

GKN plc Results Announcement for the year ended 31 December 2010

	Management basis ⁽¹⁾			As reported		
	2010 £m	2009 ⁽²⁾ £m	Change £m	2010 £m	2009 ⁽²⁾ £m	Change £m
Sales	5,429	4,454	975	5,084	4,223	861
Trading profit	411	156	255	367	133	234
<i>Trading margin</i>	7.6%	3.5%	4.1pts			
Operating profit	411	156	255	385	39	346
Profit/(loss) before tax	363	87	276	345	(54)	399
Earnings/(loss) per share – p	20.7	5.7	15.0	19.6	(3.2)	22.8
Dividend per share – p	5.0	-	5.0	5.0	-	5.0
Free cash flow	188	136	52			

Highlights^(1 & 2)

- Group results reflect the strong recovery in Driveline, Powder Metallurgy and Land Systems, a good performance in Aerospace and the on-going benefits from restructuring:
 - sales up 22% (£975 million) to £5.4 billion.
 - trading profit of £411 million, up £255 million, and trading margin of 7.6%.
- Driveline sales up 35%, with 6.9% trading margin.
- Powder Metallurgy sales up 48%, with 7.1% trading margin.
- Aerospace sales 2% lower, trading margin 11.2%.
- Land Systems sales up 18%, with 5.3% trading margin.
- New business:
 - Driveline achieves 80% win rate on new driveshaft business;
 - Aerospace wins \$1.5 billion of new contracts.
- Positive free cash flow of £188 million (2009: £136 million).
- Net debt down £149 million to £151 million (31 December 2009: £300 million).
- Earnings per share of 20.7 pence per share (2009⁽²⁾: 5.7 pence per share).
- Final dividend of 3.5 pence per share, giving a total dividend for 2010 of 5.0 pence per share (2009: no dividend).
- Return on average invested capital of 17% (2009⁽²⁾: 6%) reflecting higher profitability.

Sir Kevin Smith, Chief Executive of GKN plc, commented:

“GKN has continued to make strong progress in financial performance and in building the future of our global market-leading businesses. The trading environment has seen an improving trend for GKN’s Driveline, Powder Metallurgy and Land Systems businesses. The aerospace market has remained subdued although civil aerospace is now moving into a strong growth phase with volume increases on existing platforms and new aircraft moving into production.

The Group’s restructuring actions have enabled us to improve our competitiveness and margins and the continued focus on cash generation has resulted in a halving of net debt.

As a result of the strong performance, the Board is recommending a final dividend of 3.5 pence per share, making a total dividend of 5.0 pence for 2010.

GKN’s strong market positions and leading technology and the conclusion of restructuring leave us extremely well positioned for sustainable growth and margin expansion.”

Outlook

GKN's Markets

The outlook for our major markets is positive although some uncertainty remains, particularly around macro-economic conditions.

In automotive, external forecasts suggest that global light vehicle production should reach just over 78 million vehicles in 2011, an increase of 5%, with the strongest growth in China and India and continuing market recovery in North America. Production in Western Europe is expected to be broadly flat.

In aerospace, US military aircraft market demand is expected to show a small reduction as the rundown of the F-22 programme and a decrease on the C-17 are partially offset by increases on other programmes. Civil aircraft production is expected to return to growth in 2011 as both Airbus and Boeing increase production schedules.

The markets for Land Systems should continue to improve, with European agricultural equipment, which has been lagging other agricultural markets, forecast to enjoy good growth.

GKN's Performance

Against this background, Driveline and Powder Metallurgy are expected to show further good improvement in 2011. The conclusion of Driveline's restructuring actions will also provide some additional benefits to operating performance.

Aerospace sales are expected to be broadly flat as second half increases in revenue from civil aircraft offset reduced military sales. The ramp up of a number of new aircraft programmes and further increases in civil volumes should return Aerospace to its strong growth trend in 2012.

Land Systems performance should continue to improve, benefiting particularly from the expected increase in European agricultural equipment markets, which represent around a quarter of Land Systems sales.

Free cash flow is again expected to be positive, giving a further reduction in net debt for the year.

Purchase of key raw material supplies has been largely contracted for the whole of 2011 for Aerospace and Driveline against current expectations of demand at similar price levels to 2010. Land Systems procurement policies vary by business unit and we would expect any additional material costs to be substantially recovered in pricing. The scrap steel surcharge, which particularly impacts Powder Metallurgy and also Driveline, has increased sharply in the early part of the year and both Divisions have mechanisms in place which should recover about 80% of any increase over the course of the year. As a result, the impact of increased material costs on Group profits is currently expected to be relatively small.

Summary

In summary, GKN expects 2011 to be a year of good progress for the Group. As end markets continue to improve, the strength of our market positions and order books leaves GKN well placed for a period of sustained growth, margin expansion and strong free cash flow generation.

Cautionary Statement

This announcement contains forward looking statements which are made in good faith based on the information available to the time of its approval. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward looking statement which could cause actual results to differ materially from those currently anticipated.

Notes

- (1) Financial information set out in this announcement, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit of subsidiaries (excluding subsidiary businesses sold and closed) with the Group's share of the sales and trading profit of joint ventures. References to trading margins are to trading profit expressed as a percentage of sales. Management profit or loss 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 joint ventures. These figures better reflect performance of continuing businesses. Where appropriate, reference is made to underlying results which exclude the impact of acquisitions as well as currency translation on the results of overseas operations. Operating cash flow is cash generated from operations adjusted for capital expenditure, government capital grants, proceeds from disposal of fixed assets and government refundable advances. Free cash flow is operating cash flow including interest, tax, joint venture dividends and dividends paid to non-controlling interests, but excluding dividends paid to GKN shareholders. Return on average invested capital is management trading profit as a percentage of total net assets of continuing subsidiaries and joint ventures deducting current and deferred tax, net debt, post-employment obligations and derivative financial instruments.
- (2) Comparative data has been restated following the announcement to exit the Axles operations of the former OffHighway segment.
- (3) Comparative segmental information has been restated following the creation of GKN Land Systems, which was announced on 16 June 2010. Land Systems brought together the operations of GKN OffHighway (excluding Axles), GKN AutoStructures and GKN Industrial and Distribution Services (IDS). AutoStructures was included in the former Other Automotive segment and IDS was included in the Driveline segment.

Further Enquiries

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There will be an analyst and investor meeting today at 10.00am at UBS, Ground Floor Presentation Suite, 1 Finsbury Avenue, London EC2M 2PP.

A live audiocast of the presentation will be available at <http://www.gkn.com/investorrelations/Pages/Webcasts.aspx> . Slides will be put onto the GKN website approximately 15 minutes before the presentation is due to begin <http://www.gkn.com/investorrelations/Pages/results-and-presentations.aspx?year=2010>. Questions will only be taken at the event.

A live dial in facility will be available by telephoning one of the following numbers:

Standard International Dial In: +44 (0) 1452 555 566

UK Free Dial in: 0800 694 0257

USA Free Dial in: 1866 966 9439

Conf ID: 43991603

A replay of the conference call will be available until 14 March 2011 on the following numbers:

Standard International Number: +44 (0) 1452 55 00 00

UK Free Dial in: 0800 953 1533

USA Free Dial in: 1866 247 4222

Replay Access Number: 43991603#

This announcement together with the attached financial statements and notes thereto may be downloaded from our website. www.gkn.com/media/Pages/default.aspx .

NEWS RELEASE

GKN plc Results Announcement for the year ended 31 December 2010

Group Overview

Markets

The Group operates in the global automotive, aerospace and land systems markets. In the automotive market, Driveline sells to manufacturers of passenger cars and light vehicles. Around 75% of Powder Metallurgy sales are also to automotive, with the balance to other industrial customers. Aerospace sells to manufacturers of military and civil aircraft, aircraft engines and equipment. Land Systems sells to producers of agricultural, construction, mining and industrial equipment and to the automotive and commercial vehicle sectors.

These results reflect volume improvements in automotive markets, continued good performance in our Aerospace business, and an improving trend in land systems markets.

Results

Management sales increased 22% in the year ended 31 December 2010 to £5,429 million (2009⁽²⁾: £4,454 million). The effect of currency translation was £35 million favourable and there was a £17 million benefit from acquisitions. Excluding these items, the underlying increase was £923 million (21%). Within this figure, Driveline was £589 million higher, Powder Metallurgy increased by £247 million, Land Systems was £116 million higher, while Aerospace was £56 million lower.

Management trading profit increased £255 million to £411 million (2009⁽²⁾: £156 million). The currency translational benefit was £5 million and there was no net benefit from acquisitions. Excluding these items, the underlying increase was £250 million. Within this figure, Driveline was £156 million higher, Powder Metallurgy increased by £60 million and Land Systems was £40 million higher, all largely as a result of volume improvements and cost reduction benefits. Aerospace profit fell by £10 million. Group trading margin increased to 7.6% (2009⁽²⁾: 3.5%).

	2010	2009 ⁽²⁾	Change	
			Headline	Underlying
Sales (£m)	5,429	4,454	975	923
Trading profit (£m)	411	156	255	250
<i>Trading margin</i>	7.6%	3.5%		
<i>Return on average invested capital</i>	17.0%	6.2%		

Restructuring charges in the year amounted to £39 million, including £2 million of short-time working charged in the first half and £37 million redundancy and reorganisation charges. The total benefit of the actions to address the cost base is estimated to be £156 million, including £18 million in 2011. Cash expenditure on restructuring programmes amounted to £55 million.

Divisional Performance

Launch of Land Systems

On 16 June 2010, the Group announced the formation of its Land Systems division which brought together the operations of GKN OffHighway, GKN AutoStructures and GKN Industrial and Distribution Services. The aim of GKN Land Systems is to develop a fourth global leader alongside Driveline, Powder Metallurgy and Aerospace, building on existing strengths in the off-highway market and, by applying the leading-edge technologies developed across the Group, capitalising on growth opportunities in new and existing markets. Potential growth opportunities exist in high speed rail, renewable energy and defence.

Automotive

Production of cars and light vehicles continued to improve in 2010 as markets recovered following the recession of late 2008 and 2009. As shown in the table below, all markets experienced production growth, with the strongest being North America, India and China.

Car and light vehicle production (millions of units)	2010	2009	Growth (%)
Europe	19.5	16.8	16
North America	11.9	8.6	38
Brazil	3.2	2.9	10
Japan	9.3	7.7	21
China	16.8	12.9	30
India	3.2	2.4	33
Others	10.7	8.7	23
Total – global	74.6	60.0	24

Source: IHS Automotive

Overall, global production volumes of cars and light vehicles increased 24% in 2010 to 74.6 million vehicles (2009: 60.0 million) whilst sales increased by 13%, from 63.7 million vehicles to 72.0 million vehicles.

Demand for larger (premium) vehicles and light commercial vehicles recovered strongly, whereas the ending of scrappage and tax incentive schemes slowed demand for smaller vehicles, particularly in Europe. Vehicle production in Europe and Japan benefited from a strong rebound in exports.

External forecasts indicate that global production in 2011 will increase by approximately 5% to 78.1 million vehicles. Major markets that are expected to grow fastest include India (20%), North America (7%) and China (7%), whereas production in Europe is expected to grow at a more modest pace of 3%.

Driveline

GKN Driveline is the world's leading supplier of automotive driveline systems and solutions. As a global business serving the leading vehicle manufacturers, GKN Driveline develops, builds and supplies an extensive range of automotive driveline products and systems – for use in the smallest ultra low-cost car to the most sophisticated premium vehicle demanding the most complex driving dynamics.

The key financial results for the period are as follows:

	2010	2009 ⁽³⁾	Change	
			Headline	Underlying
Sales (£m)	2,433	1,803	630	589
Trading profit (£m)	169	10	159	156
<i>Trading margin</i>	6.9%	0.6%		
<i>Return on average invested capital</i>	16.0%	0.9%		

Driveline's sales increased 35% to £2,433 million (2009⁽³⁾: £1,803 million) compared with global vehicle production which increased 24%. Excluding the favourable impact of currency translation of £41 million, underlying sales increased by £589 million (32%). This market outperformance was particularly apparent in North America, China and Japan. It reflects Driveline's global footprint, new programme wins, a return to more normal vehicle segment demand patterns as government support schemes are progressively withdrawn and its strong position in European premium vehicles.

Trading profit increased substantially to £169 million (2009⁽³⁾: £10 million) reflecting higher sales and the benefits of restructuring, partially offset by higher engineering costs to support new programmes and future growth and some temporary costs incurred to raise capacity in some regions to keep pace with significant increases in demand. Current year trading profit included a £6 million curtailment gain arising from changes to pension arrangements in Japan. The impact of translational currency was £3 million positive, with underlying trading profit up by £156 million. Driveline trading margin was 6.9% (2009⁽³⁾: 0.6%).

Net restructuring charges were taken amounting to £29 million (2009⁽³⁾: £79 million), reflecting the conclusion of charges on the programme that commenced in 2008.

Capital expenditure on tangible fixed assets was £73 million (2009⁽³⁾: £73 million), 0.7 times (2009⁽³⁾: 0.7 times) depreciation.

Return on average invested capital was 16.0% (2009⁽³⁾: 0.9%), reflecting the increase in profitability.

During the year, Driveline continued its good performance of new business awarded; as well as continued strength in our core sideshafts business, there were notable successes with propshaft, all wheel drive (AWD) coupling, electronic differential locking and open differential product lines. Driveline's hybrid/electric drive products also won new contracts in North America, Japan and Europe. Although initial volumes are small, these are important programmes in positioning Driveline for the rapidly emerging hybrid electric vehicles segment.

Driveline also commenced production of open differentials in North America and power transfer units (PTUs) in China, and launched a number of innovative products designed to help vehicle manufacturers improve vehicle handling performance, including:

- Direct Torque Flow technology: a new design solution to connect the propshaft to the vehicle's transmission in a way that saves weight, assembly time, space and cost. The first application is on the Audi A8 Quattro high performance luxury saloon;
- Face Spline and Twin Ball CVJ: results in smaller products, lighter weight and tighter turning circles. This has launched on the BMW 7 Series and will appear on the new BMW 5 and 6 Series all-wheel drive vehicles later this year;
- ElectroMagnetic Coupling Device (EMCD): GKN Driveline's AWD coupling is now being produced for the first time in Europe and appears on the new Mini Countryman ALL4 crossover vehicle;
- Front electronic limited slip differential (eLSD): a world first application of EMCD technology as a front eLSD in a Japanese OEM's performance SUV;
- New propshaft business won with Mercedes, for the first time, and a contract to supply a major European customer with 100% of their propshaft needs, commencing in 2013.

As previously announced, in order to meet production demands from underlying growth in China, India and North America, major driveshaft capacity expansion is underway which will increase capacity in these markets by around 60% over the next four years. Driveline also opened a new sideshaft plant in Turkey, a small but high growth market.

Powder Metallurgy

Powder Metallurgy produces metal powder (Hoeganaes) and sintered products (GKN Sinter Metals). Hoeganaes is the largest producer of metal powder in North America. GKN Sinter Metals is the world's largest manufacturer of sintered components. Sinter Metals uses powdered metals to manufacture precision automotive components for engines, transmissions and body and chassis applications. It also produces a range of components for industrial and consumer applications, including power tools, bearings, white goods and garden equipment. Future business performance will depend on demand in these end markets and the extent to which new applications and industries adopt powder metallurgy products.

The key financial results for the period are as follows:

	2010	2009	Change	
			Headline	Underlying
Sales (£m)	759	512	247	247
Trading profit (£m)	54	(7)	61	60
<i>Trading margin</i>	7.1%	(1.4)%		
<i>Return on average invested capital</i>	13.2%	(1.6)%		

Powder Metallurgy sales were £759 million (2009: £512 million), an increase of 48%. There was no net impact from currency translation. Sales increased in all regions as automotive markets recovered and recent new business wins entered production.

Underlying sales for Sinter Metals increased by 43%, with strong growth achieved in North America, Europe, India and Brazil.

Overall, Hoeganaes' total tons shipped were 46% higher than in 2009 and underlying sales were 76% higher, the difference reflecting an increase in the commodity metals surcharge passed on to customers as raw material prices increased. A new powder mixing and finishing facility was opened by Hoeganaes, in China, towards the end of the year, to support growth in that rapidly expanding market.

Powder Metallurgy reported a trading profit of £54 million (2009: £7 million trading loss) with a divisional trading margin of 7.1% (2009: (1.4)%).

Increasing trends in industrial and automotive markets to improve fuel efficiency and reduce emissions, such as variable valve timing in engines, high performance gear sets in automatic transmissions and differential gears, are driving the demand for products made by powder metallurgy. During the year approximately £100 million (annualised sales) of new programme business was awarded and more than 30 technical days were hosted for existing and new customers, in order to promote the applicability of powder metallurgy products and applications.

Restructuring costs in 2010 totalled £1 million (2009: £20 million) reflecting the conclusion of the programme.

Capital expenditure on tangible fixed assets was £27 million (2009: £10 million). The ratio of capital expenditure to depreciation was 0.9 times (2009: 0.3 times).

Return on average invested capital was 13.2% (2009: (1.6)%), reflecting the improvement in profitability.

Aerospace

Aerospace is a global first tier supplier of airframe and engine structures, components, assemblies, transparencies and engineering services to a wide range of aircraft and engine prime contractors and other first tier suppliers. It operates in three main product areas: aerostructures, engine components and sub-systems and special products.

The overall aerospace market remained subdued in 2010. There was modest growth in the defence sector while large civil aircraft production was down around 6%, as the impact of the recession worked its way through the airline sector. The division has a balanced position in civil (53%) and defence (47%) programmes.

US defence spending remained robust apart from the planned reduction in sales of the F-22; production across most programmes such as F-18, F-15, C-130J and C-17 transport aircraft remained stable. 2011 production volumes for the C-17 programme have been reduced from 14 aircraft to 10. The initial production phase for the Lockheed F-35 (Joint Strike Fighter) has commenced and although volumes may now be lower in the initial years than originally planned, this aircraft remains a key part of the US defence programme with plans to build in excess of 2,500 aircraft. Although still to be formally voted into law, the US Defense Department 2011 budget plan shows around 1% growth over the next five years. In Europe, where GKN has very limited exposure, defence budgets remain under significant pressure and in Asia and the Middle East, a number of significant export programmes are being pursued by GKN's customers.

In the civil aerospace market, Airbus and Boeing benefited from their extensive backlogs and delivered a combined total of 923 aircraft, a reduction of 6% compared with the 979 deliveries in 2009. Airbus delivered 461 aircraft (2009: 498 aircraft) and Boeing delivered 462 aircraft (2009: 481 aircraft). The recovery in passenger and cargo volumes, a significant increase in net orders and a growing backlog, have led both Airbus and Boeing to announce increases in production levels of single aisle and wide bodied aircraft from 2012.

The key financial results for the period are as follows:

	2010	2009	Change	
			Headline	Underlying
Sales (£m)	1,451	1,486	(35)	(56)
Trading profit (£m)	162	169	(7)	(10)
<i>Trading margin</i>	11.2%	11.4%		
<i>Return on average invested capital</i>	23.3%	24.2%		

Aerospace sales of £1,451 million were £35 million lower than the prior year (2009: £1,486 million). The impact from currency on translation of sales was £6 million positive and from acquisitions was £15 million positive, representing sales from GKN Aerospace Services Structures Corp., of which the Group gained management control in April 2010 (note 13 has further details). The underlying decrease in sales of £56 million represented a 4% reduction. This decline reflects lower F-22 sales as the programme started its run down and softer military aftermarket business, particularly for rotorcraft, partly offset by higher F-18 sales. Increased sales for the Boeing 787 more than offset a decline in other civil market sales across a broad range of programmes and sectors.

Trading profit decreased by £7 million to £162 million (2009: £169 million). The impact from currency on translation of results was £1 million positive and from acquisitions was £2 million positive. The trading margin was 11.2% (2009: 11.4%).

Restructuring charges were taken amounting to £4 million (2009: £10 million).

Capital expenditure on tangible assets in 2010 amounted to £51 million (2009: £43 million) which represents 1.3 times depreciation (2009: 1.0 times). Expenditure on intangible assets, mainly initial non-recurring programme costs, was £26 million (2009: £13 million).

£39 million of the capital expenditure and non-recurring programme costs relate to the Airbus A350 wing assembly and trailing edge programme. A total of £79 million had been invested by 31 December 2010. Spending is likely to continue at around the current level in 2011 and reduce thereafter. This programme is partly funded by UK Government refundable advances, £10 million of which was received in 2010 (2009: £28 million).

Customer advances in the Aerospace businesses, which are shown in trade and other payables in the balance sheet, amounted to £70 million (2009: £66 million).

Return on average invested capital was 23.3% (2009: 24.2%) reflecting increased investment in new programmes.

GKN Aerospace secured a number of new programme wins and achieved a number of significant milestones during the year, including:

- two new contracts for detailed parts for the inboard and outboard landing flaps for the Airbus A350 XWB;
- a five year \$300 million agreement with GE Aviation to supply a range of new and existing flight critical aluminium and titanium components for GE's range of commercial and military engines;
- a ten year agreement with a value of \$360 million with Pratt & Whitney for high performance engine ducts for the F135 engine;
- a \$300 million ten year contract with Rolls-Royce for Trent 700 and Trent 1000 engine structures;
- a multi-year production contract to supply lightweight titanium thrust links for the Boeing 747-8 and Boeing 787;
- a number of transparency contracts including Airbus A350, Boeing 787 and Bombardier C Series cabin windows and cockpit windows for the Boeing 747-8;
- delivery of its first major assembly of the Sikorsky CH-53K heavy lift helicopter which features an advanced hybrid composite, aluminium and titanium structure covered with external composite skins;
- installation and commissioning of the first two auto fibre placement machines for production of A350 wing spars, with manufacturing of the first spar commencing at the end of 2010.

The division has an excellent position on new programmes that come into full production over the period 2012 to 2016, providing significant growth potential.

Land Systems

Land Systems designs, manufactures and distributes a portfolio of products for vehicles primarily in the agricultural, construction, mining, automotive and other specialty vehicle markets. It consists of three primary business streams – power management, wheels and structures and aftermarket. The division has leading global positions in the supply of power take-off shafts and wheels. The Aftermarkets and Services business provides a range of new and remanufactured components to the passenger vehicle aftermarket and repairs and replaces heavy duty propshafts.

Future business performance will depend on demand for equipment used in industries such as agriculture, construction, mining and automotive. In addition, the requirement to make off highway vehicles more fuel efficient and with lower emissions will provide opportunities for Land Systems to utilise its own expertise and leverage technology from Driveline in making lighter components and increasing the efficiency of power management products. Furthermore, a strategic review identified a number of potential growth opportunities that could utilise GKN's core skills and technologies. Examples include, military vehicles requiring independent suspension and advanced driveline solutions to cope with more challenging terrain, increasing urbanisation leading to demand for high speed rail solutions and increasing use of renewable energy to meet lower carbon emission targets.

Following a very difficult second half of 2009 for Land Systems businesses, 2010 started more positively with the recovery continuing throughout the year, especially for mining, heavy construction and general industrial equipment and for automotive products.

In Europe, the strongest recovery occurred in construction and in the structures market, relating to new vehicle production. The Aftermarkets and Services business was not impacted by the recession to the same extent as other parts of Land Systems and therefore has seen a more modest improvement in sales as markets have recovered. The weakest recovery has been in European agricultural equipment markets which remained relatively soft during the first half but started to improve in the second half, supported by higher global commodity prices and some re-stocking within the supply chain.

In North America, agriculture, construction and mining markets all enjoyed good growth.

The key financial results for the period are as follows:

	2010	2009 ⁽³⁾	Change	
			Headline	Underlying
Sales (£m)	699	593	106	116
Trading profit (£m)	37	(3)	40	40
<i>Trading margin</i>	5.3%	(0.5)%		
<i>Return on average invested capital</i>	15.8%	(1.1)%		

Against this background, sales in the period were £699 million, 18% higher than the prior year (2009⁽³⁾: £593 million). Excluding currency translation of £10 million negative, the underlying increase in sales was £116 million (20%) with all product areas and regions seeing an improvement.

The division reported trading profit of £37 million (2009⁽³⁾: £3 million loss). There was no net impact from currency translation. The trading margin was 5.3% compared with (0.5)% in 2009⁽³⁾.

Restructuring actions during the year resulted in charges of £5 million (2009⁽³⁾: £20 million).

Capital expenditure on tangible fixed assets was £7 million (2009⁽³⁾: £11 million), 0.5 times (2009⁽³⁾: 0.7 times) depreciation.

Return on average invested capital increased to 15.8% (2009⁽³⁾: (1.1)%), reflecting the return to profitability of the division.

Good progress was made in winning new business. Specific areas of success included:

- CVJ for 4x4 tractors - utilising our automotive driveline technology a CVJ shaft was developed for the agricultural tractor market, which is increasingly moving towards independent suspension. This innovative solution allows tractor designers to improve mobility, comfort, speed of operation and reduce running noise;
- Rauch fertilising equipment - following the trend for precision farming a torque sensing device has been developed. The device is linked to a global positioning system (GPS) and allows farmers to fertilise the farm according to defined soil requirements in a repeatable and accurate way;
- Combine hydro split drive - in order to improve further the efficiency of a combine harvester, the hydro split gearbox allows the transfer of power to the areas where it is most needed with infinite variable speed;
- Specialist driveshafts for electric cars – the Aftermarkets and Services business secured further driveshaft business for the Fisker electric car, offering a highly efficient low weight driveshaft;
- New wheels business in the fast growing South American market with a major original equipment manufacturer.

Looking forward to 2011, land systems markets are expected to continue to improve and we expect the division to make further progress in developing stronger positions in existing and new markets.

Other Businesses

GKN's other businesses, comprise Cylinder Liners, which is mainly a 60% owned venture in China, manufacturing engine liners for the truck market in the US, Europe and China and a 50% share in Emitec, which manufactures metallic substrates for catalytic converters in Germany, the US, China and India.

Sales in the year were £87 million (2009⁽³⁾: £60 million), reflecting the recovery in automotive markets. A profit of £3 million for the year compares to a loss of £1 million in 2009⁽³⁾. During the year Emitec acquired NoNox, one of the world's leading producers of pumps and related metering equipment for selective catalytic reduction systems which is investing heavily in new products, mainly for the truck market.

Corporate costs

Corporate costs, which comprise the costs of stewardship of the Group and operating charges and credits associated with the Group's legacy businesses, were £14 million (2009: £12 million).

Other Financial Information

Restructuring and impairment charges

Group restructuring and impairment charges of £39 million (2009: £141 million) relate to the final charges on the restructuring programme initially announced in November 2008 which was completed during 2010. The major elements arose within subsidiaries and represent redundancy and re-organisation costs of £37 million and short-time working costs of £2 million. Impairment charges were a net nil in the year. No further restructuring charges are expected in 2011 although £31 million of cash expenditure is expected as the actions charged in 2010 are implemented.

Change in value of derivative and other financial instruments

The Group enters into foreign exchange contracts to hedge much of its transactional exposure. At 31 December 2010, the net fair value of such instruments was a liability of £54 million (2009: £52 million liability). Where hedge accounting has not been applied, the change in fair value resulted in a charge of £3 million (2009: £106 million credit). There was a £3 million credit arising from the change in the value of embedded derivatives in the year (2009: £29 million charge) and a net gain of £12 million attributable to the currency impact on Group funding balances (2009: £3 million net loss). There was no change in the value of Powder Metallurgy commodity contracts (2009: £2 million credit).

Amortisation of non-operating intangible assets arising on business combinations

The charge for the amortisation of non-operating intangibles (for example customer contracts, order backlogs and intellectual property rights) arising on business combinations was £19 million (2009: £24 million). The decrease relates to the amortisation of short-life customer order backlog intangible assets arising from the Filton acquisition in 2009.

Gains and losses on changes in Group structure

In the first half of 2010, the decision was taken to exit the Axles business of the former OffHighway segment. During the year, the business incurred a trading loss of £2 million (2009: £4 million) and impairment charges of £4 million. In September 2010, the Group concluded the sale of the European agricultural axles operations, with other operations closed during the year.

Post-tax earnings of joint ventures

The post-tax earnings of joint ventures in the year were £35 million (2009: £21 million). Post-tax earnings on a management basis were £36 million (2009: £18 million), with trading profit of £44 million (2009: £23 million). The tax charge amounted to £7 million (2009: £4 million) with an interest charge of £1 million (2009: £1 million). Underlying trading profit increased £22 million due to strong performance in our Chinese joint ventures, up £13 million, and improvements in Emitec (£5 million) and Chassis Systems (£3 million).

Net financing costs

Net financing costs totalled £75 million (2009: £114 million) and include the non-cash charge on post-employment benefits of £31 million (2009: £49 million) and unwind of discounts of £4 million (2009: £1 million). Interest payable was £46 million (2009: £67 million), whilst interest receivable was £6 million (2009: £3 million) resulting in net interest payable of £40 million (2009: £64 million). The £24 million decrease in net interest payable includes the benefits from the bond buy-backs in December 2009 and May 2010. Capitalised interest costs attributable to the Group's A350 investment were £4 million (2009: £1 million) and interest charged on UK Government refundable advances was £2 million (2009: less than £1 million).

The non-cash charge on post-employment benefits arises as the expected return on scheme assets of £145 million (2009: £121 million) was more than offset by interest on post-employment obligations of £176 million (2009: £170 million). Details of the assumptions used in calculating post-employment costs and income are provided in note 15 (b).

Profit/(loss) before tax

The management profit before tax was £363 million (2009⁽²⁾: £87 million). The profit before tax on a statutory basis was £345 million compared with a £54 million loss before tax in 2009.

Taxation

The book tax rate on management profits of subsidiaries was 11% (2009⁽²⁾: 17%), arising as a £37 million tax charge on management profits of subsidiaries of £327 million.

The Group's theoretical weighted average tax rate, which assumes that book profits/losses are taxed at the statutory tax rates in the countries in which they arise, is 32% (2009: 31%). The book tax rate is significantly lower, largely because of the recognition of substantial deferred tax assets (mainly in the US) due to increased confidence in the Group's ability to make future taxable profits to absorb brought forward tax deductions.

One of GKN's core tax strategic objectives is to access brought forward tax deductions in order to sustain a 'cash tax' charge on management profits at or below 20%. 'Cash tax' provides a proxy for the cash cost of taxation of management profits. The cash tax charge was 13% (2009⁽²⁾: 29%). In the near term, we expect the 'cash tax' rate to continue at or below 20% as we utilise brought forward tax deductions.

The tax rate on statutory profits of subsidiaries was 6% (2009: 20%) arising as a £20 million tax charge on statutory profits of £310 million.

Non-controlling interests

The profit attributable to non-controlling interests was £20 million (2009: £2 million) reflecting a £15 million impact from the pension partnership arrangement (see note 15 (d) for further details).

Earnings per share

Management earnings per share was 20.7 pence (2009⁽²⁾: 5.7 pence). On a statutory basis earnings per share was 19.6 pence (2009: (3.2) pence). The improvement is mainly due to the higher profitability of the Group. Average shares outstanding in 2010 were 1,552.6 million.

Dividend

In view of the improving trading environment and taking into account the Group's future prospects, the Board has decided to recommend a final dividend of 3.5 pence per share (2009: no final dividend). The total dividend for the year is, therefore, 5.0 pence (2009: no dividend). Our objective, in the medium term, is a progressive dividend policy based on a management earnings cover ratio of around 2.5 times. The final dividend will be paid on 19 May 2011 to shareholders on the register at 26 April. Shareholders may choose to use the Dividend Reinvestment Plan (DRIP) to reinvest the final dividend. The closing date for receipt of new DRIP mandates is 5 May 2011.

Cash flow

Operating cash flow, which is defined as cash generated from operations of £420 million (2009: £288 million) adjusted for capital expenditure (net of proceeds from capital grants) of £190 million (2009: £153 million), proceeds from the disposal / realisation of fixed assets of £5 million (2009: £35 million) and UK Government refundable advances of £10 million (2009: £28 million), was an inflow of £245 million (2009: £198 million).

Within operating cash flow there was an outflow of working capital and provisions of £59 million (2009: £133 million inflow), principally as a result of higher inventory across the Group as volumes increased. Average working capital as a percentage of sales continued to improve from 9.2% in 2009, to 6.8% in 2010.

Capital expenditure (net of proceeds from capital grants) on both tangible and intangible assets totalled £190 million (2009: £153 million), including £39 million (2009: £32 million) on the A350 programme. Of this, £159 million (2009: £139 million) was on tangible fixed assets and was 0.8 times (2009: 0.7 times) the depreciation charge. Expenditure on intangible assets, mainly initial non-recurring costs on Aerospace programmes, totalled £31 million (2009: £14 million). The Group invested £92 million in the year (2009: £83 million) on research and development activities not qualifying for capitalisation.

Free cash flow before dividends

Free cash flow, which is operating cash flow including joint venture dividends and after interest, tax, dividends paid to non-controlling interests but before dividends paid to GKN shareholders, was an inflow of £188 million (2009: £136 million), after £55 million (2009: £99 million) of expenditure on the Group's restructuring programmes. The year on year improvement reflects the improving profitability of the Group and a continued focus on our balance sheet. Net interest paid totalled £46 million (2009: £61 million) including £14 million interest benefit relating to the December 2009 and May 2010 bond buybacks and tax paid in the year was £33 million (2009: £15 million).

Net borrowings

At the end of the year, the Group had net borrowings of £151 million (2009: £300 million). The Group's share of net funds in joint ventures was £17 million (2009: £9 million).

Pensions and post-employment obligations

GKN operates a number of defined benefit and defined contribution pension schemes together with retiree medical arrangements across the Group. The net amount included within trading profit of £26 million (2009: £22 million) includes the current service cost of £35 million (2009: £34 million) partly offset by credits arising from initiatives taken to reduce the Group's pension liabilities. Other net financing charges of £31 million (2009: £49 million) have reduced mainly due to the impact of the pension partnership arrangement.

	Current service cost		Net amount included within Trading Profit		Other net financing charges	
	2010	2009	2010	2009	2010	2009
	£m	£m	£m	£m	£m	£m
UK pensions	(22)	(20)	(20)	(20)	(7)	(23)
Overseas pension	(12)	(13)	(6)	(6)	(21)	(23)
Retiree medical and life insurance	(1)	(1)	-	4	(3)	(3)
	(35)	(34)	(26)	(22)	(31)	(49)

During the year the Group has agreed benefit changes and a payment arrangement to improve the funding position of the UK Pension scheme. The impact of benefit changes gave rise to a £68 million curtailment credit which has been reported as a separate component of operating profit. The agreement of an asset-backed cash payment arrangement resulted in the recognition of a £331 million plan asset. Further details are provided below.

UK pensions

The UK defined benefit scheme is a funded plan with all future benefits accrued on a career average basis. A hybrid pension plan providing benefits from an element of both defined benefit and defined contribution arrangements is open to new members. Members currently in employment with the Company represent approximately 16% of total liabilities of £2,435 million (2009: £2,429 million).

The charge relating to the UK defined benefit scheme reflected in Trading Profit included a settlement credit of £2 million, net of expenses, relating to an enhanced transfer value exercise for deferred members of the UK scheme.

A curtailment gain of £68 million resulted from benefit changes introduced in the UK in April 2010 whereby accrued final salary benefits for active members were crystallised, whilst future revaluation will be linked to RPI compared to the previous salary increase assumption of RPI + 1%. In addition, a number of benefits were harmonised across the different sections of the UK scheme.

The accounting deficit at 31 December 2010 of £71 million was significantly lower than the £499 million at the end of 2009. The reduction was mainly due to the £331 million special contribution provided as part of the Pension partnership arrangement. Under the partnership arrangement, the special contribution allows the UK Pension scheme a distribution of £30 million per annum for 20 years, subject to a funding condition and discretion exercisable by the Group. The partnership receives rental income from various UK freehold properties and global trade mark royalty income (see note 15 (d) for further details).

Other changes to the accounting deficit included £147 million of gains that reflect actual experience of assets and liabilities during 2010 compared to the 2009 end year assumptions, the £68 million curtailment, a £13 million reduction following changes in the statutory minimum increase from RPI to CPI partly offset by a £100 million impact from the 30 basis point reduction in the discount rate to 5.4% and £48 million from the change in mortality assumptions to a 1% underpin.

Overseas pensions

Overseas pension obligations arose mainly in the US, Germany and Japan.

Trading profit benefited from the one-time curtailment/past service credit in Japan of £6 million. Similar actions in 2009 in the US gave rise to £7 million credit.

The deficit increased by £25 million to £468 million largely as a result of discount rate reductions in the US and Europe by 50 and 40 basis points, respectively.

Retiree medical and life insurance

GKN operates retiree medical and life insurance arrangements in North America and has a scheme, closed to new members, in the UK.

The obligation in respect of all schemes at the end of the year was £61 million compared with £54 million at the end of 2009 largely due to the impact of lower discount rates and changes that reflect actual experience in place of previous assumptions.

Summary

At 31 December 2010, the total deficit on post-employment obligations of the Group totalled £600 million (2009: £996 million), comprising the deficit on funded obligations of £193 million (2009: £610 million) and unfunded obligations of £407 million (2009: £386 million).

Net assets

Net assets of £1,687 million were £715 million higher than the December 2009 year end figure of £972 million. The increase includes the £331 million impact of the Pension partnership, retained profit of £325 million and currency movements of £50 million.

Exchange rates

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

	Average		Year End	
	2010	2009	2010	2009
Euro	1.16	1.12	1.17	1.13
US dollar	1.55	1.56	1.57	1.61

The approximate impact on 2010 trading profit of subsidiaries and joint ventures of a 1% movement in the average rate would be euro - £1.0 million, US dollar - £1.6 million.

Funding and liquidity

At 31 December 2010, there were £10 million of drawings related to the issuance of letters of credit against the £358 million of the Group's UK committed credit facilities. Following a £25 million bond buy back in May 2010, capital market borrowings reduced to £526 million and include unsecured issues of £176 million 7% bonds maturing in May 2012 and £350 million 6.75% bonds maturing in October 2019. In total, the Group's bank committed credit facilities have maturities ranging from 2010 to 2019. The weighted average maturity profile of the Group's committed borrowing facilities was 5.3 years. This leaves the Group well placed in the short term to withstand sudden changes in liquidity in the financial markets.

All of the Group's committed credit facilities have a single financial covenant requiring EBITDA of subsidiaries to be at least 3.5 times net financing costs. EBITDA of subsidiaries is operating profit before restructuring charges, impairment of goodwill, amortisation of non-operating intangible assets, revaluation of financial instruments, profit and losses on sale or closures of businesses, other items reported as separate components of operating profit and depreciation, impairment and amortisation charged into trading profit. Net financing costs excludes other financing charges and capitalised borrowing costs. For the 12 months to 31 December 2010 this ratio stood at 13 times.

Financial resources and going concern

At 31 December 2010, the Group had Gross borrowings of £593 million (2009: £636 million) and cash and deposits of £442 million (2009: £336 million) resulting in net borrowings of £151 million. In addition, it had available, but undrawn, committed UK borrowing facilities totalling £348 million. Of the Group's total committed borrowing facilities, €50 million is due to expire in October 2011.

The Directors have assessed the future funding requirements of the Group and the Company and compared them to the level of committed available borrowing facilities. The assessment included a review of both divisional and Group financial forecasts, financial instruments and hedging arrangements for the 15 months from the balance sheet date. Major assumptions have been compared to external reference points such as global light vehicle volumes, build schedules from aircraft assemblers and market forecasts from major manufacturers of agricultural and construction machinery.

The forecasts show that the Group will have ample headroom in the foreseeable future and an assessment of the likelihood of breaching banking covenants in this period is considered to be remote.

Having undertaken this work, the Directors are of the opinion that the Group has adequate committed resources to fund its operations for the foreseeable future and so determine that it is appropriate for the financial statements to be prepared on a going concern basis.

APPENDICES

These appendices do not form the statutory accounts of the Group. The statutory accounts for the year ended 31 December 2009 have been filed with the Registrar of Companies and contained an unqualified audit report. The audited results for 2010 were approved by the Board on 28 February 2011 and have been agreed with the auditors.

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Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 £m	2009 Restated £m
Sales	2	5,084	4,223
<i>Trading profit</i>	2	367	133
<i>Restructuring and impairment charges</i>	4	(39)	(144)
<i>Change in value of derivative and other financial instruments</i>	5	12	76
<i>Amortisation of non-operating intangible assets arising on business combinations</i>	6	(19)	(24)
<i>UK Pension scheme curtailment</i>	15	68	-
<i>Gains and losses on changes in Group structure</i>	7	(4)	(2)
Operating profit		385	39
Share of post-tax earnings of joint ventures		35	21
Interest payable		(46)	(67)
Interest receivable		6	3
Other net financing charges		(35)	(50)
Net financing costs	8	(75)	(114)
Profit/(loss) before taxation		345	(54)
Taxation	9	(20)	15
Profit/(loss) from continuing operations		325	(39)
Profit after taxation from discontinued operations		-	5
Profit/(loss) after taxation for the year		325	(34)
Profit attributable to other non-controlling interests		5	2
Profit attributable to the pension partnership		15	-
Profit attributable to non-controlling interests		20	2
Profit/(loss) attributable to equity shareholders		305	(36)
		325	(34)
Earnings per share – p	10		
Continuing operations – basic		19.6	(3.2)
Continuing operations – diluted		19.6	(3.2)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Profit/(loss) after taxation for the year		325	(34)
Other comprehensive income			
Currency variations			
Subsidiaries			
Arising in year		42	(154)
Reclassified in year		(1)	8
Joint ventures			
Arising in year		9	(12)
Reclassified in year		-	(2)
Derivative financial instruments			
Transactional hedging			
Arising in year		1	2
Reclassified in year		-	5
Actuarial gains and losses on post-employment obligations			
Subsidiaries	15	(24)	(190)
Joint ventures		-	-
Taxation	9	58	17
		85	(326)
Total comprehensive income/(expense) for the year		410	(360)
Total comprehensive income/(expense) for the year attributable to:			
Equity shareholders		387	(362)
Other non-controlling interests		8	2
Pension partnership		15	-
Non-controlling interests		23	2
		410	(360)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Notes	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Other reserves			Shareholders' equity £m	Non-controlling interests		Total equity £m
						Exchange reserve £m	Hedging reserve £m	Other reserves £m		Pension partnership £m	Other £m	
At 1 January 2010		457	-	9	431	343	(197)	(95)	948	-	24	972
Total comprehensive income/(expense) for the year		-	-	-	341	45	1	-	387	15	8	410
Investment in Pension partnership by UK Pension scheme	15	-	-	-	-	-	-	-	-	331	-	331
Purchase of non-controlling interests		-	-	-	(2)	-	-	-	(2)	-	(3)	(5)
Share-based payments		-	-	-	3	-	-	-	3	-	-	3
Transfers		(298)	298	-	38	-	-	(38)	-	-	-	-
Dividends paid to equity shareholders	11	-	-	-	(23)	-	-	-	(23)	-	-	(23)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	-	(1)	(1)
At 31 December 2010		159	298	9	788	388	(196)	(133)	1,313	346	28	1,687
At 1 January 2009		372	-	29	290	499	(204)	(81)	905	-	23	928
Total comprehensive income/(expense) for the year		-	-	-	(213)	(156)	7	-	(362)	-	2	(360)
Rights issue		85	-	-	-	-	-	338	423	-	-	423
Rights issue costs charged to share premium		-	-	(20)	-	-	-	-	(20)	-	-	(20)
Share-based payments		-	-	-	2	-	-	-	2	-	-	2
Transfers		-	-	-	352	-	-	(352)	-	-	-	-
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	-	(1)	(1)
At 31 December 2009		457	-	9	431	343	(197)	(95)	948	-	24	972

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 2010

	Notes	2010 £m	2009 £m
Assets			
Non-current assets			
Goodwill		350	338
Other intangible assets		200	187
Property, plant and equipment		1,651	1,636
Investments in joint ventures		143	112
Other receivables and investments		23	24
Derivative financial instruments		19	16
Deferred tax assets	9	171	71
		2,557	2,384
Current assets			
Inventories		637	563
Trade and other receivables		762	644
Current tax assets	9	10	13
Derivative financial instruments		13	6
Other financial assets	12	4	20
Cash and cash equivalents	12	438	316
		1,864	1,562
Total assets		4,421	3,946
Liabilities			
Current liabilities			
Borrowings	12	(61)	(72)
Derivative financial instruments		(13)	(14)
Trade and other payables		(1,065)	(873)
Current tax liabilities	9	(100)	(79)
Provisions		(57)	(84)
		(1,296)	(1,122)
Non-current liabilities			
Borrowings	12	(532)	(564)
Derivative financial instruments		(61)	(51)
Deferred tax liabilities	9	(63)	(57)
Trade and other payables		(108)	(97)
Provisions		(74)	(87)
Post-employment obligations	15	(600)	(996)
		(1,438)	(1,852)
Total liabilities		(2,734)	(2,974)
Net assets		1,687	972
Shareholders' equity			
Share capital		159	457
Capital redemption reserve		298	-
Share premium account		9	9
Retained earnings		788	431
Other reserves		59	51
		1,313	948
Non-controlling interests		374	24
Total equity		1,687	972

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	14	420	288
Special contribution to the UK Pension scheme	15	(331)	-
Interest received		7	7
Interest paid		(53)	(68)
Tax paid		(33)	(15)
Dividends received from joint ventures		23	15
		33	227
Cash flows from investing activities			
Purchase of property, plant and equipment		(162)	(140)
Receipt of government capital grants		3	1
Purchase of intangible assets		(31)	(14)
Receipt of government refundable advances		10	28
Proceeds from sale and realisation of fixed assets		5	35
Acquisition of subsidiaries (net of cash acquired)		(6)	(99)
Purchase of non-controlling interest		(5)	-
Proceeds from sale of businesses		5	-
Proceeds from sale of joint venture		1	1
Investments in joint ventures		(10)	(2)
Investment loans and capital contributions		(3)	(11)
		(193)	(201)
Cash flows from financing activities			
Investment in Pension partnership by UK Pension scheme	15	331	-
Net proceeds from rights issue		-	403
Net proceeds from other ordinary share capital transactions		-	-
Proceeds from borrowing facilities		38	148
Bond buy back including buy back premium		(26)	(131)
Repayment of other borrowings		(48)	(221)
Finance lease payments		(1)	(1)
Amounts placed on deposit		(4)	(20)
Amounts returned from deposit		20	-
Dividends paid to shareholders	11	(23)	-
Dividends paid to non-controlling interests		(1)	(1)
		286	177
Currency variations on cash and cash equivalents		7	(9)
Movement in cash and cash equivalents		133	194
Cash and cash equivalents at 1 January		288	94
Cash and cash equivalents at 31 December	14	421	288

Notes to the Press Release

1 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 2010. No standards or interpretations have been adopted before the required implementation date.

During the year the decision was taken to exit the Axles business of the former OffHighway segment. The trading losses of this business have been re-analysed from Trading profit to Profits and losses on sale or closure of businesses which is included within Gains and losses on changes in Group structure. There was no impact on operating profit, eps or the balance sheet arising from this restatement. The impact of this restatement is as follows:

	As previously reported £m	Restated £m
Trading profit	129	133
Gains and losses on changes in Group structure	2	(2)
Operating profit	39	39
Adjusted performance measures		
Management profit before tax	83	87
Management profit after tax	72	75
Management basic eps – pence	5.5	5.7

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; automotive, aerospace and the land systems markets. Automotive is managed according to product groups; driveline and powder metallurgy. Reportable segments derive their sales from the manufacture of product. Revenue from services, inter segment trading and royalties is not significant.

On 16 June 2010 the Group announced the formation of GKN Land Systems. Land Systems brought together the operations of GKN OffHighway (excluding Axles), GKN AutoStructures and GKN Industrial and Distribution Services. Land Systems builds on existing strengths in the agricultural, mining and construction equipment markets with a strategic focus on developing these and new markets in defence vehicles, mass transit and renewable energy. AutoStructures was included in the former Other Automotive segment and IDS was included in the Driveline segment. The remaining businesses in the former Other Automotive reportable segment, Emitec and Cylinder Liners, are no longer reportable and are included as reconciling items as Other businesses. Comparative information has been restated. Driveline, Aerospace and Land Systems are operating and reportable segments. Powder Metallurgy comprises GKN Sinter Metals and Hoeganaes Corporation.

a) Sales

	Automotive			Land Systems £m	Total £m
	Driveline £m	Powder Metallurgy £m	Aerospace £m		
2010					
Subsidiaries	2,180	759	1,451	664	
Joint ventures	253	-	-	35	
	2,433	759	1,451	699	5,342
Other businesses					87
Management sales					5,429
Businesses sold and closed – Axles					10
Less: Joint venture sales					(355)
Income statement – sales					5,084
2009 - restated					
Subsidiaries	1,628	512	1,486	569	
Joint ventures	175	-	-	24	
	1,803	512	1,486	593	4,394
Other businesses					60
Management sales					4,454
Businesses sold and closed – Axles					14
Less: Joint venture sales					(245)
Income statement – sales					4,223

b) Trading profit

	Automotive			Land Systems £m	Total £m
	Driveline £m	Powder Metallurgy £m	Aerospace £m		
2010					
Trading profit before depreciation, impairment and amortisation	238	84	209	49	
Depreciation and impairment of property, plant and equipment	(107)	(30)	(39)	(15)	
Amortisation of operating intangible assets	(3)	-	(6)	(1)	
Trading profit – subsidiaries	128	54	164	33	
Trading profit/(loss) – joint ventures	41	-	(2)	4	
	169	54	162	37	422
Other businesses					3
Corporate and unallocated costs					(14)
Management trading profit					411
Less: Joint venture trading profit					(44)
Income Statement – Trading profit					367
2009 – restated					
Trading profit before depreciation, impairment and amortisation	95	24	217	12	
Depreciation and impairment of property, plant and equipment	(107)	(30)	(41)	(15)	
Amortisation of operating intangible assets	(3)	(1)	(6)	(1)	
Trading profit/(loss) – subsidiaries	(15)	(7)	170	(4)	
Trading profit/(loss) – joint ventures	25	-	(1)	1	
	10	(7)	169	(3)	169
Other businesses					(1)
Corporate and unallocated costs					(12)
Management trading profit					156
Less: Joint venture trading profit					(23)
Income Statement – Trading profit					133

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.

Credits included within trading profit in respect of changes to retiree benefit arrangements, net of expenses, arose as follows: Driveline £6 million and Corporate £2 million (2009: Driveline £3 million; Powder Metallurgy £1 million; Aerospace £5 million and Corporate £1 million). As a result of changed customer contract requirements, 2009 trading profit included a £3 million credit from the release of unutilised provisions established as an acquisition in an Aerospace business.

Restructuring and impairment disclosures, including segmental analysis, are included in note 4.

2 Segmental analysis (continued)

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

	Automotive				Land Systems £m	Total £m
	Driveline	Powder	Aerospace			
	£m	Metallurgy £m	£m	£m		
2010						
Property, plant and equipment and operating intangible fixed assets	878	307	421	110	1,716	
Working capital	72	89	67	58	286	
Net operating assets	950	396	488	168		
Goodwill and non-operating intangible fixed assets	81	29	296	54		
Net investment	1,031	425	784	222		
2009 - restated						
Property, plant and equipment and operating intangible fixed assets	870	313	374	120	1,677	
Working capital	53	65	80	58	256	
Net operating assets	923	378	454	178		
Goodwill and non-operating intangible fixed assets	78	28	294	56		
Net investment	1,001	406	748	234		

(d) Fixed asset additions, investments in joint ventures and other non-cash items

	Automotive						Total £m
	Driveline	Powder	Aerospace	Land	Other	Corporate	
	£m	Metallurgy £m	£m	Systems £m	Businesses £m	£m	
2010							
Fixed asset additions and capitalised borrowing costs							
- property, plant and equipment	88	26	60	8	1	-	183
- intangible assets	4	-	26	1	-	-	31
Investments in joint ventures	107	-	-	12	24	-	143
Other non-cash items – share based payment	1	-	1	-	-	1	3
2009 – restated							
Fixed asset additions and capitalised borrowing costs							
- property, plant and equipment	61	9	45	7	-	-	122
- intangible assets	1	-	14	-	-	-	15
Investments in joint ventures	86	-	-	10	16	-	112
Other non-cash items – share based payment	1	-	-	-	-	1	2

(e) Country analysis

	United	USA	Germany	Other	Total	Total £m
	Kingdom £m	£m	£m	countries £m	Non-UK £m	
2010						
Management sales by origin	819	1,571	858	2,181	4,610	5,429
Goodwill, other intangible assets, property, plant equipment and investments in joint ventures	355	695	354	940	1,989	2,344
2009						
Management sales by origin - restated	794	1,325	729	1,606	3,660	4,454
Goodwill, other intangible assets, property, plant equipment and investments in joint ventures	318	677	330	948	1,955	2,273

3 Adjusted performance measures

3a Reconciliation of reported and management performance measures

	2010				2009 - restated			
	As reported	Joint ventures	Exceptional and non-trading items	Management basis	As reported	Joint ventures	Exceptional and non-trading items	Management basis
	£m	£m	£m	£m	£m	£m	£m	£m
Sales	5,084	355	(10)	5,429	4,223	245	(14)	4,454
<i>Trading profit</i>	367	44	-	411	133	23	-	156
<i>Restructuring and impairment charges</i>	(39)	-	39	-	(144)	-	144	-
<i>Change in value of derivative and other financial instruments</i>	12	-	(12)	-	76	-	(76)	-
<i>Amortisation of non-operating intangible assets arising on business combinations</i>	(19)	-	19	-	(24)	-	24	-
<i>UK Pension scheme curtailment</i>	68	-	(68)	-	-	-	-	-
<i>Gains and losses on changes in Group structure</i>	(4)	-	4	-	(2)	-	2	-
Operating profit	385	44	(18)	411	39	23	94	156
Share of post-tax earnings of joint ventures	35	(44)	1	(8)	21	(23)	(3)	(5)
Interest payable	(46)	-	-	(46)	(67)	-	-	(67)
Interest receivable	6	-	-	6	3	-	-	3
Other net financing charges	(35)	-	35	-	(50)	-	50	-
Net financing costs	(75)	-	35	(40)	(114)	-	50	(64)
Profit/(loss) before taxation	345	-	18	363	(54)	-	141	87
Taxation	(20)	-	(17)	(37)	15	-	(27)	(12)
Profit/(loss) from continuing operations	325	-	1	326	(39)	-	114	75
Profit attributable to non-controlling interests	(20)	-	15	(5)	(2)	-	-	(2)
Earnings	305	-	16	321	(41)	-	114	73
Earnings per share - p	19.6	-	1.1	20.7	(3.2)	-	8.9	5.7

3b Summary by segment

	2010			2009 - restated		
	Sales £m	Trading profit £m	Margin	Sales £m	Trading profit £m	Margin
Driveline	2,433	169	6.9%	1,803	10	0.6%
Powder Metallurgy	759	54	7.1%	512	(7)	(1.4)%
Aerospace	1,451	162	11.2%	1,486	169	11.4%
Land Systems	699	37	5.3%	593	(3)	(0.5)%
Other businesses (Cylinder Liners and Emitec)	87	3		60	(1)	
Corporate and unallocated costs	-	(14)		-	(12)	
	5,429	411	7.6%	4,454	156	3.5%

4 **Restructuring and impairment charges – 2008 Restructuring programme**

The 2008 Programme restructuring actions comprise facility and operation closures, permanent headcount reductions achieved through redundancy programmes and the structured use of short-time working arrangements, available through national or state legislation, by European, Japanese and North American subsidiaries. Short-time working arrangements concluded in the year.

2008 Restructuring programme

	2010	2009
	£m	£m
Goodwill impairment	-	(7)
Fixed asset impairments/reversals	-	(2)
Other asset write-downs	-	(3)
Impairments	-	(12)
Short-time working costs	(2)	(24)
Redundancy and post-employment costs	(12)	(86)
Other reorganisation costs	(25)	(22)
Redundancy and other costs	(39)	(132)
Subsidiaries	(39)	(144)
Impairment reversal/impairment of joint ventures	-	3
Subsidiaries and joint ventures	(39)	(141)

2008 Restructuring programme - analysis by segment

	2010				2009 - restated			
	Impairments /reversals	Short-time working	Redundancy and other costs	Total	Impairments /reversals	Short-time working	Redundancy and other costs	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Driveline	1	(2)	(28)	(29)	1	(19)	(61)	(79)
Powder Metallurgy	-	-	(1)	(1)	-	(4)	(16)	(20)
Aerospace	-	-	(4)	(4)	(1)	-	(9)	(10)
Land Systems	(1)	-	(4)	(5)	-	(1)	(19)	(20)
Businesses sold and closed								
– Axles	-	-	-	-	(9)	-	(3)	(12)
Corporate	-	-	-	-	-	-	-	-
	-	(2)	(37)	(39)	(9)	(24)	(108)	(141)
Subsidiaries	-	(2)	(37)	(39)	(12)	(24)	(108)	(144)
Joint ventures	-	-	-	-	3	-	-	3

In Driveline, reorganisation costs of £16 million have been charged in respect of the announced UK and Japanese site rationalisation initiatives and redundancy and reorganisation charges of £12 million were made regarding headcount and capacity reduction actions in European operations. Short-time working arrangements concluded in the year with £2 million charged in European and Japanese operations. The impairment reversal arose in the UK following completion of the sale of one site. In Powder Metallurgy, a further £1 million of integration costs were charged in finalisation of the European rationalisation. In Aerospace, actions included the announcement of the closure of one facility in France, with a £2 million charge made in respect of redundancy costs. In Land Systems, actions initiated in the former OffHighway segment and AutoStructures and Industrial & Distribution Services businesses have continued, including rationalisation at a UK facility with associated redundancy costs of £1 million, restructuring of the European distribution network including redundancy charges of £1 million and fixed asset impairments of £1 million and reorganisation costs of £1 million associated with manufacturing concentration initiatives in North America.

Restructuring cash outflow in respect of 2008 and 2004 restructuring plans amounts to £55 million (2009: £99 million) and proceeds from sale of fixed assets put out of use as part of the restructuring programme of £2 million were recognised in the year (2009: nil).

5 Change in value of derivative and other financial instruments

	2010 £m	2009 £m
Forward currency contracts (not hedge accounted)	(3)	106
Embedded derivatives	3	(29)
Commodity contracts (not hedge accounted)	-	2
	-	79
Net gains and losses on intra-group funding		
Arising in year	12	5
Reclassified in year	-	(8)
	12	(3)
	12	76

IAS 39 requires derivative financial instruments to be valued at the balance sheet date and any difference between that value and the intrinsic value of the instrument to be reflected in the balance sheet as an asset or liability. Any subsequent change in value is reflected in the income statement unless hedge accounting is achieved. Such movements do not affect cash flow or the economic substance of the underlying transaction. In 2010 and 2009 the Group used transactional hedge accounting in a limited number of instances.

6 Amortisation of non-operating intangible assets arising on business combinations

	2010 £m	2009 £m
Marketing related	-	(1)
Customer related	(16)	(20)
Technology based	(3)	(3)
	(19)	(24)

7 Gains and losses on changes in Group structure

	2010 £m	2009 Restated £m
Profits and losses on sale or closure of businesses		
Business sold and closed – Axles		
Trading losses	(2)	(4)
Tangible fixed asset impairment	(1)	-
Other asset write downs	(3)	-
Recycling of cumulative translational currency adjustments	1	-
Profit on sale of joint venture	-	2
Investment write up on acquisition of GKN Aerospace Services Structures Corp.	1	-
	(4)	(2)

On 1 September 2010 the Group concluded the sale of the European agricultural axles operations of the former OffHighway Axles business to Sviluppo Europa SpA, a subsidiary of La Leonessa SpA, with other operations closed during the year. Sale proceeds were £5 million.

8 Net financing costs

	2010 £m	2009 £m
(a) Interest payable and fee expense		
Short-term bank, other borrowings	(7)	(13)
Loans repayable within five years	(15)	(24)
Loans repayable after five years	(24)	(24)
Bond buy back premium	(1)	(7)
Government refundable advances	(2)	-
Borrowing costs capitalised	4	1
Finance leases	(1)	-
	(46)	(67)
Interest receivable		
Short-term investments, loans and deposits	6	3
Net interest payable and receivable	(40)	(64)
The capitalisation rate on specific funding was 5.6% (2009: 6.4%) and on general borrowings was 6.8% (2009: 6.1%).		
	2010 £m	2009 £m
(b) Other net financing charges		
Expected return on scheme assets	145	121
Interest on post-employment obligations	(176)	(170)
Post-employment finance charges	(31)	(49)
Unwind of discounts	(4)	(1)
Other net financing charges	(35)	(50)

9 **Taxation**
(a) **Tax expense**

	2010 £m	2009 £m
Analysis of charge in year		
Current tax (charge)/credit		
Current year charge	(65)	(31)
Utilisation of previously unrecognised tax losses and other assets	20	1
Net movement on provisions for uncertain tax positions	(27)	25
Adjustments in respect of prior years	(1)	5
	(73)	-
Deferred tax (charge)/credit		
Origination and reversal of temporary differences	(23)	54
Tax on change in value of derivative financial instruments	(2)	(3)
Other changes in unrecognised deferred tax assets	72	(41)
Changes in tax rates	(2)	2
Adjustments in respect of prior years	8	3
	53	15
Total tax (charge)/credit for the year	(20)	15

Analysed as:

	2010 £m	2009 Restated £m
Tax in respect of management profit		
Current tax	(84)	(1)
Deferred tax	47	(11)
	(37)	(12)
Tax in respect of items excluded from management profit		
Current tax credit	11	1
Deferred tax credit	6	26
	17	27
Total for tax (charge)/credit for the year	(20)	15

Management tax rate

The tax charge arising on management profits of subsidiaries of £327 million was £37 million (2009: £12 million charge) giving an effective tax rate of 11% (2009 17%).

The Group is required to estimate the income tax due in each of the jurisdictions in which it operates. This requires an estimation of the current tax liability together with an assessment of the temporary differences which arise as a consequence of differing accounting and tax treatments. These temporary differences result in deferred tax assets or liabilities which are measured using substantively enacted tax rates expected to apply when the temporary differences reverse. Recognition of deferred tax assets, and hence credits to the income statement, is based on forecast future taxable income and therefore involves the exercise of management's judgement regarding the future financial performance of particular legal entities or tax groups in which the deferred tax assets are recognised.

The Group is subject to many different tax jurisdictions and tax rules as a consequence of its geographic spread. It is also subject to tax audits which, by their nature, are often complex and can require several years to conclude. The total accrual for income tax in any period requires the exercise of management judgement in respect of the interpretation of country specific tax law and the likelihood of challenge of uncertain tax positions and their subsequent settlement. Where appropriate, estimates of interest and penalties are included in these provisions for uncertain tax positions. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. As amounts set aside in any period could differ from actual tax liabilities, adjustments may be required in subsequent periods which may have a material impact on the Group's income statement and/or cash tax payments. Payments in respect of tax liabilities for an accounting period comprise payments on account and payments on the final resolution of open items with tax authorities and, as a result, there can be substantial differences between the charge in the income statement and cash tax payments.

Details of the effective tax rate for the Group and the underlying events and transactions affecting this are given on page 12.

Tax reconciliation	2010		2009	
	£m	%	£m	%
Profit/(loss) before tax	345		(54)	
Less share of post-tax earnings of joint ventures	(35)		(21)	
Profit/(loss) before tax excluding joint ventures	310		(75)	
Tax (charge)/credit calculated at 28% standard UK corporate tax rate	(87)	(28)	21	28
Differences between UK and overseas corporate tax rates	8	3	2	3
Non-deductible and non-taxable items	(11)	(4)	(3)	(4)
Utilisation of previously unrecognised tax losses and other assets	20	7	1	1
Other changes in unrecognised deferred tax assets	72	23	(41)	(55)
Changes in tax rates	(2)	(1)	2	3
Current year tax (charge)/credit on ordinary activities	-	-	(18)	(24)
Net movement on provision for uncertain tax positions	(27)	(8)	25	33
Other adjustments in respect of prior years	7	2	8	11
Total tax (charge)/credit for the year	(20)	(6)	15	20

9 **Taxation (continued)**

(b) **Tax included in comprehensive income**

	2010 £m	2009 £m
Deferred tax on post-employment obligations	46	14
Deferred tax on non-qualifying assets	-	(1)
Deferred tax on foreign currency gains and losses on intra-group funding	(3)	(2)
Current tax on post-employment obligations	14	-
Current tax on foreign currency gains and losses on intra-group funding	1	6
	58	17

(c) **Current tax**

	2010 £m	2009 £m
Assets	10	13
Liabilities	(100)	(79)
	(90)	(66)

(d) **Recognised deferred tax**

	2010 £m	2009 £m
Deferred tax assets	171	71
Deferred tax liabilities	(63)	(57)
	108	14

There is a net £53 million deferred tax credit to the income statement in the period, primarily on account of the recognition of previously unrecognised future tax deductions in the US. In addition, a deferred tax credit of £46 million has been recorded directly in other comprehensive income in relation to the availability of future tax deductions for post-employment obligations contributions in the US and UK. The recognition of these assets has been based on management projections which indicate the availability of taxable profits to absorb the deductions in future years. In territories where there is more uncertainty regarding the availability of a sufficient level of future taxable profits, deferred tax assets have not been recognised in full.

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 period are shown below:

	Assets			Liabilities		Total
	Post employment obligations	Tax losses	Other	Fixed assets	Other	
	£m	£m	£m	£m	£m	
At 1 January 2010	74	45	46	(145)	(6)	14
Other movements	2	-	-	(2)	-	-
Included in the income statement	(11)	75	1	(12)	-	53
Included in other comprehensive income	46	-	-	-	(3)	43
Businesses acquired	-	-	-	(3)	-	(3)
Currency variations	-	-	-	1	-	1
At 31 December 2010	111	120	47	(161)	(9)	108
At 1 January 2009	44	27	87	(166)	(3)	(11)
Other movements	32	-	(32)	-	-	-
Included in the income statement	(9)	19	(5)	10	-	15
Included in other comprehensive income	14	-	-	(1)	(2)	11
Businesses acquired	1	-	-	-	-	1
Currency variations	(8)	(1)	(4)	12	(1)	(2)
At 31 December 2009	74	45	46	(145)	(6)	14

Deferred tax assets totalling £39 million (2009: £41 million) have been recognised relating to territories where tax losses have been incurred in the year. It is anticipated that future profitability arising from restructuring and other actions will result in their realisation.

9 **Taxation (continued)**

(e) **Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in relation to certain tax losses and other temporary differences on the basis that the Group's ability to utilise them in the future is uncertain. The gross and tax values of these unrecognised assets together with any expiry periods, where relevant, are shown below.

	2010			2009		
	Tax value £m	Gross £m	Expiry period	Tax value £m	Gross £m	Expiry period
Tax losses - with expiry: national	215	619	2011-2030	293	846	2010-2029
Tax losses - with expiry: local	41	480	2011-2030	41	491	2010-2029
Tax losses - without expiry	109	399		105	349	
Total tax losses	365	1,498		439	1,686	
Post employment obligations	66	245		149	518	
Other temporary differences	38	136		43	142	
Total other temporary differences	104	381		192	660	
Unrecognised deferred tax assets	469	1,879		631	2,346	

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries except where the distribution of such profits is planned. If the earnings were remitted in full tax of £25 million (2009: £19 million) would be payable.

(f) **Pension partnership**

Note 15 refers to an asset-backed cash payment arrangement which the Group has agreed with the Trustee of the UK pension scheme. As a result of this arrangement, the Group will obtain UK tax deductions spread over 4 years for the £331 million initial cash pension contribution. Over the next 20 years, the Group is also expected to obtain tax deductions for the remaining £269 million of the total amount likely to be paid to the UK pension scheme. Where there is insufficient tax capacity to utilise these two types of tax deductions as they fall due, they will be carried forward as tax losses with the potential to be used to reduce future taxable profits in the UK.

As this arrangement has been put in place to fund a pension deficit which arose partly as a result of actuarial losses, the current tax benefits for the deductions will be reflected partly in other comprehensive income and partly in the income statement as they are utilised. Current tax benefits of £17 million (£3 million income statement; £14 million other comprehensive income) have been recognised in the year in this respect. A deferred tax asset of £26 million has been recognised on the balance sheet (£5 million income statement; £21 million other comprehensive income) in respect of the initial cash pension contribution. Further deferred tax assets may become recognisable in the future. Similar to the current tax credits referred to above, the deferred tax credits for these deferred tax assets are recognised partly in other comprehensive income and partly in the income statement.

(g) **Changes in UK tax rate**

On 22 June 2010, the UK Government announced a number of tax measures in its Emergency Budget, including a phased reduction in the mainstream rate of UK corporation tax from 28% to 24% over the next four years. The first stage of these reductions, to 27%, had been enacted at the year end, with the result that the recognised UK deferred tax asset was valued at 27%. As further reductions to reach the anticipated 24% rate are enacted, there will be a corresponding reduction in the value of UK deferred tax assets since deferred tax is measured at the prevailing tax rate. Since a large part of the potential UK deferred tax asset currently remains unrecognised, there is not expected to be a material impact on the tax rate.

(h) **Franked investment income - litigation**

Since 2003 the Group has been involved in litigation with HMRC in respect of various Advance Corporation Tax payments made and Corporate Tax paid on certain foreign dividend receipts which, in its view, were levied by HMRC in breach of GKN's EU community law rights. During 2009, GKN received a £4 million payment on account from HMRC in respect of the litigation, but following a Court of Appeal judgement issued on 23 February 2010 £3 million of this payment on account was repaid to HMRC. This has had no impact on the Income Statement. A further Court of Appeal hearing to decide whether the remaining payment on account should be repaid will take place in early 2011. The main case has been appealed both to the UK Supreme Court (on effective remedies) and to the European Court of Justice (for further guidance on breach of community law) and these judgements are not expected until late 2011/early 2012. The continuing complexity of the case and uncertainty over the issues raised means that it is not possible to predict the final outcome of the litigation with any reasonable degree of certainty and, as a result, no contingent asset has been recognised.

10 Earnings per share

	2010			2009		
	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence
Continuing operations						
Basic eps	305	1,552.6	19.6	(41)	1,271.7	(3.2)
Dilutive securities	-	0.7	-	-	-	-
Diluted eps	305	1,553.3	19.6	(41)	1,271.7	(3.2)

2009 total basic and total diluted eps were (2.8)p 2009 discontinued basic and discontinued diluted eps were 0.4p.

11 Dividends

	Paid or proposed in respect of			Recognised	
	2010 pence	2009 pence	2011 £m	2010 £m	2009 £m
2009 interim dividend paid	-	-	-	-	-
2009 final year dividend paid	-	-	-	-	-
2010 interim dividend paid	1.5	-	-	23	-
2010 final year dividend proposed	3.5	-	54	-	-
	5.0	-	54	23	-

The 2010 final year proposed dividend will be paid on 19 May 2011 to shareholders who are on the register of members at close of business on 26 April 2011.

12 Net borrowings

(a) Analysis of net borrowings

	Notes	Current	Non-current			Total	Total
		Within one year £m	One to two years £m	Two to five years £m	More than five years £m		
2010							
Other borrowings							
£350 million 6¾% 2019 unsecured bond	i	-	-	-	(347)	(347)	(347)
£176 million 7% 2012 unsecured bond	i	-	(176)	-	-	(176)	(176)
Other secured US\$ denominated loan		(1)	(2)	(5)	-	(7)	(8)
Other long term borrowings		(6)	-	-	-	-	(6)
Finance lease obligations	iv	(1)	(1)	(1)	-	(2)	(3)
Bank overdrafts		(17)	-	-	-	-	(17)
Other short term bank borrowings		(36)	-	-	-	-	(36)
Borrowings		(61)	(179)	(6)	(347)	(532)	(593)
Bank balances and cash		158	-	-	-	-	158
Short term bank deposits	ii	280	-	-	-	-	280
Cash and cash equivalents	v	438	-	-	-	-	438
Other financial assets – bank deposits	iii	4	-	-	-	-	4
Net borrowings		381	(179)	(6)	(347)	(532)	(151)
2009							
Other borrowings							
£350 million 6¾% 2019 unsecured bond	i	-	-	-	(347)	(347)	(347)
£201 million 7% 2012 unsecured bond	i	-	-	(201)	-	(201)	(201)
Other secured US\$ denominated loan		(2)	(2)	(5)	-	(7)	(9)
Other long term borrowings		(6)	(6)	-	-	(6)	(12)
Finance lease obligations	iv	(1)	(1)	(1)	(1)	(3)	(4)
Bank overdrafts		(28)	-	-	-	-	(28)
Other short term bank borrowings		(35)	-	-	-	-	(35)
Borrowings		(72)	(9)	(207)	(348)	(564)	(636)
Bank balances and cash		132	-	-	-	-	132
Short term bank deposits	ii	184	-	-	-	-	184
Cash and cash equivalents	v	316	-	-	-	-	316
Other financial assets – bank deposits	iii	20	-	-	-	-	20
Net borrowings		264	(9)	(207)	(348)	(564)	(300)

Other borrowings include: Unsecured £350 million (2009: £350 million) 6¾% bond maturing in 2019 less unamortised issue costs of £3 million (2009: £3 million); unsecured £176 million (2009: £201 million) 7% bond maturing in 2012 less unamortised issue costs of nil (2009: nil); and a secured term loan of £8 million (2009: £9 million) secured by way of a fixed and floating charge on certain Aerospace fixed assets.

Notes

- (i) Denotes borrowings at fixed rates of interest until maturity. All other borrowings and cash and cash equivalents are at variable interest rates.
- (ii) The average interest rate on short term bank deposits was 0.5% (2009: 0.5%). Deposits at 31 December 2010 had no fixed maturity date (2009: no fixed maturity date).
- (iii) The interest rate on bank deposits was 2% (2009: 0.85%); deposits mature in 27 May 2011 (2009: 1 April 2010).
- (iv) Finance lease obligations gross of finance charges fall due as follows: £1 million within one year (2009: £1 million), £3 million in one to five years (2009: £3 million) and £1 million in more than five years (2009: £1 million).
- (v) £11 million (2009: £9 million) of the Group's cash and cash equivalents 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

	2010		2009	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings, other financial assets and cash and cash equivalents				
Other borrowings	(537)	(564)	(569)	(570)
Finance lease obligations	(3)	(3)	(4)	(4)
Bank overdrafts and other short term bank borrowings	(53)	(53)	(63)	(63)
Bank balances and cash	158	158	132	132
Short term bank deposits and other bank deposits	284	284	204	204
	(151)	(178)	(300)	(301)
Trade and other payables				
Government refundable advances	(40)	(40)	(28)	(28)
Deferred and contingent consideration	(27)	(27)	(32)	(32)
	(67)	(67)	(60)	(60)

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

Unsecured bank overdrafts, other short term bank borrowings, bank balances and cash and short term bank deposits 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 2010. Bonds included within other borrowings have been valued using quoted closing market values.

13 Business combinations

GKN Aerospace Services Structures Corp. ("GASS") is an entity in which the Group has, since 2003, had a 100% share in the equity. GASS operated under a Proxy Agreement with the United States Department of Defense developing high technology, classified products for the United States Airforce. The Proxy Agreement placed significant restrictions on the Group's management and control of the business so that, in accordance with IAS 27, it was excluded from consolidation and treated as an investment. In January 2010 clearance was obtained to commence the process to remove the significant restrictions on the Group's management and control of GASS and on 1 April 2010 all significant restrictions were removed. The assumption of control by the Group has been accounted for as a business combination.

The values stated below are provisional as the review of acquired assets and liabilities remains ongoing.

	£m
Intangible fixed assets	
- customer related	5
- technology based	4
Property, plant and equipment	3
Inventories	5
Trade and other payables	(2)
Deferred tax	(3)
Provisional goodwill	4
	<hr/> 16
Satisfied by:	
Investment – cost	10
Investment – fair value write up	1
Loan	5
	<hr/> 16

Since acquisition GASS contributed sales of £15 million and trading profit of £2 million. If the acquisition had occurred on 1 January 2010 sales and trading profit are estimated at £18 million and £1 million. Acquisition related expenses of less than £1 million were incurred. Goodwill is attributable to the value of the assembled workforce and the application of the technology into new products with new and existing customers.

14 **Cash flow reconciliations**

	2010	2009
	£m	£m
Cash generated from operations		
Operating profit	385	39
Adjustments for:		
Depreciation, impairment and amortisation of fixed assets		
Charged to trading profit		
Depreciation	191	193
Impairment	2	2
Amortisation	10	11
Amortisation of non-operating intangible assets arising on business combinations	19	24
Restructuring and impairment charges	-	9
Changes in fair value of derivative and other financial instruments	(12)	(71)
Amortisation of government capital grants	(1)	(1)
Net profits on sale and realisation of fixed assets	(1)	(6)
Gains and losses on changes in Group structure	(1)	(2)
Charge for share-based payments	3	2
Movement in post-employment obligations	(116)	(45)
Change in inventories	(63)	133
Change in receivables	(117)	(36)
Change in payables and provisions	121	36
	420	288
Movement in net debt		
Movement in cash and cash equivalents	133	194
Net movement in other borrowings and deposits	(6)	93
Bond buy back	25	124
Finance leases	1	1
Currency variations	(4)	(4)
Businesses acquired and sold	-	-
Movement in year	149	408
Net debt at beginning of year	(300)	(708)
Net debt at end of year	(151)	(300)
Reconciliation of cash and cash equivalents		
Cash and cash equivalents per balance sheet	438	316
Bank overdrafts included within "current liabilities - borrowings"	(17)	(28)
Cash and cash equivalents per cashflow	421	288

15 **Post-employment obligations**

		2010	2009
Post-employment obligations as at the year end comprise:		£m	£m
Pensions	- funded	(176)	(597)
	- unfunded	(363)	(345)
Medical	- funded	(17)	(13)
	- unfunded	(44)	(41)
		(600)	(996)

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world. The main externally funded defined benefit pension schemes operate in the UK, US and Japan. In Europe, funds are retained within certain businesses to provide defined benefit pension benefits. In addition, in the US and UK a number of retirement plans are operated which provide certain employees with post-employment medical benefits.

(a) **Defined benefit schemes - measurement and assumptions**

Independent actuarial valuations of all major defined benefit scheme assets and liabilities were carried out at 31 December 2010. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

Key assumptions were:

	UK	Americas	Europe	ROW
	%	%	%	%
2010				
Rate of increase in pensionable salaries	4.35	3.5	2.50	-
Rate of increase in payment and deferred pensions	2.90	2.0	1.75	n/a
Discount rate	5.40	5.5	5.00	1.75
Inflation assumption	3.35	2.5	1.75	0.75
Rate of increases in medical costs:				
Initial/long term	6.5/6.0	9.0/5.0	n/a	n/a
2009				
Rate of increase in pensionable salaries	4.25	3.5	2.50	3.5
Rate of increase in payment and deferred pensions	3.40	2.0	1.75	n/a
Discount rate	5.70	6.0	5.40	2.0
Inflation assumption	3.25	2.5	1.75	1.0
Rate of increases in medical costs:				
Initial/long term	7.0/4.5	9.0/5.0	n/a	n/a

The discount rates in the table above for the UK and Europe were referenced against specific iBoxx indices, whilst the Citigroup liability index was the reference point for the USA discount rate. The reference for the UK discount rate was the yield as at 31 December on the iBoxx GBP Corporate rated AA bonds with a maturity of 15 years plus. The reference for the European discount rate was the yield as at 31 December on the iBoxx Euro Corporate rated AA bonds with a maturity of 10 years plus of 4.7%, adjusted to reflect the duration of liabilities. For the USA, the discount rate matched the Citigroup liability index as at 31 December 2010 of 5.5%.

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

United Kingdom

Such is the size and profile of the UK scheme that data on the scheme's mortality experience is collected and reviewed annually. The key current year mortality assumptions for the scheme use S1NA (year of birth) mortality tables allowing for medium cohort projections with a minimum improvement of 1% and a +0.5 age rating for male members and a +0.7 year age rating for female members. Using these assumptions a male aged 65 lives for a further 20.6 years and a female aged 65 lives for a further 23.2 years. A male aged 45 is expected to live a further 22.5 years from age 65 and a female aged 45 is expected to live a further 25.1 years from age 65. The prior period valuation used PA92 (year of birth) tables allowing for medium cohort but without a minimum improvement. The prior period age adjustments to PA92 (year of birth tables) were equivalent to that of the age rating adjustment to S1NA (year of birth) tables.

Overseas

In the USA, PPA2010 tables have been used whilst in Germany the RT2005-G tables have again been used. In the USA the longevity assumption for a male aged 65 is that he lives a further 19 years (female 21 years) whilst in Germany a male aged 65 lives for a further 18.1 years (female 22.4 years). The longevity assumption for a USA male currently aged 45 is that he also lives for a further 19 years once attaining 65 years (females 21 years), with the German equivalent assumption for a male being 18.2 years (female 23.6 years). These assumptions are based solely on the prescribed tables not on actual GKN experience.

Assumption sensitivity analysis

The impact of a one percentage point movement in the primary assumptions on the defined benefit net obligations as at 31 December 2010 is set out below:

	UK		Americas		Europe		ROW	
	Liabilities £m	Income statement £m	Liabilities £m	Income statement £m	Liabilities £m	Income statement £m	Liabilities £m	Income statement £m
Discount rate +1%	314	2.8	45	(0.2)	49	0.4	6	(0.3)
Discount rate -1%	(391)	(1.8)	(56)	0.2	(58)	-	(6)	0.3
Rate of inflation +1%	(298)	(21.3)	-	-	(33)	(2.2)	-	-
Rate of inflation -1%	246	18.2	-	-	30	2.0	-	-
Rate of increase in medical costs +1%	(1)	-	(1)	(0.2)	-	-	-	-
Rate of increase in medical costs -1%	1	-	1	0.2	-	-	-	-

15 **Post-employment obligations (continued)**

(b) **Defined benefit schemes - reporting**

The amounts included in operating profit are:

	Trading Profit				Total £m
	Employee benefit expense £m	Redundancy and other employment amounts £m	Restructuring and impairment charges £m	UK Pension scheme curtailment £m	
2010					
Current service cost	(35)	-	-	-	(35)
Past service cost	1	(1)	-	-	-
Settlement/curtailments	9	-	-	68	77
	(25)	(1)	-	68	42
2009					
Current service cost	(34)	-	-	-	(34)
Past service cost	5	-	(1)	-	4
Settlement/curtailments	7	-	-	-	7
	(22)	-	(1)	-	(23)

The benefits from an enhanced transfer value exercise in the UK together with scheme design changes in Japan resulted in a £9 million settlement/curtailment credit to Trading profit. A number of scheme design changes introduced in UK pension arrangements that included a move from final salary basis to that of career average resulted in a curtailment credit of £68 million.

The amounts recognised in the balance sheet are:

	2010					2009 £m
	UK £m	Americas £m	Europe £m	ROW £m	Total £m	
Present value of unfunded obligations	(13)	(39)	(347)	(8)	(407)	(386)
Present value of funded obligations	(2,435)	(360)	(22)	(36)	(2,853)	(2,800)
Fair value of plan assets	2,364	245	28	23	2,660	2,190
Net obligations recognised in the balance sheet	(84)	(154)	(341)	(21)	(600)	(996)

The contributions expected to be paid by the Group during 2011 to the UK scheme is £28 million and to overseas schemes £38 million. Section d) of this note describes the Pension partnership interest created on 31 March 2010 under which the first distribution of £23 million is expected to be made in the second quarter of 2011.

Cumulative actuarial gains and losses recognised in equity are as follows:

	2010 £m	2009 £m
At 1 January	(334)	(144)
Net actuarial losses in year	(24)	(190)
At 31 December	(358)	(334)

Post-employment obligations

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

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2010	(2,440)	(355)	(352)	(39)	(3,186)
Businesses acquired	-	-	-	-	-
Current service cost	(22)	(4)	(6)	(3)	(35)
Interest	(135)	(22)	(18)	(1)	(176)
Contributions by participants	(4)	-	(1)	-	(5)
Actuarial gains and losses	(61)	(26)	(20)	(2)	(109)
Benefits paid	129	17	17	3	166
Past service cost	(1)	1	-	-	-
Settlements/Curtailments	86	-	-	6	92
Currency variations	-	(10)	11	(8)	(7)
At 31 December 2010	(2,448)	(399)	(369)	(44)	(3,260)
At 1 January 2009	(2,043)	(401)	(353)	(46)	(2,843)
Businesses acquired	(20)	-	-	-	(20)
Current service cost	(20)	(5)	(6)	(3)	(34)
Interest	(129)	(21)	(19)	(1)	(170)
Contributions by participants	(4)	-	-	-	(4)
Actuarial gains and losses	(346)	5	(22)	1	(362)
Benefits paid	123	15	17	3	158
Past service cost	(1)	6	(1)	-	4
Settlements/Curtailments	-	6	-	1	7
Currency variations	-	40	32	6	78
At 31 December 2009	(2,440)	(355)	(352)	(39)	(3,186)

15 **Post-employment obligations (continued)**

(b) **Defined benefit schemes – reporting (cont'd)**

Movement in schemes' assets during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2010	1,930	215	27	18	2,190
Businesses acquired	-	-	-	-	-
Expected return on assets	128	16	1	-	145
Actuarial gains and losses	76	10	-	(1)	85
Contributions by Group	39	16	-	2	57
Special contribution	331	-	-	-	331
Contributions by participants	4	-	1	-	5
Settlements/Curtailments	(15)	-	-	-	(15)
Benefits paid	(129)	(18)	(1)	(1)	(149)
Currency variations	-	6	-	5	11
At 31 December 2010	2,364	245	28	23	2,660
At 1 January 2009	1,759	202	29	19	2,009
Businesses acquired	-	-	-	-	-
Expected return on assets	106	13	2	-	121
Actuarial gains and losses	152	21	(1)	-	172
Contributions by Group	32	15	1	3	51
Contributions by participants	4	-	-	-	4
Benefits paid	(123)	(15)	(1)	(2)	(141)
Currency variations	-	(21)	(3)	(2)	(26)
At 31 December 2009	1,930	215	27	18	2,190

The defined benefit obligation is analysed between funded and unfunded schemes as follows:

	2010					2009 £m
	UK £m	Americas £m	Europe £m	ROW £m	Total £m	
Funded	(2,435)	(360)	(22)	(36)	(2,853)	(2,800)
Unfunded	(13)	(39)	(347)	(8)	(407)	(386)
	(2,448)	(399)	(369)	(44)	(3,260)	(3,186)

The fair value of the assets in the schemes and the expected rates of return were:

	UK		Americas		Europe		ROW	
	Long term rate of return expected	Value	Long term rate of return expected	Value	Long term rate of return expected	Value	Long term rate of return expected	Value
	%	£m	%	£m	%	£m	%	£m
At 31 December 2010								
Equities (inc. Hedge Funds)	7.8	741	8.5	171	-	-	5.5	11
Bonds	5.0	1,115	3.6	69	-	-	1.0	8
Property	6.6	90	-	-	-	-	-	-
Cash and net current assets	0.5	39	2.8	5	-	-	-	-
Partnership plan asset	6.1	346	-	-	-	-	-	-
Other assets	5.5	33	-	-	4.8	28	1.25	4
		2,364		245		28		23
At 31 December 2009								
Equities (inc. Hedge Funds)	7.8	696	8.5	143	-	-	5.70	8
Bonds	5.3	1,054	4.2	67	-	-	1.35	7
Property	6.6	82	-	-	-	-	-	-
Cash/short term mandate	0.5	67	3.2	5	-	-	-	2
Other assets	5.7	31	-	-	5.1	27	1.25	1
		1,930		215		27		18

The expected return on plan assets is a blended average of projected long term returns for the various asset classes. Equity returns are developed based on the selection of the equity risk premium above the risk-free rate which is measured in accordance with the yield on government bonds. Bond returns are selected by reference to the yields on government and corporate debt, as appropriate to the plan's holdings of these instruments, all other asset classes returns are determined by reference to current experience.

The pension partnership interest has been valued on a discounted cash flow basis. The valuation considered separately the profiles of the originating royalty and rental income streams using the Group's current budget and forecast data with other factors considered being related expenses including taxation, timing of the distributions, exchange rates, bond yields and the Group's weighted average cost of capital.

The actual return on plan assets was £230 million (2009: £293 million).

15 **Post-employment obligations (continued)**

(c) **Defined contribution schemes**

The Group operates a number of defined contribution schemes outside the United Kingdom. The charge to the income statement in the year was £15 million (2009: £13 million).

(d) **Pension partnership interest**

On 31 March 2010 the Group agreed an asset-backed cash payment arrangement with the Trustee of the UK Pension scheme to help address the UK pension funding deficit. In connection with the arrangement certain UK freehold properties and a non-exclusive licence over the GKN trade marks, together with associated rental and royalty rights, were transferred to a limited partnership established by the Group. The partnership is controlled by and its results are consolidated by the Group. The fair value of the assets transferred was £535 million. On 31 March 2010, the Group made a special contribution to the UK Pension scheme of £331 million and on the same date the UK Pension scheme used this contribution to acquire a nominal limited interest in the partnership for its fair value of £331 million. The UK Pension scheme's nominal partnership interest entitles it to a distribution from the income of the partnership of £30 million per annum for 20 years subject to a discretion exercisable by the Group in certain circumstances. At inception the discounted value of the cash distributions was assessed at £331 million which was recognised as a pension plan asset and as a non-controlling interest in equity. The first distribution of £23 million for the period from 31 March to 31 December 2010 is expected to be made in the second quarter of 2011.