 31 December 2016	**356**	**3,434**	**134**	**–**	**3,924**
Net book amount at 31 December 2016	**637**	**1,676**	**50**	**307**	**2,670**

	2015				
Cost					
At 1 January 2015	780	3,923	149	245	5,097
Businesses acquired	25	34	3	5	67
Additions	22	122	5	185	334
Disposals	(16)	(65)	(8)	–	(89)
Businesses disposed	(1)	(3)	–	–	(4)
Transfers	8	143	7	(158)	–
Currency variations	2	(13)	–	8	(3)
At 31 December 2015	820	4,141	156	285	5,402
Accumulated depreciation and impairment					
At 1 January 2015	251	2,670	116	–	3,037
Charge for the year					
Charged to trading profit					
Depreciation	21	188	9	–	218
Impairment charges	22	25	–	–	47
Disposals	(14)	(62)	(8)	–	(84)
Businesses disposed	(1)	(3)	–	–	(4)
Currency variations	1	(13)	–	–	(12)
At 31 December 2015	280	2,805	117	–	3,202
Net book amount at 31 December 2015	540	1,336	39	285	2,200

Included within other tangible assets at net book amount are fixtures, fittings and computers £47 million (2015: £37 million) and commercial vehicles and cars £3 million (2015: £2 million). The net book amount of assets under finance leases is £3 million (2015: £3 million) representing land and buildings only.

Impairment charges of £14 million (2015: £47 million) have been recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges', see note 11c for further details. There is a further £4 million impairment charge following the announced closure of the Yeovil, UK (GKN Aerospace) business, which has been recorded in the Income Statement as an adjusting and non-trading item within the line 'gains and losses on changes in group structure', see note 4d for further details.

13 Equity accounted investments

Group share of results

	2016 £m	2015 £m
Sales	**592**	458
Operating costs	**(503)**	(388)
Trading profit	**89**	70
Net financing costs	**(1)**	(1)
Profit before taxation	**88**	69
Taxation	**(15)**	(10)
Share of post-tax earnings	**73**	59

Group share of net book amount

	2016 £m	2015 £m
At 1 January	**195**	174
Share of post-tax earnings	**73**	59
Dividends paid	**(57)**	(55)
Businesses acquired	**–**	16
Currency variations	**22**	1
At 31 December	**233**	195

	2016 £m	2015 £m
Non-current assets	**171**	153
Current assets	**326**	256
Current liabilities	**(259)**	(202)
Non-current liabilities	**(5)**	(12)
	233	195

Equity accounted investments have no significant contingent liabilities to which the Group is exposed, nor has the Group any significant contingent liabilities in relation to its interest in the equity accounted investments. The share of capital commitments of the equity accounted investments is shown in note 27.

The Group has one significant joint venture within GKN Driveline, Shanghai GKN HUAYU Driveline Systems Co Limited (SDS), with 100% of sales of £870 million (2015: £746 million), trading profit of £153 million (2015: £134 million), an interest charge of £1 million (2015: nil) and a tax charge of £26 million (2015: £20 million) leaving retained profit of £126 million (2015: £114 million). Net assets of £341 million (2015: £286 million) comprise non-current assets of £236 million (2015: £206 million), current assets of £384 million (2015: £290 million), current liabilities of £279 million (2015: £210 million) and non-current liabilities of nil (2015: nil). During 2016, SDS paid a dividend to the Group of £54 million (2015: £52 million). Further information about SDS can be found in note 5 to the GKN plc company financial statements.

14 Other receivables and investments

	2016 £m	2015 £m
Investments	**7**	2
Indirect taxes and amounts recoverable under employee benefit plans	**18**	17
Other receivables	**24**	23
	49	42

Included in other receivables in 2015 was an indemnity asset of £7 million, which was sold with the disposal of Stromag, see note 4(d).

During the year, the Group acquired a 19.8% share in Nanjing FAYN Piston Ring Co. Ltd., a business based in China, for £5 million.

15 Inventories

	2016 £m	2015 £m
Raw materials	**535**	448
Work in progress	**566**	467
Finished goods	**330**	255
	1,431	1,170

Inventories of £58 million (2015: £49 million) are carried at fair value less costs of disposal. The amount of any write-down of inventory recognised as an expense in the year was £2 million (2015: nil).

16 Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**1,360**	1,094
Amounts owed by equity accounted investments	**11**	12
Other receivables	**187**	131
Prepayments	**36**	34
Indirect taxes recoverable	**54**	40
	1,648	1,311
Provisions for doubtful debts against trade receivables		
At 1 January	**(11)**	(10)
Charge for the year		
Additions	**(5)**	(4)
Unused amounts reversed	**5**	4
Amounts used	**2**	1
Currency variations	**(2)**	(2)
At 31 December	**(11)**	(11)
Trade receivables subject to provisions for doubtful debts	**13**	13
Ageing analysis of trade receivables and amounts owed by equity accounted investments past due but not impaired		
Up to 30 days overdue	**80**	64
31 to 60 days overdue	**16**	16
61 to 90 days overdue	**7**	4
More than 90 days overdue	**19**	31

There is no provision against other receivable categories.

17 Trade and other payables

	2016		2015	
	Current £m	Non-current £m	Current £m	Non-current £m
Amounts owed to suppliers and customers	**(1,586)**	**(38)**	(1,242)	(29)
Amounts owed to equity accounted investments	**(13)**	**–**	(12)	–
Accrued interest	**(25)**	**–**	(25)	–
Government refundable advances	**(13)**	**(83)**	(8)	(78)
Deferred and contingent consideration	**(6)**	**–**	–	(2)
Payroll taxes, indirect taxes and audit fees	**(113)**	**–**	(98)	(31)
Amounts due to employees and employee benefit plans	**(274)**	**(57)**	(216)	(36)
Government grants	**(2)**	**(14)**	(1)	(8)
Customer advances and deferred income	**(154)**	**(235)**	(155)	(241)
	(2,186)	**(427)**	(1,757)	(425)

Non-current amounts owed to suppliers and customers fall due within two years. Government refundable advances are forecast to fall due for repayment between 2017 and 2055. During 2016, £1 million of deferred and contingent consideration was paid in relation to milestone payments following the acquisition of Sheets Manufacturing Inc during 2015.

Included within amounts owed to suppliers and customers is £86 million (2015: £61 million) payable to banks in respect of supply chain finance arrangements.

Customer advances and deferred income comprises cash receipts from customers in advance of the Group completing its performance obligations. Non-current amounts in respect of customer advances and deferred income fall due as follows: one to two years £76 million (2015: £44 million), two to five years £83 million (2015: £108 million) and over five years £76 million (2015: £89 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

18 Net borrowings

(a) Analysis of net borrowings

	Notes	Current	Non-current				Total
		Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m	£m
2016							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	i	–	–	–	(446)	(446)	(446)
£350 million 6¾% 2019 unsecured bond	i	–	–	(349)	–	(349)	(349)
Unsecured committed bank borrowings							
European Investment Bank	i	(16)	(16)	(16)	–	(32)	(48)
2019 Committed Revolving Credit Facility		–	–	–	–	–	–
Other (net of unamortised issue costs)		–	(2)	(7)	(4)	(13)	(13)
Finance lease obligations	iii	(1)	–	–	(2)	(2)	(3)
Bank overdrafts		(26)	–	–	–	–	(26)
Other short-term bank borrowings		(21)	–	–	–	–	(21)
Borrowings		**(64)**	**(18)**	**(372)**	**(452)**	**(842)**	**(906)**
Bank balances and cash		236	–	–	–	–	236
Short-term bank deposits	ii	175	–	–	–	–	175
Cash and cash equivalents	iv	**411**	–	–	–	–	**411**
Other financial assets – bank deposits		5	–	–	–	–	5
Net borrowings (excluding cross-currency interest rate swaps)		**352**	**(18)**	**(372)**	**(452)**	**(842)**	**(490)**
Cross-currency interest rate swaps		–	–	(122)	(92)	(214)	(214)
Net debt		**352**	**(18)**	**(494)**	**(544)**	**(1,056)**	**(704)**
2015							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	i	–	–	–	(445)	(445)	(445)
£350 million 6¾% 2019 unsecured bond	i	–	–	(349)	–	(349)	(349)
Unsecured committed bank borrowings							
European Investment Bank	i	(16)	(16)	(32)	–	(48)	(64)
2019 Committed Revolving Credit Facility		–	–	–	–	–	–
Other (net of unamortised issue costs)		(9)	(11)	(8)	(3)	(22)	(31)
Finance lease obligations	iii	–	–	(1)	(2)	(3)	(3)
Bank overdrafts		(8)	–	–	–	–	(8)
Other short-term bank borrowings		(104)	–	–	–	–	(104)
Borrowings		(137)	(27)	(390)	(450)	(867)	(1,004)
Bank balances and cash		227	–	–	–	–	227
Short-term bank deposits	ii	72	–	–	–	–	72
Cash and cash equivalents	iv	299	–	–	–	–	299
Other financial assets – bank deposits		5	–	–	–	–	5
Net borrowings (excluding cross-currency interest rate swaps)		167	(27)	(390)	(450)	(867)	(700)
Cross-currency interest rate swaps		–	–	–	(69)	(69)	(69)
Net debt		167	(27)	(390)	(519)	(936)	(769)

Unsecured capital market borrowings include: an unsecured £350 million (2015: £350 million) 6¾% bond maturing in 2019 less unamortised issue costs of £1 million (2015: £1 million) and an unsecured £450 million (2015: £450 million) 5⅜% bond maturing in 2022 less unamortised issue costs of £4 million (2015: £5 million).

Unsecured committed bank borrowings include £48 million (2015: £64 million) drawn under the Group's European Investment Bank (EIB) unsecured facility which attracts a fixed interest rate of 4.1% per annum payable annually in arrears and a borrowing of £15 million (2015: £15 million) drawn against a KfW amortising unsecured facility which attracts a fixed interest rate of 1.65%. On 22 June 2016, the Group repaid the second of five annual instalments of £16 million on the EIB facility. There were no drawings (2015: nil) at the year end against the Group's 2019 Committed Revolving Credit Facilities of £800 million (2015: £800 million). Unamortised issue costs on the 2019 Committed Revolving Credit Facilities were £3 million (2015: £4 million).

Notes

(i) Denotes borrowings at fixed rates of interest until maturity. All other borrowings and cash and cash equivalents are at variable interest rates unless otherwise stated.

(ii) The average interest rate on short-term bank deposits was 0.2% (2015: 0.4%). Deposits at both 31 December 2016 and 31 December 2015 had a maturity date of less than one month.

(iii) Finance lease obligations gross of finance charges fall due as follows: £1 million within one year (2015: £1 million), £1 million in one to five years (2015: £1 million) and £5 million in more than five years (2015: £5 million).

(iv) £13 million (2015: £9 million) of the Group's cash and cash equivalents and bank deposits are held by the Group's captive insurance company to maintain solvency requirements and as collateral for Letters of Credit issued to the Group's principal external insurance providers. These funds cannot be circulated within the Group on demand.

(b) Fair values

	2016		2015	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings, other financial assets and cash and cash equivalents				
Other borrowings	**(856)**	**(970)**	(889)	(971)
Finance lease obligations	**(3)**	**(3)**	(3)	(3)
Bank overdrafts and other short-term bank borrowings	**(47)**	**(47)**	(112)	(112)
Bank balances and cash	**236**	**236**	227	227
Short-term bank deposits and other financial assets	**180**	**180**	77	77
	(490)	**(604)**	(700)	(782)
Trade and other payables				
Government refundable advances	**(96)**	**(122)**	(86)	(104)
Deferred and contingent consideration	**(6)**	**(6)**	(2)	(2)
	(102)	**(128)**	(88)	(106)

The following methods and assumptions were used in estimating fair values for financial instruments.

Unsecured bank overdrafts, other short-term bank borrowings, bank balances and cash, short-term bank deposits and other financial assets approximate to book value due to their short maturities. For other amounts, the repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at 31 December 2016. Bonds included within other borrowings have been valued using quoted closing market values.

19 Financial risk management

The Group's activities give rise to a number of financial risks: market risk, credit risk and liquidity risk. Market risk includes foreign currency risk and cash flow and fair value interest rate risk. The Group has in place risk management policies that seek to limit the effects of financial risk on financial performance. Derivative financial instruments include: forward foreign currency contracts, which are used to hedge risk exposures that arise in the ordinary course of business; and cross-currency interest rate swaps which hedge cash flows on the Group's debt. Further information is provided in the treasury management section of the Strategic Report.

Risk management policies have been set by the Board and are implemented by a central Treasury Department that receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The Treasury Department has a policy and procedures manual that sets out specific guidelines to manage foreign currency risks, interest rate risk, financial credit risk and liquidity risk and the use of financial instruments to manage these.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2016

19 Financial risk management continued

(a) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases by operating subsidiaries in currencies other than the subsidiaries' functional currency. These exposures are forecast on a monthly basis by operating companies and are reported to the central Treasury Department. Under the Group's foreign currency policy, such exposures are hedged on a reducing percentage basis over a number of forecast time horizons using forward foreign currency contracts.

During the year, the Group designated US dollar and Swedish SEK loans as part of a net investment hedge of US dollar and SEK net assets. The Group also has a series of cross-currency interest rate swap instruments which in substance convert the 2019 and 2022 sterling bonds into US dollars ($951 million) and Euros (€284 million). These derivative instruments were also designated as net investment hedges, of US dollar and Euro net assets. Foreign exchange movements arising from net investment hedging are shown in note 20.

The Group's reporting currency for its consolidated financial statements is sterling. Changes in exchange rates will affect the translation of results and net assets of operations outside the UK. The Group's largest exposures are the Euro and the US dollar where a 1% movement in the average rate impacts trading profit of subsidiaries and equity accounted investments by £2 million and £4 million respectively.

Regarding financial instruments, a 1% strengthening of sterling against the currency rates indicated below would have the following impact on operating profit:

	Trading profit		
	Payables and receivables £m	Derivative financial instruments £m	Intra-group funding £m
Euro	1	(6)	1
US dollar	(1)	28	(10)

The derivative sensitivity analysis has been prepared by reperforming the calculations used to determine the balance sheet values adjusted for the changes in the individual currency rates indicated with all other cross-currency rates remaining constant. The sensitivity is a fair value change relating to derivatives for which the underlying transaction has not occurred at 31 December 2016. The Group intends to hold all such derivatives to maturity. The calculation for other items has been prepared based on an analysis of a currency balance sheet.

Analysis of net borrowings (excluding cross-currency interest rate swaps) by currency:

	2016			2015		
	Borrowings £m	**Cash and bank deposits £m**	**Total £m**	Borrowings £m	Cash and bank deposits £m	Total £m
Sterling	**(841)**	**190**	**(651)**	(856)	74	(782)
US dollar	**(4)**	**63**	**59**	(30)	61	31
Euro	**(26)**	**21**	**(5)**	(81)	70	(11)
Others	**(35)**	**142**	**107**	(37)	99	62
	(906)	**416**	**(490)**	(1,004)	304	(700)

(b) Interest rate risk

The Group is exposed to fair value interest rate risk on fixed rate borrowings and cash flow interest rate risk on variable rate net borrowings/funds. The Group's policy is to optimise the interest cost in reported earnings and reduce volatility in the debt related element of the Group's cost of capital. This policy is achieved by maintaining a target range of fixed and floating rate debt for discrete annual periods, over a defined time horizon. The Group's normal policy is to require interest rates to be fixed for 50% to 80% of the level of underlying borrowings forecast to arise over a 12-month horizon. At 31 December 2016, 96% (2015: 93%) of the Group's gross borrowings were subject to fixed interest rates.

As at 31 December 2016, £175 million (2015: £72 million) was in bank deposits and £5 million was on deposit with banks on the Isle of Man (2015: £5 million).

(c) Credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. In terms of substance, and consistent with the related balance sheet presentation, the Group considers it has two types of credit risk: operational and financial. Operational credit risk relates to non-performance by customers in respect of trade receivables and by suppliers in respect of other receivables. Financial credit risk relates to non-performance by banks and similar institutions in respect of cash and deposits, facilities and financial contracts, including forward foreign currency contracts and cross-currency interest rate swaps. Where the Group has an obligation to banks in respect of derivative contracts, its credit risk is taken into account with valuations recorded.

Operational

As tier one suppliers to aerospace, automotive and land systems original equipment manufacturers, the Group may have substantial amounts outstanding with a single customer at any one time. The credit profiles of such original equipment manufacturers are available from credit-rating agencies. The failure of any such customer to honour its debts could materially affect the Group's results. However, there are many advantages in these relationships. In Land Systems, there is a greater proportion of amounts receivable from small and medium-sized customers.

Credit risk and customer relationships are managed at a number of levels within the Group. At a subsidiary level, documented credit control reviews are required to be held at least every month. The scope of these reviews includes amounts overdue and credit limits. At a divisional level, debtor ratios, overdue accounts and overall performance are reviewed regularly. Provisions for doubtful debts are determined at these levels based upon the customer's ability to pay and other factors in the Group's relationship with the customer.

At 31 December, the largest five trade receivables as a proportion of total trade receivables analysed by major segment is as follows:

	2016 **%**	2015 %
GKN Aerospace	**65**	58
GKN Driveline	**60**	58
GKN Powder Metallurgy	**28**	24
GKN Land Systems	**24**	24

The amount of trade receivables outstanding at the year end does not represent the maximum exposure to operational credit risk due to the normal patterns of supply and payment over the course of a year. Based on management information collected as at month ends the maximum level of trade receivables at any one point during the year was £1,557 million (2015: £1,240 million).

Financial

Credit risk is mitigated by the Group's policy of only selecting counterparties with a strong investment grade long-term credit rating, normally at least A- or equivalent, and assigning financial limits to individual counterparties.

The maximum exposure with a single bank for deposits is £53 million (2015: £30 million), however, the Group is not exposed to mark-to-market risk for forward foreign currency contracts at 31 December 2016 as all counterparties were in a liability position (2015: nil).

(d) Capital risk management

The Group defines capital as total equity. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure which optimises the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

19 Financial risk management continued

(d) Capital risk management continued

The Group's two external banking covenants require an EBITDA of subsidiaries to net interest payable and receivable ratio of 3.5 times or more and net debt to EBITDA of subsidiaries ratio of 3 times or less measured at 30 June and 31 December. For the purpose of testing net debt to EBITDA, there is also a requirement to recalculate reported net debt using the Group's average exchange rates, as quoted in the Business Review, over the relevant financial year. The ratios at 31 December 2016 and 2015 were as follows:

	2016 £m	2015 £m
EBITDA	**1,014**	870
Net interest payable and receivable	**(79)**	(65)
EBITDA to net interest payable and receivable ratio	**12.8 times**	13.4 times

	2016 £m	2015 £m
Net debt	**704**	769
EBITDA	**1,014**	870
Net debt to EBITDA ratio	**0.7 times**	0.9 times

Net debt for the year ended 31 December 2016 using average exchange rates was £626 million (2015: £732 million) which results in a net debt to EBITDA ratio of 0.6 times (2015: 0.8 times).

The Group monitors these ratios on a rolling basis and they are part of the budgeting and forecasting processes.

(e) Liquidity risk

The Group is exposed to liquidity risk as part of its normal financing and trading cycle at times when peak borrowings are required. Borrowings normally peak in May and September following dividend and bond coupon payments. The Group's policies are to ensure that sufficient liquidity is available to meet obligations when they fall due and to maintain sufficient flexibility in order to fund investment and acquisition objectives. Liquidity needs are assessed through short- and long-term forecasts, and committed bank facilities under a revolving credit facility total £800 million which expires in 2019. There were no drawings on these facilities at 31 December 2016. In addition, the Group's European Investment Bank unsecured facility (£48 million) is repayable in three remaining equal annual instalments of £16 million in June 2017 to 2019. Committed facilities are provided through 14 banks.

The Group also maintains £121 million of uncommitted facilities, provided by five banks. There were no drawings against these facilities at 31 December 2016.

Maturity analysis of borrowings, derivatives and other financial liabilities

	Within one year £m	**One to two years £m**	**Two to five years £m**	**More than five years £m**	**Total £m**
2016					
Borrowings (note 18)	**(64)**	**(18)**	**(372)**	**(452)**	**(906)**
Contractual interest payments and finance lease charges	**(50)**	**(49)**	**(97)**	**(27)**	**(223)**
Government refundable advances	**(13)**	**(11)**	**(28)**	**(125)**	**(177)**
Deferred and contingent consideration	**(6)**	**–**	**–**	**–**	**(6)**
Derivative financial instruments liabilities – receipts	**1,333**	**719**	**1,409**	**634**	**4,095**
Derivative financial instruments liabilities – payments	**(1,538)**	**(866)**	**(1,779)**	**(765)**	**(4,948)**
2015					
Borrowings (note 18)	(137)	(27)	(390)	(450)	(1,004)
Contractual interest payments and finance lease charges	(63)	(51)	(123)	(51)	(288)
Government refundable advances	(8)	(13)	(21)	(122)	(164)
Deferred and contingent consideration	–	(2)	–	–	(2)
Derivative financial instruments liabilities – receipts	1,266	730	1,411	657	4,064
Derivative financial instruments liabilities – payments	(1,410)	(829)	(1,595)	(685)	(4,519)

There is no significant difference in the contractual undiscounted value of other financial assets and liabilities from the amounts stated in the balance sheet and balance sheet notes.

(f) Categories of financial assets and financial liabilities

	Loans and receivables £m	Amortised cost £m	Held for trading Financial assets £m	Held for trading Financial liabilities £m	Total £m
2016					
Other receivables	**24**	**–**	**–**	**–**	**24**
Trade and other receivables	**1,558**	**–**	**–**	**–**	**1,558**
Derivative financial instruments	**–**	**–**	**44**	**(727)**	**(683)**
Cash and cash equivalents	**411**	**–**	**–**	**–**	**411**
Other financial assets – bank deposits	**5**	**–**	**–**	**–**	**5**
Borrowings	**–**	**(906)**	**–**	**–**	**(906)**
Trade and other payables	**–**	**(1,764)**	**–**	**–**	**(1,764)**
Provisions	**–**	**(26)**	**–**	**–**	**(26)**
	1,998	**(2,696)**	**44**	**(727)**	**(1,381)**
2015					
Other receivables	23	–	–	–	23
Trade and other receivables	1,237	–	–	–	1,237
Derivative financial instruments	–	–	34	(445)	(411)
Cash and cash equivalents	299	–	–	–	299
Other financial assets – bank deposits	5	–	–	–	5
Borrowings	–	(1,004)	–	–	(1,004)
Trade and other payables	–	(1,396)	–	–	(1,396)
Provisions	–	(33)	–	–	(33)
	1,564	(2,433)	34	(445)	(1,280)

IFRS 13

The financial instruments that are measured subsequent to initial recognition at fair value are forward currency contracts, cross-currency interest rate swaps and embedded derivatives. All of these financial instruments are classified as Level 2 fair value measurements, as defined by IFRS 7, being those derived from inputs other than quoted prices that are observable.

The fair values of financial assets and financial liabilities have been determined with reference to available market information at the balance sheet date, using the methodologies described in their relevant notes:

- Forward foreign currency contracts, cross-currency interest rate swaps and embedded derivatives, see note 20.
- Unsecured bank overdrafts, other short-term bank borrowings, bank balances and cash, short-term bank deposits and other financial assets, see note 18.
- Bonds included within other borrowings, see note 18.
- Fair values of trade and other receivables and payables, short-term investments and cash and cash equivalents are assumed to approximate to cost due to the short-term maturity of the instruments and as the impact of discounting is not significant.

The discounted contingent element of deferred and contingent consideration of £1 million (2015: £2 million) is categorised as a Level 3 fair value measurement. All other financial assets and liabilities together with calculations for fair value less costs of disposal were categorised as Level 2.

20 Derivative financial instruments

(a) The balances at 31 December 2016 comprise:

	2016					2015				
	Assets		Liabilities			Assets		Liabilities		
	Non-current £m	Current £m	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Non-current £m	Current £m	Total £m
Forward currency contracts										
Not hedge accounted	2	11	(293)	(202)	(482)	3	10	(214)	(150)	(351)
Embedded derivatives	23	8	(14)	(4)	13	18	3	(11)	(1)	9
Cross-currency interest rate swaps	–	–	(214)	–	(214)	–	–	(69)	–	(69)
	25	19	(521)	(206)	(683)	21	13	(294)	(151)	(411)

(b) The movement in derivative financial instruments during the year was:

	Forward currency contracts £m	Embedded derivatives £m	Cross-currency interest rate swaps £m	Total £m
At 1 January 2016	(351)	9	(69)	(411)
Charge to 'change in value of derivative and other financial instruments'	(135)	4	–	(131)
Credit to 'other net financing charges'	–	–	18	18
Cash paid	–	–	9	9
Acquisition-related unwind	4	–	–	4
Charge to 'interest payable'	–	–	(12)	(12)
Charge to equity	–	–	(160)	(160)
At 31 December 2016	(482)	13	(214)	(683)

Net investment hedging
In addition to the £160 million charge (2015: £26 million charge) from a spot rate foreign exchange movement on cross-currency interest rate swaps, designated as a net investment hedge, there is a further £17 million charge (2015: £11 million charge) from foreign exchange movements on loans designated as net investment hedges. This £177 million charge (2015: £37 million charge) is recorded in other comprehensive income.

Cash flow hedging
In order to mitigate exposure to foreign currency risk on the consideration paid to acquire Fokker Technologies during 2015, the Group entered into a number of forward currency contracts to fix the sterling value of the Euro denominated consideration. Cash flow hedge accounting was applied as the purchase was deemed a highly probable transaction, which resulted in a 'gain' of £5 million being taken to the hedging reserve. On settlement of the consideration on 28 October 2015, the £5 million gain was recycled into the purchase price used for calculating goodwill.

Significant judgement and estimates
Forward foreign currency contracts, cross-currency interest rate swaps and embedded derivatives are marked to market using market observable rates and published prices together with forecast cash flow information where applicable. The assumptions used include currency yield curves and estimates of interest applicable to the contractual timeframes.

The amounts in respect of embedded derivatives represent commercial contracts denominated in US dollars between European Aerospace subsidiaries and customers outside the US.

21 Provisions

	Contract provisions £m	Warranty £m	Claims and litigation £m	Employee obligations £m	Other £m	Total £m
At 1 January 2016	(33)	(56)	(37)	(21)	(9)	(156)
Businesses disposed	–	–	–	8	–	8
Net (charge)/credit for the year:						
Additions	–	(29)	(7)	(4)	(16)	(56)
Unused amounts reversed	2	10	6	5	5	28
Unwind of discounts	(2)	–	–	–	–	(2)
Amounts used	8	14	18	2	1	43
Currency variations	(1)	(7)	(5)	(3)	(2)	(18)
At 31 December 2016	(26)	(68)	(25)	(13)	(21)	(153)
Due within one year	(4)	(38)	(16)	(3)	(10)	(71)
Due in more than one year	(22)	(30)	(9)	(10)	(11)	(82)
	(26)	(68)	(25)	(13)	(21)	(153)

The warranty provision has been increased by £13 million from the amount carried forward at 1 January 2016 to £56 million with a corresponding decrease to the claims and litigation provision to £37 million. This follows finalisation of the acquisition accounting for Fokker Technologies Group B.V. acquired in 2015.

Significant judgements and estimates
While estimating provisions requires judgement, in the majority of cases the range of reasonably possible outcomes is narrow. In one instance management has taken a judgement over a material warranty matter, having assessed internal legal advice and given due consideration to an ongoing commercial relationship. When establishing the amount to record for a provision of this nature, estimates of product volume and likely cost of rectification, including the potential for penalties, are taken into account.

After consideration of sensitivity analysis, amounts stated represent management's best estimate of the likely outcome.

Contract provisions
The Group has a small number of onerous contracts and a non-beneficial lease arrangement, primarily arising on business combinations and contractual dispute matters. Onerous contracts relate to customer programmes where the unavoidable costs of delivering product are in excess of contracted sales prices. Utilisation of the provision due in more than one year is estimated as £3 million in 2018 and £19 million from 2019.

Warranty
Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations attaching to the supply of goods or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. In the event of a claim, settlement will be negotiated with the customer based on supply of replacement products and compensation for the customer's associated costs. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer. Utilisation of the provision due in more than one year is estimated as £13 million in 2018 and £17 million from 2019.

Claims and litigation
Claims provisions are held in the Group's captive insurance company and amount to £11 million (2015: £9 million). Claims provisions and charges are established in accordance with external insurance and actuarial advice.

Legal provisions amounting to £6 million (2015: £23 million) relate to management estimates of amounts required to settle or remove litigation actions that have arisen in the normal course of business or taken on as a result of a business combination. Further details of legal matters are not provided to avoid the potential of seriously prejudicing the Group's stance in law. Amounts unused and reversed only arise when the matter is formally settled or when a material change in the litigation action occurs where legal advice confirms lower amounts need to be retained to cover the exposure.

As a consequence of primarily legacy activities a small number of sites in the Group are subject to environmental remediation actions, which in all cases are either agreed formally with relevant local and national authorities and agencies or represent management's view of the likely outcome having taken appropriate expert advice and following consultation with appropriate authorities and agencies. Amounts of £8 million (2015: £5 million) are provided.

Utilisation of the claims and litigation provision due in more than one year is estimated as £5 million in 2018 and £4 million from 2019.

21 Provisions continued

Employee obligations

Long service non-pension and other employee-related obligations arising primarily in the Group's continental European subsidiaries amount to £13 million (2015: £21 million). Utilisation of the provision due in more than one year is estimated as £4 million in 2018 and £6 million from 2019.

Other

Other provisions include £10 million (2015: £1 million) in relation to reorganisation arising from the Group's strategic restructuring programmes and £11 million (2015: £8 million) relating to other customer and supplier exposures. Utilisation of the provision due in more than one year is estimated as £5 million in 2018 and £6 million from 2019.

22 Share capital

	Issued and Fully Paid	
	2016 £m	2015 £m
Ordinary shares of 10p each	**173**	173

	2016 Number 000s	2015 Number 000s
Ordinary shares of 10p each		
At 1 January	**1,726,104**	1,660,530
Shares issued	**–**	65,574
At 31 December	**1,726,104**	1,726,104

At 31 December 2016, there were 11,629,654 ordinary shares of 10p each, with a total nominal value of £1 million, held as treasury shares (2015: 12,168,928 ordinary shares of 10p each, with a total nominal value of £1 million). A total of 539,274 (2015: 5,628,988) shares were transferred out of treasury during 2016 to satisfy the exercise of awards by participants under the Company's share incentive schemes. The remaining treasury shares, which represented 0.7% (2015: 0.7%) of the called up share capital at the end of the year, have not been cancelled but are held as treasury shares and represent a deduction from shareholders' equity.

At 31 December 2016, the GKN Employee Share Ownership Plan Trust ('the Trust') held 2,013,467 ordinary shares (2015: 2,518,624). No shares were purchased by the Trust during 2016 (2015: 2,476,894 shares were purchased for cash consideration of £7 million). During the year a total of 505,157 (2015: 144,922) shares were transferred out of the Trust to satisfy the vesting and exercise of awards of ordinary shares made under the Company's share incentive schemes. The remaining Trust shares will be used to satisfy future awards. A dividend waiver operates in respect of shares held by the Trust.

During the year, shares issued from treasury under share incentive schemes generated a cash inflow of £1 million (2015: £2 million).

On 30 July 2015, the Company conducted an equity placing of 65,573,771 ordinary shares of 10p each with a total nominal value of £7 million, at a price of £3.05 per share, to raise a total of £200 million before transaction costs of £2 million, which were taken to the Share Premium Account, as a deduction from equity.

23 Cash flow reconciliations

Cash generated from operations	2016 £m	2015 £m
Operating profit	**335**	323
Adjustments for:		
Depreciation, impairment and amortisation of fixed assets		
Charged to trading profit		
Depreciation	**263**	218
Amortisation	**67**	43
Amortisation of non-operating intangible assets arising on business combinations	**103**	80
Impairment charges	**52**	71
Change in value of derivative and other financial instruments	**154**	122
Gains and losses on changes in Group structure	**9**	1
Amortisation of government capital grants	**(2)**	(2)
Net profits on sale and realisation of fixed assets	**(3)**	(3)
Charge for share-based payments	**5**	1
Movement in post-employment obligations	**(75)**	(51)
Change in inventories	**(78)**	(33)
Change in receivables	**(151)**	110
Change in payables and provisions	**99**	5
	778	885

Movement in net debt		
Movement in cash and cash equivalents	**41**	(11)
Net movement in other borrowings and deposits	**141**	(60)
Movement on finance leases	**–**	(2)
Movement on cross-currency interest rate swaps	**(145)**	(43)
Movement on other net investment hedges	**(17)**	(11)
Amortisation of debt issue costs	**(2)**	(2)
Currency variations	**47**	(16)
Movement in year	**65**	(145)
Net debt at beginning of year	**(769)**	(624)
Net debt at end of year	**(704)**	(769)

Reconciliation of cash and cash equivalents		
Cash and cash equivalents per balance sheet	**411**	299
Bank overdrafts included within ‘current liabilities – borrowings’	**(26)**	(8)
Cash and cash equivalents per cash flow	**385**	291

24 Post-employment obligations

Post-employment obligations as at the year end comprise:		2016 £m	2015 £m
Pensions	– funded	**(1,285)**	(977)
	– unfunded	**(662)**	(505)
Medical	– funded	**(37)**	(30)
	– unfunded	**(49)**	(46)
		(2,033)	(1,558)

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world. In addition, in the US and UK various plans operate which provide members with post-retirement medical benefits. The Group's post-employment plans in the UK, US and Germany together account for 98% of plan assets and 98% of plan liabilities.

The Group's post-employment plans include both funded and unfunded arrangements. The UK pension schemes are funded, albeit in deficit in common with many other UK pension schemes, with the scheme assets held in trustee-administered funds. The German and other European plans are generally unfunded, with pension payments made from company funds as they fall due, rather than from scheme assets. The US schemes include a combination of funded and unfunded pension and medical plans, while Japan also operates a funded pension plan.

The Group's defined benefit pension arrangements provide benefits to members in the form of an assured level of pension payable for life. The level of benefits provided typically depends on length of service and salary levels in the years leading up to retirement. In the UK and Germany, pensions in payment are generally updated in line with inflation, whereas in the US pensions generally do not receive inflationary increases once in payment. The UK and German schemes are closed to new entrants, while the US schemes are closed to future accrual.

Independent actuarial valuations of all major defined benefit scheme assets and liabilities were carried out at 31 December 2016. The present value of the defined benefit obligation and the related service cost elements were measured using the projected unit credit method.

(a) Defined benefit schemes – assumptions and estimates

Estimating the post-employment obligation involves a number of significant assumptions, which are detailed below.

Key assumptions and estimates:

	UK					
	GKN1 %	GKN2 %	GKN3 %	Americas %	Europe %	ROW %
2016						
Rate of increase in pensionable salaries (past/future service)	**n/a**	**4.30/4.25**	**n/a**	**n/a**	**2.50**	**–**
Rate of increase in payment and deferred pensions	**n/a**	**3.20**	**3.30**	**n/a**	**1.75**	**n/a**
Discount rate (past/future service)	**n/a**	**2.60/2.70**	**2.45**	**4.10**	**1.60**	**0.50**
Inflation assumption (past/future service)	**n/a**	**3.30/3.25**	**3.35**	**n/a**	**1.75**	**n/a**
Rate of increase in medical costs:						
Initial/long-term		**5.4/5.4**		**6.75/5.0**	**n/a**	**n/a**
2015						
Rate of increase in pensionable salaries (past/future service)	n/a	4.10/4.15	n/a	n/a	2.50	–
Rate of increase in payment and deferred pensions	3.05	3.10	n/a	n/a	1.75	n/a
Discount rate (past/future service)	3.55	3.85/4.05	n/a	4.30	2.40	0.80
Inflation assumption (past/future service)	3.05	3.10/3.15	n/a	n/a	1.75	n/a
Rate of increase in medical costs:						
Initial/long-term		5.4/5.4		7.0/5.0	n/a	n/a

The assumptions table above specifies separate assumptions for past and future service in relation to the UK pension scheme. This approach is consistent with that taken in 2015, whereby a different, 'future service' set of assumptions will be used to determine the service cost for the following year. This reflects market practice and is based on the premise that active members of the scheme are younger and have, on average, longer remaining life expectancy than an average scheme member. Given that yield curves typically rise over time, this longer duration implies a higher discount rate for the 'active' sub-set of members which has been set at 2.70%, as at 31 December 2016.

The GKN1 scheme is in the process of being wound up which commenced in December 2016. The residual liabilities have been transferred to the new GKN3 scheme.

The UK schemes each use a duration-specific discount rate derived from the Mercer pension discount yield curve, which is based on corporate bonds with two or more AA-ratings. The European discount rate was calculated with reference to Aon Hewitt's German discount rate yield curve. For the US, the discount rate referenced the Citigroup intermediate pension liability index, the Merrill Lynch US corporate AA 10+ years index and the Towers Watson Rate:LINK benchmark. The approach taken in each territory is consistent with the prior year.

The underlying mortality assumptions for the major schemes, are as follows:

UK

The key current year mortality assumptions for both GKN2 and GKN3 use S2PA year of birth mortality tables (adjusted for GKN experience) with CMI 2015 improvements and a 1.5% per annum long-term improvement trend. These assumptions give the following expectations for each scheme: for GKN3 a male aged 65 lives for a further 22.4 years and a female aged 65 lives for a further 25.0 years, while a male aged 45 is expected to live a further 24.5 years from age 65 and a female aged 45 is expected to live a further 27.4 years from age 65. For GKN2 a male aged 65 lives for a further 22.5 years and a female aged 65 lives for a further 25.6 years, while a male aged 45 is expected to live a further 24.9 years from age 65 and a female aged 45 is expected to live a further 28.0 years from age 65.

Overseas

In the US, RP-2014 tables have been used, while in Germany the RT2005-G tables have been used. In the US, the longevity assumption for a male aged 65 is that he lives a further 20.8 years (female 22.8 years), while in Germany a male aged 65 lives for a further 19.1 years (female 23.2 years). The longevity assumption for a US male currently aged 45 is that he also lives for a further 22.4 years once attaining 65 years (female 24.4 years), with the German equivalent assumption for a male being 21.8 years (female 25.7 years). These assumptions are based on the prescribed tables, rather than GKN experience.

Assumption sensitivity analysis

The impact of a one percentage point movement in the primary assumptions (longevity: 1 year) on the defined benefit obligations as at 31 December 2016 is set out below:

	UK Liabilities £m	Americas Liabilities £m	Europe Liabilities £m	ROW Liabilities £m
Discount rate +1%	535	41	104	3
Discount rate -1%	(709)	(50)	(136)	(2)
Rate of inflation +1%	(556)	(1)	(89)	–
Rate of inflation -1%	463	–	74	–
Life expectancy +1 year	(126)	(9)	(26)	–
Life expectancy -1 year	126	10	23	–
Health cost trend +1%	(2)	(2)	–	–
Health cost trend -1%	2	2	–	–

The above sensitivity analyses are based on isolated changes in each assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and there is likely to be some level of correlation between movements in different assumptions. In addition, these sensitivities relate only to potential movement in the defined benefit obligations. The assets, including derivatives held by the schemes, have been designed to mitigate the impact of these movements to some extent, such that the movements in the defined benefit obligations shown above would, in practice, be partly offset by movements in asset valuations. However, the above sensitivities are shown to illustrate at a high level the scale of sensitivity of the defined benefit obligations to key actuarial assumptions.

The same actuarial methods have been used to calculate these sensitivities as are used to calculate the relevant balance sheet values, and have not changed compared to the previous period.

Pension partnership interest

During the year, the Group has paid £30 million (2015: £30 million) to the UK pension schemes through its pension partnership arrangement and this is included within the amount of contributions/benefits paid.

24 Post-employment obligations continued

(a) Defined benefit schemes – assumptions and estimates continued

Pensioner buy-out

In December 2016, the Company commenced the winding-up of the GKN Group Pension Scheme (GKN1). The benefits were settled through a combination of:

- a buy-out secured with Pension Insurance Corporation for a premium of £190 million;
- paying Winding-Up Lump Sums and trivial commutations to members with small-value benefits; and
- transfer of liabilities to a new GKN Group Pension Scheme 2016 (GKN3).

This transaction involved a specific contribution of £15 million from the Company to Scheme and resulted in the removal of £268 million of liabilities and £263 million of assets from the balance sheet. This has resulted in an overall settlement gain of £5 million (net of expenses) in the income statement.

(b) Defined benefit schemes – reporting

The amounts included in operating profit are:

	2016 £m	2015 £m
Current service cost and administrative expenses	**(51)**	(53)
Past service credit – net	**–**	4
Settlements/curtailments	**5**	–
	(46)	(49)

The amounts recognised in the balance sheet are:

	2016					
	UK £m	**Americas £m**	**Europe £m**	**ROW £m**	**Total £m**	2015 £m
Present value of unfunded obligations	**(17)**	**(43)**	**(648)**	**(3)**	**(711)**	(551)
Present value of funded obligations	**(3,497)**	**(332)**	**(40)**	**(33)**	**(3,902)**	(3,567)
Fair value of plan assets	**2,293**	**227**	**37**	**23**	**2,580**	2,560
Net obligations recognised in the balance sheet	**(1,221)**	**(148)**	**(651)**	**(13)**	**(2,033)**	(1,558)

The Group's UK defined benefit pension schemes are currently undergoing triennial funding valuations with an effective date of 5 April 2016 for GKN2 and 31 December 2016 for GKN3. Once the valuation process is complete, the funding deficit in each scheme will be confirmed and any incremental deficit contributions payable by the Group will be established. It is likely that some additional Group funding will be required, but given the stage of negotiations with the scheme trustees and the many variables involved in both establishing the valuation and agreeing any resulting recovery plan, the final outcome cannot currently be predicted with any reasonable degree of certainty. Following the previous triennial valuation in the UK, additional deficit funding payments of £10 million per year have continued and there is potential for further payments commencing in 2017, contingent upon asset performance. In addition, the Group agreed, during 2014, to pay £2 million per year for four years to the UK scheme, GKN1, to cover a funding requirement arising from a £123 million bulk annuity purchase and this payment will continue in 2017 to GKN3.

The combined contribution for deficit funding and future accrual expected to be paid by the Group during 2017 to the UK schemes is £43 million. In addition, a distribution of £30 million is expected to be made from the UK pension partnership to the UK schemes in the first half of 2017, which brings the total expected UK cash requirement for 2017 to £79 million. The expected 2017 contribution to overseas schemes is £30 million.

Cumulative remeasurement of defined benefit plan differences recognised in equity are as follows:

	2016 £m	2015 £m
At 1 January	**(1,073)**	(1,212)
Remeasurement of defined benefit plans	**(396)**	139
At 31 December	**(1,469)**	(1,073)

Movement in schemes' obligations (funded and unfunded) during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2016	**(3,234)**	**(319)**	**(531)**	**(34)**	**(4,118)**
Current service cost	**(35)**	**(1)**	**(9)**	**(3)**	**(48)**
Businesses disposed	**–**	**–**	**12**	**–**	**12**
Settlements and curtailments	**268**	**–**	**2**	**–**	**270**
Administrative expenses	**(3)**	**–**	**–**	**–**	**(3)**
Interest	**(119)**	**(15)**	**(13)**	**–**	**(147)**
Remeasurement of defined benefit plans	**(540)**	**5**	**(82)**	**5**	**(612)**
Benefits and administrative expenses paid	**149**	**17**	**22**	**3**	**191**
Currency variations	**–**	**(62)**	**(89)**	**(7)**	**(158)**
At 31 December 2016	**(3,514)**	**(375)**	**(688)**	**(36)**	**(4,613)**
At 1 January 2015	(3,382)	(331)	(593)	(32)	(4,338)
Current service cost	(40)	–	(8)	(2)	(50)
Past service credit/(cost)	6	–	(2)	–	4
Businesses acquired	–	–	(7)	–	(7)
Settlements and curtailments	–	–	1	–	1
Administrative expenses	(2)	(1)	–	–	(3)
Interest	(115)	(13)	(11)	–	(139)
Remeasurement of defined benefit plans	150	27	39	–	216
Benefits and administrative expenses paid	149	16	20	2	187
Currency variations	–	(17)	30	(2)	11
At 31 December 2015	(3,234)	(319)	(531)	(34)	(4,118)

Movement in schemes' assets during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2016	**2,322**	**186**	**33**	**19**	**2,560**
Interest	**85**	**8**	**1**	**–**	**94**
Settlements and curtailments	**(263)**	**–**	**(2)**	**–**	**(265)**
Businesses disposed	**–**	**–**	**(1)**	**–**	**(1)**
Remeasurement of defined benefit plans	**207**	**7**	**2**	**–**	**216**
Contributions by Group	**87**	**6**	**1**	**2**	**96**
Benefits paid	**(145)**	**(17)**	**(2)**	**(2)**	**(166)**
Currency variations	**–**	**37**	**5**	**4**	**46**
At 31 December 2016	**2,293**	**227**	**37**	**23**	**2,580**
At 1 January 2015	2,377	195	37	18	2,627
Interest	81	8	1	–	90
Settlements and curtailments	–	–	(1)	–	(1)
Remeasurement of defined benefit plans	(64)	(14)	1	–	(77)
Contributions by Group	75	4	–	2	81
Benefits paid	(147)	(16)	(3)	(2)	(168)
Currency variations	–	9	(2)	1	8
At 31 December 2015	2,322	186	33	19	2,560

24 Post-employment obligations continued

(b) Defined benefit schemes – reporting continued

Remeasurement gains and losses in relation to schemes' obligations are as follows:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
2016					
Experience gains and losses	**210**	**6**	**1**	**–**	**217**
Changes in financial assumptions	**(715)**	**(8)**	**(83)**	**5**	**(801)**
Change in demographic assumptions	**(35)**	**7**	**–**	**–**	**(28)**
	(540)	**5**	**(82)**	**5**	**(612)**
2015					
Experience gains and losses	2	5	(3)	–	4
Changes in financial assumptions	148	15	42	–	205
Change in demographic assumptions	–	7	–	–	7
	150	27	39	–	216

The fair values of the assets in the schemes were:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 31 December 2016					
Equities (including hedge funds)	**607**	**107**	**–**	**12**	**726**
Diversified growth funds	**558**	**–**	**–**	**–**	**558**
Bonds – government	**540**	**53**	**–**	**9**	**602**
Bonds – corporate	**245**	**63**	**–**	**–**	**308**
Property	**138**	**–**	**–**	**–**	**138**
Cash, derivatives and net current assets	**23**	**4**	**–**	**–**	**27**
Other assets	**182**	**–**	**37**	**2**	**221**
	2,293	**227**	**37**	**23**	**2,580**
At 31 December 2015					
Equities (including hedge funds)	855	82	–	10	947
Diversified growth funds	257	–	–	–	257
Bonds – government	361	41	–	6	408
Bonds – corporate	537	57	–	–	594
Property	135	–	–	–	135
Cash, derivatives and net current assets	1	6	–	1	8
Other assets	176	–	33	2	211
	2,322	186	33	19	2,560

As at 31 December 2016, the equities in the UK asset portfolio were split 27% domestic (2015: 26%); 73% foreign (2015: 74%), while bond holdings were 97% domestic (2015: 88%) and 3% foreign (2015: 12%). The equivalent proportions for the US plans were: equities 41%/59% (2015: 42%/58%); bonds 89%/11% (2015: 88%/12%).

(c) Defined benefit scheme – risk factors

Through its various post-employment pension and medical plans, the Group is exposed to a number of risks, the most significant of which are detailed below. The Group's focus is on managing the cash demands which the various pension plans place on the Group, rather than balance sheet volatility in its own right. For funded schemes, cash requirements are generally determined by funding valuations which are performed on a different basis from accounting valuations.

Asset volatility: plan liabilities are calculated using discount rates set with reference to bond yields (although the discount rate methodology differs for accounting and funding purposes). If plan assets deliver a return which is lower than the discount rate, this will create or increase a plan deficit. GKN's various pension plans hold a significant proportion of equities and similar 'growth assets', which are expected to out-perform bonds in the long term, albeit at the risk of short-term volatility.

As the plans mature, with a shorter time horizon to cope with volatility, the Group will gradually reduce holdings of growth assets in favour of increased matching assets (bonds and similar). In the meantime, the Group considers that equities and similar assets are an appropriate means of managing pension funding requirements, given the long-term nature of the liabilities and the strength of the Group to withstand volatility.

Changes in bond yields: a decrease in bond yields will typically increase plan liabilities (and vice versa), although this will be offset partially by an increase in the value of bonds held in the asset portfolios of the various plans. The effect of changes in bond yields is more pronounced in unfunded schemes where there is no potential for an offsetting movement in asset values.

Inflation risk: as UK and some European pension obligations are linked to inflation, higher inflation expectations will lead to higher liabilities, although caps are in place to protect against unusually high levels of inflation. The UK asset portfolio includes some inflation-linked bonds to provide an element of protection against this risk, while additional protection is provided by inflation derivatives.

Member longevity: as the Group's post-employment obligations are generally to provide benefits for the life of the member, increases in life expectancy will generally result in an increase in plan liabilities (and vice versa).

(d) Defined benefit schemes – demographic factors

Weighted average duration is a measurement technique designed to represent the estimated average time to payment of all cash flows arising as a result of defined benefit obligations (i.e. pension payments and similar). The weighted average duration (years) of the defined benefit obligations in the UK, US and Germany are as follows:

		2016 years	2015 years
UK	GKN1	**–**	11
	GKN2	**19**	17
	GKN3	**11**	–
US		**12**	13
Germany		**18**	14

Defined benefit obligations are classified into those representing 'active' members of a scheme or plan (i.e. those who are currently employed by the Group), 'deferred' members (i.e. those who have accrued benefit entitlements, but who are no longer employed by the Group and are not yet drawing a pension) and 'pensioner' members (ie. those who are currently in receipt of a pension). Additional information regarding the average age, number of members and value of the defined benefit obligation in each of these categories for the UK, US and Germany are given below:

		Active			Deferred			Pensioner		
		Age	Number	Value £m	Age	Number	Value £m	Age	Number	Value £m
UK	GKN1	–	–	–	–	–	–	–	–	–
	GKN2	48	3,922	782	53	6,556	862	72	7,545	1,244
	GKN3	–	–	–	56	3,156	73	80	9,779	536
US		54	2,367	111	57	1,216	43	75	4,413	206
Germany		55	2,386	293	57	843	53	72	3,068	280

Within the UK, there are two pension schemes referred to as GKN2 and GKN3 (GKN1 is in the process of being wound up, and there were no members in the scheme at the year end). GKN3 is a mature scheme, comprised primarily of pensioner members, which is already at peak annual cash outflow (benefit payments); while GKN2 is less mature, with a larger active and deferred population. Benefit payments from GKN2 are forecast to continue to rise until the mid 2030s, when they will peak, before beginning to decline.

(e) Defined contribution schemes

The Group operates a number of defined contribution schemes. The charge to the income statement in the year was £62 million (2015: £42 million).

25 Contingent assets and liabilities

Aside from an unrecognised contingent asset, referred to in note 6 in respect of Franked Investment Income, related to advance corporate tax payments and corporate tax paid on certain foreign dividends, there were no other material contingent assets at 31 December 2016 or 31 December 2015.

In the case of certain businesses, performance bonds and customer finance obligations have been entered into in the normal course of business.

26 Operating lease commitments – minimum lease payments

The minimum lease payments which the Group is committed to make at 31 December are:

	2016		2015	
	Property £m	**Vehicles, plant and equipment £m**	Property £m	Vehicles, plant and equipment £m
Payments under non-cancellable operating leases:				
Within one year	**46**	**21**	39	16
Later than one year and less than five years	**154**	**37**	132	27
After five years	**218**	**8**	200	2
	418	**66**	371	45

27 Capital expenditure

Contracts placed against capital expenditure sanctioned at 31 December 2016 which are not provided by subsidiaries amounted to £195 million property, plant and equipment, £24 million intangible assets (2015: £148 million property, plant and equipment, £20 million intangible assets), and the Group's share not provided by equity accounted investments amounted to £8 million property, plant and equipment, nil intangible assets (2015: £9 million property, plant and equipment, nil intangible assets).

28 Related party transactions

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and equity accounted investment companies priced on an arm's-length basis. Sales by subsidiaries to equity accounted investments in 2016 totalled £44 million (2015: £35 million). The amount due at the year end in respect of such sales was £11 million (2015: £12 million). Purchases by subsidiaries from equity accounted investments in 2016 totalled £10 million (2015: £7 million). The amount due at the year end in respect of such purchases was £3 million (2015: £2 million).

At 31 December 2016, a Group subsidiary had £10 million payable to equity accounted investments companies in respect of unsecured financing facilities bearing interest at one month LIBOR plus ⅛% (2015: £10 million).

During the prior year, a child of a member of key management was employed by a subsidiary company. The remuneration expense during the period of employment in 2015 on an arm's-length basis amounted to £2,336.

29 Subsidiaries and other undertakings

The subsidiary and other undertakings of the GKN Group at 31 December 2016 are shown in note 5 of the GKN plc company financial statements. Subsidiaries were included in the consolidation and are held indirectly by GKN plc through intermediate holding companies. The undertakings located overseas operate principally in the country of incorporation. The equity share capital of these undertakings is wholly owned by the GKN Group.

30 Business combinations

On 30 June 2016, the Group took control, through a 60% equity shareholding, of a newly formed company; GKN (Bazhou) Metal Powder Company Limited (Bazhou). Bazhou specialises in metal powder production in China.

The fair value of consideration for the 60% shareholding is £17 million and comprises an initial cash payment of £8 million and deferred consideration subsequently paid of £9 million. The fair value of net assets acquired, before non-controlling interests (£9 million), of £26 million comprises: property, plant and equipment of £15 million, inventory of £3 million, receivables of £4 million and provisional goodwill of £4 million. Bazhou has been included in Powder Metallurgy for segmental reporting.

During the year, the Group paid £2 million to purchase a non-controlling interest from the other investor in Lianyungang GKN Hua Ding Wheels Co Ltd. The Group now owns 100% of the share capital in this company.

BALANCE SHEET OF GKN PLC

Company number: 04191106
At 31 December 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investment in subsidiaries	3	**3,607**	3,602
Current assets			
Amounts owed by subsidiaries		**17**	6
Total assets		**3,624**	3,608
Current liabilities			
Amounts owed to subsidiaries		**(2,148)**	(1,994)
Net assets		**1,476**	1,614
Capital and reserves			
Share capital	4	**173**	173
Capital redemption reserve		**298**	298
Share premium account		**330**	330
At 1 January		**813**	949
Profit for the year attributable to the owners		**6**	3
Other changes in retained earnings		**(144)**	(139)
Retained earnings		**675**	813
Total equity		**1,476**	1,614

The financial statements on pages 167 to 175 were approved by the Board of Directors and authorised for issue on 27 February 2017. They were signed on its behalf by:

Nigel Stein, Adam Walker
Directors

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Total equity £m
At 1 January 2016	**173**	**298**	**330**	**813**	**1,614**
Profit for the year	**–**	**–**	**–**	**6**	**6**
Share-based payments	**–**	**–**	**–**	**5**	**5**
Dividends paid to equity shareholders	**–**	**–**	**–**	**(150)**	**(150)**
Proceeds from exercise of share options	**–**	**–**	**–**	**1**	**1**
At 31 December 2016	**173**	**298**	**330**	**675**	**1,476**
At 1 January 2015	166	298	139	949	1,552
Profit for the year	–	–	–	3	3
Share-based payments	–	–	–	1	1
Dividends paid to equity shareholders	–	–	–	(142)	(142)
Proceeds from exercise of share options	–	–	–	2	2
Net proceeds from share placement	7	–	191	–	198
At 31 December 2015	173	298	330	813	1,614

NOTES TO THE FINANCIAL STATEMENTS OF GKN PLC

1 Significant accounting policies and basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. GKN plc is a public company limited by shares, incorporated and domiciled in the UK, and registered in England and Wales with the registration number 04191106. Its registered office is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL. They have been prepared on a going concern basis under the historical cost convention except where other measurement bases are required to be applied and in accordance with IFRS under Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In accordance with FRS 101, the Company has taken advantage of the exemption not to disclose transactions with related parties. As the consolidated financial statements have been prepared in accordance with IFRS 7, the Company is exempt from further disclosure of financial instruments in accordance with FRS 101.

The principal accounting policies are summarised below. They have been applied consistently in both years presented.

Investments
Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Treasury shares
GKN shares which have been purchased and not cancelled are held as treasury shares and deducted from shareholders' equity.

Share-based payments
Equity-settled share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest.

Income Statement
Interest income is recognised using the effective interest rate method. Dividend income is recognised when the right to receive payment is established. Current tax is recognised in the income statement unless items relate to equity.

Dividends
The annual final dividend is not provided for until approved at the Annual General Meeting while interim dividends are charged in the period they are paid.

2 Income Statement

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own Income Statement for the year. The profit for the year ended 31 December 2016 was £6 million (2015: £3 million).

Auditors' remuneration for audit services to the Company was £0.4 million (2015: £0.5 million).

3 Fixed asset investments

Cost and net book amount	£m
At 1 January 2016	**3,602**
Additions – share-based payments	5
At 31 December 2016	**3,607**

A full list of investments in subsidiaries and other undertakings is disclosed in note 5.

4 Share capital

Share capital disclosure is shown in note 22 of the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF GKN PLC CONTINUED

For the year ended 31 December 2016

5 Subsidiaries and other undertakings

Details of the Group's subsidiaries, joint ventures and associated undertakings as at 31 December 2016 are given below. With the exception of GKN Holdings plc, all undertakings are held indirectly through intermediate companies. All undertakings are wholly owned by the Group unless stated otherwise.

All subsidiaries were included in the consolidation. Joint venture and associated undertakings were included in the consolidation using the equity method of accounting. All joint ventures are managed pursuant to the terms set out in the applicable joint venture contract agreement.

Name	Class of shares held/interest
Transmisiones Homocineticas Argentinas SA (49%)[1]	Ordinary B[1]
Unidrive Pty Ltd (60%)[2]	Ordinary
GKN Service Austria GmbH[3]	Ordinary
Société Anonyme Belge de Constructions Aéronautiques (43.57%)[4]	Ordinary
GKN Aerospace Transparency Systems do Brasil Ltda[5]	Quota capital
GKN do Brasil Limitada[6]	Quota capital
GKN Sinter Metals Ltda[7]	Quota capital
GKN Stromag Brasil Equipamentos Ltda[8]	Quota capital
Fokker Elmo Canada Inc[9]	Common stock
GKN Sinter Metals St Thomas Ltd[10]	Common stock
Fokker Elmo (Langfang) Electrical Systems Co. Ltd[11]	Registered investment
GKN (Bazhou) Metal Powder Company Limited (60%)[12]	Registered investment
GKN China Holding Co Ltd[13]	Registered investment
GKN Danyang Industries Company Limited[14]	Registered investment
GKN HUAYU Driveline Systems (Chongqing) Co. Ltd (9%)[15]	Registered investment
GKN (Lianyungang) Company Limited[16]	Registered investment
GKN Power Solutions (Liuzhou) Company Limited[17]	Registered investment
GKN Sinter Metals Yizheng Co Ltd[18]	Registered investment
GKN (Taicang) Co Ltd[19]	Registered investment
GKN Zhongyuan Cylinder Liner Company Limited (59%)[20]	Registered investment
Nanjing FAYN Piston Ring Company Limited (19.79%)[21]	Registered investment
Shanghai GKN Driveline Sales Co Ltd (49%)[22]	Registered investment
Shanghai GKN HUAYU Driveline Systems Company Limited (50%)[23]	Registered investment
Transejes Transmisiones Homocineticas de Colombia SA (49%)[24]	Ordinary
GKN Brno s.r.o[25]	Ordinary
GKN Walterscheid Service & Distribution A/S[26]	Ordinary
GKN Wheels Nagbol A/S[27]	Ordinary
Automotive Group Services SARL[28]	Ordinary
GKN Automotive SAS[29]	Ordinary
GKN Driveline Ribemont SARL[30]	Ordinary
GKN Driveline SA (99.99%)[29]	Ordinary
GKN Freight Services EURL[29]	Ordinary
GKN Service France SAS[31]	Ordinary
NHIndustries SAS (5%)[32]	Ordinary
GKN Aerospace Deutschland GmbH[33]	Ordinary
GKN Driveline Deutschland GmbH[34]	Ordinary
GKN Driveline International GmbH[35]	Ordinary
GKN Driveline Trier GmbH[36]	Ordinary
GKN Freight Services GmbH[37]	Ordinary
GKN Gelenkwellenwerk Kaiserslautern GmbH[38]	Ordinary
GKN Holdings Deutschland GmbH[39]	Ordinary
GKN Powder Metallurgy Holding GmbH[40]	Ordinary
GKN Service International GmbH[41]	Ordinary
GKN Sinter Metals Components GmbH[42]	Ordinary
GKN Sinter Metals Engineering GmbH[40]	Ordinary
GKN Sinter Metals Filters GmbH Radevormwald[43]	Ordinary

Name	Class of shares held/interest
GKN Sinter Metals GmbH, Bad Bruckenau[44]	Ordinary
GKN Sinter Metals GmbH, Bad Langensalza[45]	Ordinary
GKN Walterscheid Getriebe GmbH[46]	Ordinary
GKN Walterscheid GmbH[39]	Ordinary
Hoeganaes Corporation Europe GmbH[47]	Ordinary
Drivetech Accessories Limited[48]	Ordinary
Fokker Elmo SASMOS Interconnection Systems Limited (49%)[49]	Ordinary
GKN Driveline (India) Limited (97.03%)[50]	Ordinary
GKN Sinter Metals Private Limited[51]	Ordinary
GKN Driveline Beshel Private Joint Stock Company (59.99%)[52]	Ordinary
Ipsley Insurance Limited[53]	Ordinary
GKN Driveline Brunico SpA[54]	Ordinary
GKN Driveline Firenze SpA[55]	Ordinary
GKN Italia SpA[54]	Ordinary
GKN Service Italia SpA[56]	Ordinary
GKN Sinter Metals SpA[57]	Ordinary
GKN Wheels Carpenedolo SpA[58]	Ordinary
GKN Driveline Japan Ltd[59]	Ordinary
GKN Driveline Tochigi Holdings KK[59]	Ordinary
Matsui-Walterscheid Ltd (40%)[60]	Common stock
GKN Finance Limited[61]	Ordinary
GKN Driveline Korea Limited[62]	Common stock
GKN Driveline Malaysia Sdn Bhd (68.42%)[63]	Ordinary
FAE Aerostructures SA de CV[64]	Ordinary
GKN Aerospace San Luis Potosi S. de R.L. de C.V.[65]	Fixed equity
GKN Driveline Celaya SA de CV (99.85%)[66]	Ordinary
GKN Driveline Mexico Services SA de CV (98%)[66]	Ordinary
GKN Driveline Mexico Trading SA de CV (98%)[66]	Ordinary
GKN Driveline Villagran SA de CV (98%)[67]	Ordinary
Business Park Aviolanda B.V. (20%)[68]	Ordinary
Cooperative Delivery of Retrokits (CDR) V.O.F.(50%)[69]	Registered investment
Fabriek Slobbengors Beheer B.V. (49%)[70]	Ordinary
Fabriek Slobbengors C.V. (49%)[70]	Registered investment
Fokker Aerospace B.V.[71]	Ordinary
Fokker Aerostructures B.V.[71]	Ordinary
Fokker Aircraft Services B.V.[72]	Ordinary
Fokker (CDR) B.V.[71]	Ordinary
Fokker Elmo B.V.[73]	Ordinary
Fokker Engineers & Contractors B.V.[71]	Ordinary
Fokker Landing Gear B.V.[74]	Ordinary
Fokker Procurement Combination B.V.[71]	Ordinary
Fokker Services B.V.[75]	Ordinary
Fokker Technologies Group B.V.[71]	Ordinary
Fokker Technologies Holding B.V.[71]	Ordinary
Fokker Technology B.V.[71]	Ordinary
GKN Aerospace Netherlands B.V.[76]	Ordinary
GKN Service Benelux BV[77]	Ordinary
GKN UK Holdings BV[78]	Ordinary
Hoofdkantoor Slobbengors Beheer B.V.(49%)[70]	Ordinary
Kantoor Industrieweg C.V. (49%)[70]	Registered investment
Structural Laminates Industries B.V.[71]	Ordinary
GKN Aerospace Norway AS[79]	Ordinary
Kongsberg Technology Training Centre AS (50%)[79]	Ordinary

5 Subsidiaries and other undertakings continued

Name	Class of shares held/interest
Kongsberg Terotech AS (33.33%)[79]	Ordinary
GKN Driveline Polska Sp. z o.o[80]	Ordinary
GKN Service Polska Sp. z o.o[81]	Ordinary
FOAR S.R.L. (49%)[82]	Ordinary
Fokker Engineering Romania S.R.L.[83]	Ordinary
Hoeganaes Corporation Europe SA[84]	Ordinary
Driveline Systems (RUS) LLC[85]	Ordinary
GKN Driveline Togliatti LLC[86]	Ordinary
GKN Engineering (RUS) LLC[87]	Ordinary
Fokker Services Asia Pte Ltd[88]	Ordinary
GKN Driveline Singapore Pte Ltd[89]	Ordinary
GKN Driveline Slovenija d o o[90]	Ordinary
GKN Sinter Metals Cape Town (Pty) Limited[91]	Ordinary
GKN Ayra Servicio, SA[92]	Ordinary
GKN Driveline Vigo, SA[93]	Ordinary
GKN Driveline Zumaia, SA[94]	Ordinary
Stork Prints Iberia SA[95]	Ordinary
GKN Aerospace Applied Composites AB[96]	Ordinary
GKN Aerospace Sweden AB[97]	Ordinary
GKN Driveline Köping AB[98]	Ordinary
GKN Driveline Service Scandinavia AB[99]	Ordinary
GKN Stromag Scandinavia AB[99]	Ordinary
GKN Sweden Holdings AB[97]	Ordinary
Industrigruppen JAS AB (20%)[100]	Ordinary
Taiway Limited (36.25%)[101]	Common stock
GKN Aerospace Transparency Systems (Thailand) Limited[102]	Ordinary
GKN Driveline (Thailand) Limited[103]	Ordinary
GKN Driveline Manufacturing Ltd[103]	Ordinary
Fokker Elmo Havacilik Sanayi Ve Ticaret Limited Sirketi[104]	Ordinary
GKN Eskisehir Automotive Products Manufacture and Sales A.S.[105]	Ordinary
Alder Miles Druce Limited[78]	Ordinary
A. P. Newall & Company Limited[106]	Ordinary
Ball Components Limited[78]	Ordinary
Birfield Limited[78]	Ordinary
British Hovercraft Corporation Limited[78]	Ordinary
Chassis Systems Limited (50%)[107]	Ordinary
F.P.T. Industries Limited[78]	Ordinary
FAD (UK) Limited[78]	Ordinary
Firth Cleveland Limited[78]	Ordinary
GKN Aerospace Services Limited[108]	Ordinary
GKN Aerospace Transparency Systems (Kings Norton) Limited[78]	Ordinary
GKN Aerospace Transparency Systems (Luton) Limited[78]	Ordinary
GKN Automotive Limited[109]	Ordinary and preference
GKN AutoStructures Limited[107]	Ordinary
GKN Birfield Extrusions Limited[78]	Ordinary
GKN Bound Brook Limited[78]	Ordinary
GKN Building Services Europe Limited[78]	Ordinary
GKN CEDU Limited[78]	Ordinary
GKN Composites Limited[78]	Ordinary
GKN Computer Services Limited[78]	Ordinary
GKN Countertrade Limited[78]	Ordinary
GKN Defence Holdings Limited[78]	Ordinary

Name	Class of shares held/interest
GKN Defence Limited[78]	Ordinary
GKN Driveline Birmingham Limited[110]	Ordinary
GKN Driveline Mexico (UK) Limited[109]	Ordinary
GKN Driveline Service Limited[111]	Ordinary
GKN Euro Investments Limited[78]	Ordinary
GKN EVO eDrive Systems Limited[78]	Ordinary
GKN Export Services Limited[78]	Ordinary
GKN Fasteners Limited[78]	Ordinary
GKN Finance (UK) Limited[78]	Ordinary
GKN Firth Cleveland Limited[78]	Ordinary
GKN Freight Services Limited[78]	Ordinary and cumulative preference
GKN Group Pension Trustee (No.2) Limited[78]	Ordinary
GKN Group Pension Trustee Limited[78]	Ordinary
GKN Group Services Limited[78]	Ordinary and redeemable preference
GKN Hardy Spicer Limited[78]	Ordinary
GKN Holdings plc (held directly by GKN plc)[78]	Ordinary and deferred
GKN Hybrid Power Limited[78]	Ordinary
GKN Industries Limited[78]	Ordinary
G.K.N. International Trading (Holdings) Limited[78]	Ordinary
GKN Investments LP[112]	Registered investment
GKN Land Systems Limited[78]	Ordinary
GKN Marks Limited[78]	Ordinary
GKN OffHighway Limited[78]	Ordinary
GKN Overseas Holdings Limited[78]	Ordinary
GKN Pistons Limited[78]	Ordinary
G.K.N. Powder Met. Limited[78]	Ordinary
GKN Quest Trustee Limited[78]	Ordinary
GKN Sankey Finance Limited[78]	Ordinary and deferred
GKN Sankey Limited[107]	Ordinary
GKN SEK Investments Limited[78]	Ordinary
GKN Service UK Limited[78]	Ordinary
GKN Sheepbridge Limited[78]	Ordinary
GKN Sheepbridge Stokes Limited[113]	Ordinary
GKN Sinter Metals Holdings Limited[78]	Ordinary
GKN Sinter Metals Limited[78]	Ordinary
GKN Technology Limited[78]	Ordinary
GKN Thompson Chassis Limited[114]	Ordinary
GKN Trading Limited[78]	Ordinary
GKN UK Investments Limited[78]	Ordinary
GKN (United Kingdom) public limited company[78]	Ordinary
GKN U.S. Investments Limited[78]	Ordinary
GKN USD Investments Limited[78]	Ordinary
GKN Ventures Limited[78]	Ordinary
GKN Westland Aerospace (Avonmouth) Limited[78]	Ordinary
GKN Westland Aerospace Advanced Materials Limited[78]	Ordinary and convertible preference
GKN Westland Aerospace Aviation Support Limited[78]	Ordinary
GKN Westland Aerospace Holdings Limited[78]	Ordinary
GKN Westland Design Services Limited[78]	Ordinary
GKN Westland Limited[78]	Ordinary
GKN Westland Overseas Holdings Limited[78]	Ordinary
GKN Westland Services Limited[78]	Ordinary
Guest, Keen and Nettlefolds, Limited[78]	Ordinary
Laycock Engineering Limited[78]	Ordinary

5 Subsidiaries and other undertakings continued

Name	Class of shares held/interest
P.F.D. Limited[78]	Ordinary
Raingear Limited[78]	Ordinary
Rigby Metal Components Limited[78]	Ordinary
Ryvoan Limited (32.3%)[115]	Ordinary
Rzeppa Limited[78]	Ordinary and redeemable preference
Sheepbridge Stokes Limited[78]	Ordinary
Westland Group plc[78]	Ordinary
Westland Group Services Limited[78]	Ordinary
Westland System Assessment Limited[78]	Ordinary
Aerotron AirPower Inc[116]	Common stock
Fokker Aerostructures Inc[117]	Common stock
Fokker Elmo Inc[118]	Common stock
GENIL, Inc[119]	Ordinary
GKN Aerospace Aerostructures, Inc[120]	Ordinary
GKN Aerospace Bandy Machining, Inc[119]	Ordinary
GKN Aerospace Camarillo, Inc[119]	Ordinary
GKN Aerospace Chem-tronics Inc[119]	Ordinary
GKN Aerospace Cincinnati, Inc[121]	Ordinary
GKN Aerospace Florida, Inc[120]	Ordinary
GKN Aerospace Monitor, Inc[122]	Ordinary
GKN Aerospace Muncie, Inc[123]	Ordinary
GKN Aerospace New England, Inc[120]	Ordinary
GKN Aerospace Newington LLC[124]	Ordinary
GKN Aerospace North America, Inc[120]	Common stock
GKN Aerospace Precision Machining, Inc[120]	Ordinary
GKN Aerospace Services Structures Corporation[120]	Common stock
GKN Aerospace South Carolina, Inc[120]	Common stock
GKN Aerospace Transparency Systems, Inc[119]	Common stock
GKN Aerospace US Holdings LLC[125]	Membership interest (no share capital)
GKN Aerospace, Inc[120]	Common stock
GKN America Corp[120]	Common stock
GKN Armstrong Wheels, Inc[126]	Ordinary
GKN Driveline Bowling Green, Inc[121]	Common stock
GKN Driveline Newton LLC[127]	Membership interest (no share capital)
GKN Driveline North America, Inc[120]	Common stock
GKN Freight Services, Inc[120]	Common stock
GKN North America Investments, Inc[120]	Ordinary
GKN North America Services, Inc[120]	Common stock
GKN Rockford, Inc[120]	Ordinary
GKN Sinter Metals, LLC[128]	Membership interest (no share capital)
GKN Stromag, Inc[121]	Common stock
GKN Walterscheid, Inc[129]	Ordinary
GKN Westland Aerospace, Inc[120]	Common stock
Hoeganaes Corporation[120]	Common stock
Hoeganaes Specialty Metal Powders LLC (70%)[130]	Membership interest (no share capital)
XIK LLC[131]	Membership interest (no share capital)
GKN Driveline Uruguay SA[132]	Ordinary
Hadfield Holdings Limited (37.5%)[133]	Ordinary

1 Avenida Del Libertador 602, 4' Piso, Buenos Aires, Argentina. The Group owns 100% of the Ordinary Class B shares with a total ownership of 49% in the company.
2 45-49 McNaughton Road, Clayton Victoria 3168, Australia
3 Slamastrasse 32, Postfach 36, 1232 Wien, Austria
4 Chaussée de Haecht 1470, B-1130 Brussels, Belgium
5 Av. Alfredo Ignácio Noqueira Penido, 335 – Sala 1103 – Edifício Madison Power, São José dos Campos, SP, 12246-000, Brazil
6 Rua Joaquim Silveira 557, Parque Sao Sebastiao, 91060-320 Porto Alegre, RS, Brazil
7 Av. da Emancipacao no. 4.500, CEP 13.184-542, Bairro Santa Esmeralda, Hortolandia, Sao Paulo, Brazil
8 Av. Sargento Geraldo Santana, 154, 04674-225, Sao Paulo, SP, Brazil
9 1635 rue Blueberry Forest, Saint-Lazare Québec, J7T2J9, Canada
10 199 Bay Street, Suite 2800, Commerce Court West, Toronto ON M5L1A9, Canada
11 No 71 Xiangyuan Road, Langfang Economic & Technical Development Zone, Langfang, China
12 On the north of 1500 meters, Wuping Dong Road, Shengfang Town, Bazhou City, Hebei Province, China
13 Suite 1105-1110 LJZ Plaza, 1600 Century Avenue, Pudong, Shanghai, 200122, China
14 18 North Shitan Road, North Industrial Park, Development Zone, Danyang, Jiangsu, China
15 No. 1 Cuigu, Northern New Zone, Chongqing, 401122, China. The Group owns 9% directly with a total effective ownership of 34.5%.
16 928 JingDu Road, Donghai Economic Development Zone, Jiangsu, 222300, China
17 No. 7 Liutai Road, Liuzhou, Guangxi, 545007, China
18 Room 101, Xiwu Building, Yangzhou (Yizheng) Automotive Industrial Park, Jiangsu, China
19 188 East Guanhzhou Road, Taicang Economic Development Area, Jiangsu Province, China
20 Xiguo Industrial Zone, Mengzhou City, Henan Province, 454750, China
21 17 Zhongshan Road, Yong Yang County, Lishui District, Nanjing, China
22 898 Kangshen Road, Pudong, Shanghai, China
23 950 KangQiao Road, Pudong New Area, Shanghai, China
24 Calle 32 No. 15 – 23 Barrio Rincon de Girón, Girón Santander, Colombia
25 Pekárenská 738/54, České Budějovice 4, 370 04 České Budějovice, Czech Republic
26 Baldershøj 11, 2635 Ishøj, Denmark
27 Nagbølvej 31, 6640 Lunderskov, Denmark
28 20 rue Lavoisier, 95300 Pontoise, France
29 100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy, France
30 7 rue de la Briqueterie, 02240 Ribemont, France
31 8 rue Panhard et Levassor, Ecoparc des Cettons, 78570, Chanteloup-les-Vignes, France
32 765 rue Albert Einstein, CS 70402, 13591 Aix-en-Provence Cedex 3, France
33 Brunhamstr. 21, 81249, Munich, Germany
34 Carl-Legien-Strasse 10, 63073 Offenbach am Main, Germany
35 Hauptstrasse 130, 53797 Lohmar, Germany
36 Hafenstrasse 41, 54293 Trier, Germany
37 Heinrich-Krumm Strasse 1-3, 63073 Offenbach am Main, Germany
38 Opelkreisel 1-9, 67663 Kaiserslautern, Germany
39 Hauptstrasse 150, 53797 Lohmar, Germany
40 Krebsoege 10, 42477 Radevormwald, Germany
41 Nussbaumweg 19-21, 51503 Roesrath, Germany
42 Pennefeldsweg 11-15, 53177, Bonn, Germany
43 Dahlienstrasse 43, 42477 Radevormwald, Germany
44 Industriestr. 1, 97769 Bad Brückenau, Germany
45 Am Fliegerhorst 9, 99947 Bad Langensalza, Germany
46 Alte Bautzener Strasse 1-3, 02689 Sohland/Spree, Germany
47 Peterstrasse 69, 42499 Hueckeswagen, Germany
48 E-249, Rama Market, Munirka, New Delhi, 110 067, India
49 Block 2A No. 311, NPR Complex. Survey No 197, Hoody Village, K R Puram Hobli, Whitefield Road, Bangalore – 560048, Karnataka, India. The company's last financial year ended 31 March 2016.
50 270, Sector-24, Faridabad 121 005, Haryana, India
51 146 Mumbai Pune Road, Pimpri, Pune 411 018, India
52 N° 9, Yas Alley Fath St, Sadr Express Way, 1939753151 Tehran, Islamic Republic of Iran
53 Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man
54 Via dei Campi della Rienza 8, 39031 Brunico, BZ, Italy
55 Via Fratelli Cervi 1, 50013 Campi Bisenzio, FI, Italy
56 Via Giosuè Carducci 133, Cologno Monzese 20093, MI, Italy
57 Via Delle Fabbriche 5, 39031 Brunico, BZ, Italy
58 Viale Santa Maria 76, 25013 Carpenedolo, BS, Italy
59 2388 Ohmiya-cho, Tochigi City, 328-8502 Tochigi, Japan
60 21-15 Azusawa 2-chome, Itabashi-ku, Tokyo 174, Japan. The company's last financial year ended 31 March 2016.
61 13 Castle Street, St Helier, JE4 5UT, Jersey
62 Foreign Investors Industrial Park, 2 Ro, 3 Kongdan, Subuk- gu, Choongnam-do, 330-220, Republic of Korea
63 2445 Lorong Perusahaan Enam B, Kawasan Perindustrian Prai 13600 Prai, Penang, Malaysia
64 Tabalaopa #8301, Parque Industrial, Chihuahua, Mexico
65 Av. CFE No. 709, Parque Industrial Millennium, San Luis Potosi S.L.P 78395, Mexico
66 Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110, Mexico
67 Carretera Alterna Celaya Villagrán Km 11, Col. El Pintor, Villagrán, Guanajuato, C.P. 38260, Mexico
68 Aviolandalaan 37, 4631 RP, Hoogerheide, Netherlands
69 A General Partnership with a registered office of Industrieweg 4, 3351 LB, Papendrecht, Netherlands
70 Markt 22, 3351 PB, Papendrecht, Netherlands
71 Industrieweg 4, 3351 LB, Papendrecht, Netherlands
72 Aviolandalaan 31, 4631 RP, Hoogerheide, Netherlands
73 Aviolandalaan 33, 4631 RP, Hoogerheide, Netherlands
74 Grasbeemd 28, 5705 DG, Helmond, Netherlands
75 Hoeksteen 40, 2132 MS, Hoofddorp, Netherlands
76 Amstelveenseweg 760, 1081JK Amsterdam, Netherlands
77 Haarlemmerstraatweg 153-157, 1165 MK Halfweg, Netherlands
78 PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
79 Kirkegårdsveien 45, 3616 Kongsberg, Norway
80 Ul. B. Krzywoustego 31 G, 56-400 Oleśnica, Poland
81 Al. Katowicka 33, 05-830, Nadarzyn, Poland
82 Str. Condorilor 9, 600302, Bacau, Romania
83 Sos Pipera Tunari 1/V11, Nord City Tower et. 4, Voluntari Ilfov, Romania
84 33 Urziceni Street, Buzau, 120226, Romania
85 str. Kozhykhovskaya 5-я, bl. 9, room VII, 115193, Moscow, Russian Federation
86 Sovetskaya Street, 1a, Office 3, Podstepki Village, 445143, Stavropol Region, Samara Oblast, Russian Federation
87 Office 21K, Building 19, Leninskaya Sloboda Street, 115280, Moscow, Russian Federation
88 1800 West Camp Road, Seletar Aerospace Park, Singapore
89 10 Eunos Road 8, #13-05, Singapore Post Centre, 408600, Singapore
90 Rudniska cesta 20, Zrece 3214, Slovenia
91 49 Afrikander Road, Murdock Valley, Simonstown, 7975, South Africa
92 Pol. Ind. Can Salvatella, Avenida Arrahona 54-56, 08210 Barbera del Valles, Barcelona, Spain
93 Avenida de Citroen s/n, 36210 Vigo, Spain
94 Sagarbidea 2, 20750 Zumaia, Spain
95 Polígono Industrial s/n, Maçanet de la Selva, 17412 Girona, Spain
96 Box 13070, SE- 580 13, Linköping, Sweden
97 SE- 461 81, Trollhättan, Sweden
98 SE – 731 36, Köping, Sweden
99 Alfred Nobels allé 110, 14621, Tullinge, Sweden
100 581 88 Linköping, Sweden
101 14 Kwang Fu Road, Hsin-Chu Industrial Park, Hukou, Hsin Chu 30351, Taiwan
102 9/21 Moo 5, Phaholyothin Road Klong 1, Klong Luang, Patumthanee, 12120, Thailand
103 Eastern Seaboard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng, Rayong 21140, Thailand
104 Ege Serbest Bölgesi, SADI Sok. No:10, 35410 Gaziemir, Izmir, Turkey
105 Organize Sanayi Bolgesi 20, Cadde No: 17, 26110, Eskisehir, Turkey
106 15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA, United Kingdom
107 Hadley Castle Works, Telford, Shropshire, TF1 6AA, England
108 Ferry Road, East Cowes, Isle of Wight, PO32 6RA, England
109 PO Box 4128, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0WR, England
110 Chester Road, Erdington, Birmingham, B24 0RB, England
111 Unit 5, Kingsbury Business Park, Kingsbury Road, Minworth, Sutton Coldfield, B76 9DL, England
112 Registered office and principal place of business is 15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA, United Kingdom. The partnership is controlled by and its results consolidated by the Group, as such advantage has been taken of the exemption set out in regulation 7 of the Partnerships (Accounts) Regulations 2008.
113 Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
114 PO Box 20, Hadley Castle Works, Telford, Shropshire, TF1 6RE, England
115 8th Floor, 25 Farringdon Street, London, EC4A 4AB, United Kingdom
116 456 Aerotron Parkway, LaGrange, 30240 GA, USA
117 GTH Corporate Services LLC, 1201 Pacific Ave Ste 2100, Tacoma WA 98401, USA
118 CT Corporation Systems, 1201 Peachtree St NE, Atlanta GA 30361, USA
119 CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
120 Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808, USA
121 CSC-Lawyers Incorporating Service, 50 West Broad Street, Suite 1300, Columbus OH 43215, USA
122 Corporation Service Company, 80 State Street, Albany NY 12207, USA
123 Corporation Service Company, 251 East Ohio Street, Suite 500, Indianapolis IN 46204, USA
124 Principal place of business is 179 Louis Street, Newington CT 06111, USA
125 Principal place of business is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
126 Corporation Service Company, 505 5th Avenue, Suite 729, Des Moines IA 50309, USA
127 Principal place of business is 1848 GKN Way, Newton NC 28658, USA
128 Principal place of business is 2200 North Opdyke Road, Auburn Hills MI 48326, USA
129 Illinois Corporation Service Company, 801 Adlai Stevenson Drive, Springfield IL 62703, USA
130 Principal place of business is 1001 Taylors Lane, Cinnaminson NJ 08077, USA
131 Principal place of business is 2715 Davey Road, Suite 300, Woodridge, Illinois, 60517-5064, USA
132 Arq. Baldomiro, 2408, Montevideo, Uruguay
133 30 Millbank, London SW1P 4WY

GROUP FINANCIAL RECORD

	2016 £m	2015 £m	2014 £m	2013 £m	2012[1] £m
Consolidated income statements					
Sales	**8,822**	**7,231**	**6,982**	**7,136**	**6,510**
Trading profit	**684**	**609**	**612**	**597**	**504**
Change in value of derivative and other financial instruments	(154)	(122)	(209)	26	126
Amortisation of non-operating intangible assets arising on business combinations	(103)	(80)	(69)	(75)	(37)
Gains and losses on changes in Group structure	(9)	(1)	24	12	5
Reversal of inventory fair value adjustment arising on business combinations	–	(12)	–	–	(37)
Pension scheme curtailments	–	–	–	–	63
Impairment charges	(52)	(71)	(69)	–	–
Acquisition-related restructuring charges	(31)	–	–	–	–
Operating profit	**335**	**323**	**289**	**560**	**624**
Share of post-tax earnings of equity accounted investments	**73**	**59**	**61**	**52**	**38**
Net financing costs	**(116)**	**(137)**	**(129)**	**(128)**	**(94)**
Profit before taxation from continuing operations	**292**	**245**	**221**	**484**	**568**
Taxation	**(48)**	**(43)**	**(47)**	**(77)**	**(80)**
Profit for the year	**244**	**202**	**174**	**407**	**488**
Profit attributable to non-controlling interests	(2)	(5)	(5)	(12)	(23)
Profit attributable to owners of the parent	242	197	169	395	465
Earnings per share – pence[1]	**14.1**	**11.8**	**10.3**	**24.2**	**29.3**
Dividend per share – pence	**8.85**	**8.7**	**8.4**	**7.9**	**7.2**
Management performance measures[2]					
Sales	9,414	7,689	7,456	7,594	6,904
Trading profit	773	679	687	661	553
Profit before taxation	678	603	601	578	493
Earnings per share – pence[1]	31.0	27.8	29.0	28.7	26.3

	2016 £m	2015 £m	2014 £m	2013 £m	2012[1] £m
Consolidated balance sheets					
Non-current assets					
Intangible assets (including goodwill)	1,908	1,856	1,442	1,476	1,544
Property, plant and equipment	2,670	2,200	2,060	1,945	1,960
Equity accounted investments	233	195	174	179	153
Deferred tax assets	557	388	407	225	302
Other non-current assets	74	63	60	104	92
	5,442	4,702	4,143	3,929	4,051
Current assets					
Inventories	1,431	1,170	971	931	885
Trade and other receivables	1,648	1,311	1,226	1,142	1,102
Cash and cash equivalents and other financial assets	416	304	322	184	181
Other (including assets held for sale)	26	22	18	53	51
	3,521	2,807	2,537	2,310	2,219
Current liabilities					
Borrowings	(64)	(137)	(43)	(27)	(115)
Trade and other payables	(2,186)	(1,757)	(1,611)	(1,485)	(1,392)
Current income tax liabilities	(142)	(121)	(125)	(135)	(157)
Other current liabilities (including liabilities associated with assets held for sale)	(277)	(229)	(127)	(66)	(58)
	(2,669)	(2,244)	(1,906)	(1,713)	(1,722)
Non-current liabilities					
Borrowings	(842)	(867)	(877)	(889)	(937)
Deferred tax liabilities	(227)	(157)	(223)	(178)	(204)
Other non-current liabilities	(948)	(719)	(350)	(274)	(367)
Provisions	(82)	(78)	(112)	(119)	(135)
Post-employment obligations	(2,033)	(1,558)	(1,711)	(1,271)	(978)
	(4,132)	(3,379)	(3,273)	(2,731)	(2,621)
Net assets	2,162	1,886	1,501	1,795	1,927
Net debt	(704)	(769)	(624)	(732)	(871)

1 As restated for the effect of IAS 19 (revised) and for the effect of the changes to the acquisition balance sheet related to the purchase of Volvo Aerospace on 1 October 2012.

2 Management sales and trading profit aggregate the sales and trading profit of subsidiaries with the Group's share of the sales and trading profit of equity accounted investments. Management profit before tax is management trading profit less net subsidiary interest payable and receivable and the Group's share of net interest payable and receivable and taxation of equity accounted investments. Management earnings includes subsidiary tax related to subsidiary management profit before tax less other non-controlling interests.