

## GKN plc Results Announcement for the six months ended 30 June 2011

	Management basis <sup>(1)</sup>					As reported	
	First half					First half	
	2011 £m	Gallatin £m	2011 £m	2010 £m	Change £m	2011 £m	2010 <sup>(2)</sup> £m
Sales	<b>2,988</b>	-	2,988	<b>2,701</b>	287	2,799	2,536
Trading profit	<b>247</b>	(23)	224	<b>202</b>	45	198	179
<i>Margin</i>	<b>8.3%</b>	(0.8)	7.5%	<b>7.5%</b>	0.8pts		
Operating profit	<b>247</b>	(23)	224	<b>202</b>	45	210	204
Profit before tax	<b>223</b>	(23)	200	<b>175</b>	48	202	181
Earnings per share - p	<b>11.8</b>	(0.9)	10.9	<b>9.6</b>	2.2p	10.4	10.1
Free cash flow	<b>25</b>			<b>107</b>	(82)		
Interim dividend per share - p	<b>2.0</b>			<b>1.5</b>	0.5p	2.0	1.5

**Highlights<sup>(1)</sup>**

- Group results reflect the continued strong growth in Driveline, Powder Metallurgy and Land Systems and a good performance in Aerospace:
  - sales up 11% (£287 million) to £2,988 million.
  - trading profit of £247 million, up £45 million, before the £23 million one-off charge relating to the temporary plant closure at the Hoeganaes plant in Gallatin, US (see page 11).
- Driveline sales up 12% with 7.1% trading margin, after £12 million profit impact from Japanese earthquake.
- Powder Metallurgy sales up 15%, with 9.0% trading margin.
- Aerospace underlying sales broadly flat; trading margin, however, increased from 10.9% to 11.1%.
- Land Systems sales up 24% with 8.8% trading margin.
- New business:
  - around \$2.8 billion of contract extensions, new programme wins and work scope expansions in Aerospace.
  - 74% win rate on driveshafts and important wins in all-wheel-drive (AWD), transaxle and eDrive products.
  - investment in EVO and set up joint venture to manufacture axial flux electric motors and drive systems for hybrid and all-electric vehicles.
  - JV with COMAC to manufacture exclusively the horizontal tailplane for C919 aircraft.
- Positive free cash flow of £25 million (2010: £107 million), reflecting investment to support growth.
- Net debt of £174 million (31 December 2010: £151 million).
- Interim dividend of 2.0 pence per share (2010: 1.5 pence).
- Earnings per share up 23% to 11.8 pence per share (2010: 9.6 pence per share).
- Acquisitions since 30 June 2011:
  - agreement to acquire Stromag - market leading engineer of industrial power management components.
  - agreement to acquire Getrag's Driveline Products Business, to create the leading global supplier of AWD driveline products.

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

“GKN has continued to make strong progress both in terms of financial performance and in building the future of our global market-leading businesses. The first half trading environment has seen strong market outperformance 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.

We are also pleased to further strengthen our Driveline and Land Systems businesses with two highly complementary acquisitions in Stromag and Getrag Driveline Products.

As a result of the strong performance and outlook, the Board has decided to pay an interim dividend of 2.0 pence per share.

GKN’s excellent global market positions, strong order books and leading technology leave us extremely well positioned for sustainable growth and further 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 almost 78 million vehicles in 2011, an increase of 4%, with the strongest growth in India, continuing improvement in North America and Europe and slower growth in China. Vehicle production in Japan is expected to recover strongly in the second half.

In aerospace, US military aircraft market demand is expected to show a small reduction as a result of the rundown of the F-22 and the decrease on the C-17 programmes. Civil aircraft demand is expected to continue to grow in 2011 as both Airbus and Boeing increase production schedules.

The markets for Land Systems should continue to improve.

### **GKN’s Performance**

Against this background, Driveline is expected to show a small increase in sales in the second half compared to the first half, as Japanese producers recover in the US and growth in China offsets the normal seasonal decline in Europe. Sales in Japan are expected to be broadly flat as Driveline has already benefited from strong customer recovery in the first half.

Powder Metallurgy has a limited exposure to Japanese OEMs and therefore its sales are expected to be lower than the first half, in the seasonally weaker second half.

Aerospace sales are expected to show a small increase in the second half with increased sales from civil aircraft being partially offset by seasonality factors in Europe. Aerospace should return to its strong growth trend in 2012.

Land Systems should continue its improving trend although sales in the second half are expected to show a reduction when compared with the first half, as normal seasonal patterns return.

Completion of the recently announced acquisitions of Stromag and Getrag Driveline Products businesses are expected in September. These acquisitions should have a small positive impact on Group management results in the remainder of 2011. Both acquisitions are expected to be earnings enhancing and cash generative in the first full year.

Free cash flow is again expected to be positive, although net debt will increase due to the completion of the previously announced acquisitions.

### Summary

In summary, GKN expects second half Group sales to show a small seasonal reduction when compared to the first half, excluding any impact from acquisitions and 2011 as a whole to be another year of strong progress for the Company. GKN is growing strongly and developing rapidly and as end markets continue to improve, the strength of our market positions and order books leaves the Group well placed for sustainable 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/divestments 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, own shares purchased 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 average total net assets of continuing subsidiaries and joint ventures deducting current and deferred tax, net debt, post-employment obligations and derivative financial instruments.
- (2) Restatement of comparative data. Following the Group's assumption of control over GKN Aerospace Services Structures Corp. ("GASS") on 1 April 2010 the fair value exercise was not finalised until 31 December 2010. In accordance with IFRS 3 *Business Combinations* the 30 June 2010 comparatives included in this release have been restated to reflect the fair value changes. Note 2 to the financial statements has more details.

## **Further Enquiries**

Guy Stainer  
Director, Investor Relations and External Communications  
GKN plc  
T: +44 (0)207 463 2382  
M: +44 (0)7739 778 187  
E: [guy.stainer@gkn.com](mailto:guy.stainer@gkn.com)

Andrew Lorenz  
Financial Dynamics  
T: +44 (0)20 7269 7113  
M: +44 (0)7775 641 807

There will be an analyst and investor meeting today at 09.30am 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, and will be available to download from the results and presentation page on the GKN website at: <http://www.gkn.com/investorrelations/Pages/results-and-presentations.aspx?year=2011>. 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  
**Conf ID: 82273540**

A replay of the conference call will be available until 16 August 2011 at the following numbers:  
**Standard International Number:** +44 (0) 1452 550 000  
**Replay Access Number: 82273540#**

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

## NEWS RELEASE

### GKN plc Results Announcement for the six months ended 30 June 2011

#### Group Overview

GKN plc, the global engineering business that serves the automotive, aerospace and land systems markets, today issues its results for the six months ended 30 June 2011.

#### 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 the automotive market, 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 strong market outperformance in Automotive, continuing recovery in land systems markets and another solid performance in our Aerospace business.

**Management sales** increased 11% in the six months ended 30 June 2011 to £2,988 million (2010: £2,701 million). The effect of currency translation was £28 million negative and there was a £8 million benefit from acquisitions which was more than offset by the £9 million reduction due to disposals. Excluding these items, the underlying increase was £316 million (12%). Within this underlying figure, Driveline increased by £148 million, Powder Metallurgy was £66 million higher, Aerospace was £5 million higher and Land Systems increased by £88 million.

**Management trading profit** increased £45 million to £247 million (2010: £202 million), excluding the £23 million one-off impact from the temporary closure of Hoeganaes' Gallatin facility in the US. Excluding the adverse currency translational impact of £3 million, the underlying increase was £48 million. Within this figure, Driveline was £12 million higher, Powder Metallurgy increased by £13 million and Land Systems was £21 million higher, all largely as a result of sales growth and cost reduction benefits. Market conditions remained stable for Aerospace where underlying trading profit rose by £1 million. Group trading margin in the first half increased to 8.3% (2010: 7.5%).

	Q1	Q2	First half		Change	
	2011	2011	2011 <sup>(*)</sup>	2010	Headline	Underlying
Sales (£m)	1,487	1,501	<b>2,988</b>	2,701	287	316
Trading profit (£m)	119	128 <sup>(*)</sup>	<b>247</b>	202	45	48
Trading margin (%)	8.0%	8.5%	<b>8.3%</b>	7.5%		
Return on average invested capital (%)			<b>18.1%</b>	13.8%		

<sup>(\*)</sup> excludes the £23 million one-off impact from Hoeganaes temporary plant closure in Gallatin, US

#### Divisional Performance

##### Markets

##### Automotive

As shown in the table below, all markets, except Japan due to the earthquake and tsunami in March 2011, experienced production growth relative to 2010, with the strongest markets being India, North America and Europe.

Car and light vehicle production (rounded millions of units)	H1 2011	H1 2010	Growth (%)
Europe	<b>10.68</b>	9.98	7.0
North America	<b>6.35</b>	5.97	6.4
Brazil	<b>1.60</b>	1.54	3.9
Japan	<b>3.25</b>	4.67	-30.4
China	<b>8.49</b>	8.17	3.9
India	<b>1.82</b>	1.52	19.7
Others	<b>5.58</b>	5.37	3.9
<b>Total – global</b>	<b>37.77</b>	37.22	1.5

Source: IHS Automotive

Overall, global production volumes increased 1.5% in the first half of 2011 to 37.8 million vehicles (2010: 37.2 million) whilst sales of cars and light vehicles increased by 3.5%, from 36.2 million vehicles to 37.5 million vehicles.

Demand for larger (premium) vehicles and light commercial vehicles increased strongly. The demand for smaller vehicles, particularly in Europe, was lower as the prior year's scrappage and tax incentive schemes had the effect of pulling forward demand. However, vehicle production in Europe overall benefited from a strong improvement in exports while in North America the recovery following the recession continued.

External forecasts indicate that global production in 2011 will increase by approximately 4% to 77.7 million vehicles. Major markets that are expected to grow fastest include India (16%), North America (9%) and Europe (6%). Production growth in China is forecast to slow to a more modest 5%. Production is likely to show a slight improvement in the second half of 2011 compared with 2010, whilst being around 6% higher than the first half of 2011, mostly as a result of a return to normal production in Japan and elsewhere as supplies of components improve.

## 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:

	Q1	Q2	First half		Change	
	2011	2011	2011	2010	Headline	Underlying
Sales (£m)	673	660	<b>1,333</b>	1,189	144	148
Trading profit (£m)	50	44	<b>94</b>	82	12	12
Margin (%)	7.4%	6.7%	<b>7.1%</b>	6.9%		
Return on average invested capital (%)			<b>16.1%</b>	12.1%		

Driveline's sales increased 12% to £1,333 million (2010: £1,189 million) compared with global vehicle production which increased 1.5%. The favourable impact of currency translation was £5 million which was more than offset by the £9 million lower sales resulting from the sale of Driveline's 49% share of the Japanese driveshaft sales and distribution joint venture GKN JTEKT Ltd (GTK), in March 2011. Underlying sales increased by £148 million (12%). This market outperformance was broad based across North America, China and Japan reflecting recent market share gains and the Group's stronger position in premium vehicles, demand for which continued to be strong. In Japan, the market outperformance by Driveline reflected its exposure to companies less affected by the earthquake and the priority given to reinstating production capability for exported vehicles.

Trading profit increased to £94 million (2010: £82 million) reflecting higher sales and the benefits of restructuring, offset by around £12 million impact of the Japanese earthquake and tsunami. This affected production in Japan and also overseas as component supply chains were disrupted. Outside Japan, this was most pronounced for Driveline in North America where many of the Japanese OEMs cut production rates significantly in the second quarter. Driveline's trading margin was 7.1% (2010: 6.9%).

Return on average invested capital was 16.1% (2010: 12.1%), reflecting the increase in profitability.

During the first half of 2011, Driveline opened a new sids shafts plant in Changchun, Northern China and started construction of a new sids shafts facility in Pune, India.

On 22 June 2011, Driveline announced that it had invested £4 million in EVO Electric Ltd, a UK pioneer in axial flux motors, and formed a joint venture, GKN EVO eDrive Systems, to manufacture and sell axial flux electric motors and drive systems for use in hybrid and all-electric vehicles.

Driveline is already a pioneer in the development and supply of eTransmissions and eAxles for hybrid and electric vehicles. This venture will enable GKN Driveline to offer advanced axial flux motors and generators, adding to its existing eDrive Systems portfolio and enhancing its capability in full driveline systems. Recent new business wins in eDrive, include:

- Major European OEM customer for eAxle;
- New European customer for 1-speed eTransmissions, and demonstration vehicle contract for Asian OEM;
- Development/prototype orders for 2-speed transmissions from three European OEMs.

In the first half, the recent high level of new business wins continued for the CVJ Systems business and much progress was made in the Trans Axle Solutions business, particularly with open differentials and limited slip differentials. The benefit of Driveline's global footprint was particularly evident as 80% of booked differentials business is to supply global platforms, with recent high volume wins in China and the Americas.

On 28 July 2011, Driveline announced that it had agreed to acquire Getrag Driveline Products, a tier one supplier of geared driveline products, namely Power Transfer Units and Rear Drive Units for AWD vehicles, along with Final Drive Units for high performance rear wheel drive vehicles.

Getrag Driveline Products, which will be integrated into GKN Driveline, is an excellent fit with GKN's existing range of products and technology. With operations in the United States and Europe, Getrag Driveline Products has a product, manufacturing and customer footprint that is complementary to GKN's own geared product business, which is predominantly based in Asia. The combined businesses will be the leading global supplier of AWD driveline products with an excellent customer base and product portfolio.

As part of the overall transaction, GKN is also acquiring an exclusive licence, principally for Europe and the Americas, to Getrag's electric drivetrain technology for use in electric and certain hybrid vehicles.

## **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.

The key financial results for the period are as follows:

	Q1	Q2	First half		Change	
	2011	2011	2011	2010	Headline	Underlying
Sales (£m)	217	218	435	378	57	66
Trading profit (£m)	20	19	39	26	13	13
Margin (%)	9.2%	8.7%	9.0%	6.9%		
Return on average invested capital (%)			15.7%	8.0%		

Powder Metallurgy sales were £435 million (2010: £378 million), an increase of 15%. The negative impact of currency translation was £9 million. Underlying sales increased by £66 million (17%). Sales increased in all regions as automotive markets recovered, recent new business wins entered production and market share gains were made. Underlying sales for Sinter Metals increased by 17% in North America and 16% in Europe. Strong growth was also achieved in India, Brazil and China.

Hoeganaes' underlying sales were 19% higher, reflecting a 4% increase in the number of tons shipped and an increase in the commodity metals surcharge passed on to customers as raw material prices increased.

Overall, Powder Metallurgy reported a trading profit of £39 million (2010: £26 million), excluding the first half £23 million one-off costs associated with the explosion and subsequent temporary plant closure at the Gallatin, US facility which are reported outside the divisional trading performance (see below page 11). The divisional trading margin was 9.0% (2010: 6.9%). Return on average invested capital was 15.7% (2010: 8.0%), reflecting the improvement in profitability.

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 first half, approximately £50 million (annualised sales) of new programme business was awarded. New contracts include:

- E-locker rear axle differential gear set for Ford's Super-Duty truck enabling higher torque loads with similar dimensions;
- Connecting rod for SAIC/GM for next generation small petrol engine offering improved strength and dimensional stability;
- One way clutch system for a Mazda transmission in Asia with unique geometries which are only possible using powder metallurgy technology;
- Variable valve timing – one piece combination sprocket for VW engine;
- A number of soft magnetics products, including a torque sensing actuator component for Nexteer with improved edge geometry and superior magnetic response.

## 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 in 2011 remains positive driven by recovery of civil aircraft production and a generally stable defence sector. The division has a balanced position in civil (58%) and defence (42%) programs.

In the civil aerospace market, passenger air traffic rose 8% in 2010 and is expected to achieve an additional 6% growth in 2011. Longer term worldwide passenger market demand is projected to grow at 5.1% per annum and worldwide cargo traffic is expected to grow 5.6% per annum. Airbus

and Boeing continue to benefit from their extensive order backlog of over 7,300 aircraft. Combined deliveries for the first half of 2011 reached 480 aircraft (2010: 472 aircraft) compared with new orders for the same period of 811 aircraft. The recovery in passenger and cargo volumes has led both Airbus and Boeing to announce increases in production levels of single aisle and wide bodied aircraft.

US defence spending is expected to remain stable in 2011 with the President's 2012 to 2016 Budget Request showing modest growth. Key multi-year programmes such as the UH-60 Blackhawk Helicopter, F/A-18 Super Hornet, F-15 Eagle and C-130J Super Hercules provide a strong production base for the business. The completion of F-22 Raptor production and reduced volume of the C-17 Globemaster (from 14 units to 10 per year) are partially offset by the initial production ramp-up of the F-35 Lightning (Joint Strike Fighter). Foreign military sales also support future production rates, for example, F-15 sales to Saudi Arabia and C-17 to India.

The key financial results for the period are as follows:

	Q1	Q2	First half		Change	
	2011	2011	2011	2010	Headline	Underlying
Sales (£m)	352	371	<b>723</b>	734	(11)	5
Trading profit (£m)	32	48	<b>80</b>	80	-	1
Margin (%)	9.1%	12.9%	<b>11.1%</b>	10.9%		
Return on average invested capital (%)			<b>22.5%</b>	24.4%		

Aerospace sales of £723 million were £11 million lower than the prior year (2010: £734 million). The impact from currency on translation of sales was £20 million negative and from acquisitions was £4 million positive, representing sales from GKN Aerospace Services Structures Corp., of which the Group gained management control in April 2010. The underlying increase in sales of £5 million represented a 1% increase. This increase reflects lower F-22 sales as the programme continued its run down more than offset by higher civil sales, particularly for the A330 but also for the Boeing 787, A320 and A380.

Trading profit was unchanged at £80 million. The impact from currency on translation of results was £2 million negative. The trading margin was 11.1% (2010: 10.9%).

Return on average invested capital was 22.5% (2010: 24.4%) reflecting increased investment in new programmes, particularly the A350.

GKN Aerospace was awarded around \$2.8 billion of contract extensions, new programme wins and work scope expansions during the first half, including:

- New multi-year contracts for: UH-60 Blackhawk (5 years); F/A-18 Super Hornet (4 years), F-15 Eagle (7 years); C-130J Super Hercules (5 years); C-17 Transporter (3 years);
- Lockheed Martin installed 1,000<sup>th</sup> GKN C-130J military airlifter engine nacelle and awarded new multi-year contract worth c\$450 million;
- Around \$200 million of new customer's business won at Filton including Bombardier C-Series ailerons and life of programme contract for Dassault mid-sized business jet wing structure and moveable surfaces;
- St. Louis and Cowes facilities won 2011 American Helicopter Supplier Excellence Award and Bell Helicopter Premier Supplier Award, respectively;
- Additional contracts for Boeing 787 titanium structures and thrust struts for Boeing 787 and 747-8.

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, along with industrial applications. It consists of three primary business streams – power management, wheels and structures, and aftermarket and services. The division has leading global positions in the supply of power take-off shafts and off-highway wheels. The Aftermarket and Services business provides a range of new and remanufactured components to the automotive and industrial aftermarket and repairs and replaces heavy duty propshafts for various forms of transport.

Sales in Land Systems were strongly ahead in the first half reflecting the continued broad market recovery in all regions and sectors, especially for agriculture, heavy construction, mining and industrial equipment.

In Europe, the strongest recovery occurred in agricultural equipment, construction, industrial and in the structures market relating to new vehicle production.

In the Americas, agriculture, construction, mining and industrial markets all enjoyed good growth.

The key financial results for the period are as follows:

	Q1	Q2	First half		Change	
	2011	2011	2011	2010	Headline	Underlying
	£m	£m	£m	£m	£m	£m
Sales (£m)	220	224	<b>444</b>	359	85	88
Trading profit (£m)	18	21	<b>39</b>	19	20	21
Margin (%)	8.2%	9.4%	<b>8.8%</b>	5.3%		
Return on average invested capital (%)			<b>24.2%</b>	6.2%		

Against this background, sales in the first half increased 24% to £444 million (2010: £359 million). The division reported a doubling in trading profit to £39 million (2010: £19 million). Trading margin was 8.8%. Return on average invested capital increased to 24.2% (2010: 6.2%), reflecting the strong increase in profitability of the division.

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

- Integrated seven piece mechanical driveshafts system for Liebherr 30 tonne dumper;
- New innovative custom engineered wheel design for JLG Telehandler;
- First major non-automotive win for structures business to manufacture JCB Fastrac tractor chassis;
- First application of auxiliary pump and high speed shafts in oil exploration;
- Specialist CVJ driveshafts for a British sports car;
- Driveshafts maintenance contract in Spain for TGV and Pendolino trains;
- CVJ driveshafts for the Foxhound military vehicle.

In addition to achieving strong organic growth and new business wins, on 18 July 2011, the Group announced that it had agreed to acquire Stromag Holding GmbH (Stromag).

Stromag is a market leading engineer of industrial power management components. Its core products include hydraulic clutches, electro-magnetic brakes and flexible couplings serving end-markets including renewable energy, agricultural equipment, construction and mining machinery and the metal processing industry. The business is headquartered in Unna, Germany and has operations in Germany, France, US, Brazil, India and China.

The acquisition of Stromag is an important step in the implementation of the GKN Land Systems' strategy to build a global leader in power management, extending its capability in electro-

mechanical power management components and systems. In combination with the existing business, it will provide a strong platform to accelerate growth in existing markets, together with access to a number of new customers and industrial segments, including renewable energy.

The acquisition cost comprises a cash consideration of £146 million for the equity and repayment of debt of £28 million. Closing of the transaction is expected during September, subject to customary conditions and necessary regulatory approvals.

## **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 period were £53 million (2010: £41 million), including £4 million resulting from the acquisition of NoNOx by Emitec and reflecting the recovery in automotive markets. Trading profit was £2 million (2010: £2 million) reflecting an improvement in the underlying business offset by the heavy investment by NoNOx into selective catalytic reduction systems, particularly for the truck market.

## **Hoeganaes' Gallatin plant, USA**

Two tragic unrelated events at the Hoeganaes Gallatin plant in the US in the first half have left a deep scar on GKN and a very sad loss to the families of five colleagues who lost their lives. The Company continues to provide the families with every means of comfort and support at this difficult time.

The second incident, a hydrogen explosion on 27 May 2011 at the Gallatin plant, resulted in the temporary closure of the facility whilst a thorough safety review took place. This full plant safety review was supported by two independent organisations, to ensure that the cause of the incident was fully understood and that appropriate measures are implemented to prevent a recurrence. As the safety review and remedial work was completed, production was gradually brought back with the majority of the facility being in operation at the end of July.

During the period of reduced operation, customer orders continued to be met from a combination of powder inventory and shipping of product from the company's other operations as well as product sourced from other metal powder producers.

In the first half, £23 million of one-off shipping, purchasing and plant closure and remedial works costs were recorded, with a further £7 million expected in the second half as production has gradually been resumed. The total of around £30 million is prior to any potential recovery from insurance claims, the first £10 million of which would be self insured through the Group's captive insurance arrangements. Refer to note 1 of the financial statements for further details.

## **Other Financial Information**

### **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 £7 million (2010: £7 million).

### **Restructuring and impairment charges**

There were no Group restructuring and impairment charges during the period (2010: £26 million).

## **Change in value of derivative and other financial instruments**

The Group enters into foreign exchange contracts to hedge much of its transactional exposure. Where hedge accounting has not been applied, the change in fair value between 1 January 2011 and 30 June 2011, or the date of maturity if earlier, is reflected in the income statement as a component of operating profit and has resulted in a credit of £24 million (2010: £32 million charge). There was a £2 million charge arising from a change in the value of embedded derivatives in the period (2010: £5 million credit) and a charge of £4 million attributable to the translational currency impact on intra-group funding balances (2010: £23 million credit).

## **Amortisation of non-operating intangibles arising on business combinations**

The charge for the amortisation of non-operating intangible assets (for example, customer contracts, order backlogs and intellectual property rights) arising on business combinations was £10 million (2010: £9 million).

## **Post-tax earnings of joint ventures**

The Group's share of post-tax earnings of joint ventures in the period was £20 million (2010: £19 million) with trading profit of £26 million (2010: £23 million). The Group's share of post-tax earnings on a management basis was £21 million (2010: £19 million). The Group's share of the tax charge amounted to £5 million (2010: £4 million) with no net financing costs in either period. Underlying trading profit increased by £4 million reflecting continued growth in the Chinese automotive market.

## **Net financing costs**

Net financing costs totalled £28 million (2010: £42 million) and include the non-cash charge on post-employment benefits of £8 million (2010: £18 million) and unwind of discounts of £1 million (2010: £1 million). Interest payable was £21 million (2010: £25 million), whilst interest receivable was £2 million (2010: £2 million) resulting in net interest payable of £19 million (2010: £23 million). The £4 million decrease in net interest payable includes the benefit from the bond buy-back in May 2010.

The non-cash charge on post-employment benefits arises as the expected return on scheme assets of £77 million (2010: £70 million) was more than offset by interest on post-employment obligations of £85 million (2010: £88 million). Details of the assumptions used in calculating post-employment costs and income are provided in note 12 to the financial statements.

## **Profit before tax**

The management profit before tax was £223 million (2010: £175 million), before the £23 million one-off impact from the temporary closure of the Hoeganaes Gallatin plant, described above. The profit before tax on a statutory basis was £202 million (2010<sup>(2)</sup>: £181 million).

## **Taxation**

The book tax rate on management profits of subsidiaries was 16% (2010: 14%), arising as a £28 million tax charge on management profits of subsidiaries of £179 million.

The Group's theoretical weighted average tax rate, which assumes that book profits/losses are tax affected at the statutory tax rates in the countries in which they arise, is 31% (2010: 33%). 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 offset brought forward tax deductions against future taxable profits in various countries. In addition, certain profit making territories have benefited from the use of tax deductions for which no deferred tax assets have previously been recognised.

The Group aims to access brought forward tax deductions in order to sustain a 'cash tax' charge on management profits of below 20%. 'Cash tax' provides a proxy for the cash cost of taxation of management profits, plus the cash effect of prior year items, and so excludes elements of the book tax charge which do not have a cash effect. The cash tax rate was 15%. In the near term, the cash tax rate is expected to continue below 20% as brought forward tax deductions are utilised.

The tax rate on statutory profits of subsidiaries was 15% (2010: 9%) arising as a £27 million tax charge on a statutory profit of £182 million.

### **Non-controlling interests**

The profit attributable to non-controlling interests was £14 million (2010: £9 million) including an £11 million impact from the pension partnership.

### **Earnings per share**

Management earnings per share, before the £23 million one-off impact from the Hoeganaes incident at Gallatin, US, was 11.8 pence (2010: 9.6 pence). On a statutory basis earnings per share was 10.4 pence (2010<sup>(2)</sup>: 10.1 pence). The improvement is mainly due to the higher profitability of the Group. Average shares outstanding in 2011 were 1,553.0 million.

### **Dividend**

In view of the improving trading environment, the Board has decided to pay an interim dividend of 2.0 pence per share (2010: 1.5 pence). The Company expects to move towards the total dividend being split in the more traditional way of one-third interim and two-thirds final. The final dividend will depend on the overall Company performance. In the medium term, it is the intention to have a progressive dividend policy based on a management earnings cover ratio of around 2.5 times. The interim dividend will be paid on 26 September 2011 to shareholders on the register at 12 August 2011. Shareholders may choose to use the Dividend Reinvestment Plan (DRIP) to reinvest the interim dividend. The closing date for receipt of new DRIP mandates is 12 September 2011.

### **Cash flow**

Operating cash flow, which is defined as cash generated from operations of £175 million (2010: £197 million) adjusted for capital expenditure (net of proceeds from capital grants) of £131 million (2010: £72 million) and proceeds from the disposal / realisation of fixed assets of £2 million (2010: £3 million), was an inflow of £46 million (2010: £128 million).

Within operating cash flow there was an outflow of working capital and provisions of £102 million (2010: £45 million outflow), including cash outflow relating to the 2008 and 2004 restructuring plans of £22 million (2010: £29 million). Average working capital as a percent of sales remained below 7%.

Capital expenditure (net of proceeds from capital grants) on both tangible and intangible assets totalled £131 million (2010: £72 million), including £35 million (2010: £13 million) on the A350 programme. Of this, £108 million (2010: £64 million) was on tangible fixed assets and was 1.2 times (2010: 0.7 times) the depreciation charge. Expenditure on intangible assets, mainly non-recurring costs on Aerospace programmes, totalled £23 million (2010: £8 million).

### **Free cash flow before dividends**

Free cash flow, which is operating cash flow including joint venture dividends and after interest, tax, amounts paid to non-controlling interests and own shares purchased but before dividends paid to GKN shareholders, was an inflow of £25 million (2010: £107 million). Net interest paid totalled £14 million (2010: £20 million) and tax paid in the period was £13 million (2010: £21 million).

## Net borrowings

At the end of the period, the Group had net debt of £174 million compared with £202 million at 30 June 2010 and £151 million at 31 December 2010.

## 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 £15 million (2010: £18 million) includes the current service cost of £19 million (2010: £18 million) partly offset by credits arising from initiatives taken to reduce the Group's pension liabilities. Other net financing charges of £8 million (2010: £18 million) reduced primarily due to an increase in the expected return on scheme assets arising from the Partnership arrangement.

The deficit of all schemes at 30 June 2011 was £574 million, a £26 million decrease over December 2010.

The UK deficit of £56 million was £28 million lower than the December 2010 year end figure of £84 million. The reduction was mainly due to gains in asset values.

The post-employment obligations of overseas businesses, which is mostly the unfunded schemes in Germany, was largely unchanged at £518 million (31 December 2010: £516 million) and reflected the adverse impact of exchange rates (£14 million) partly offset by the benefit of the 10 bps increase in European discount rate to 5.1%.

Contributions for the six months across the Group totalled £34 million (2010: £29 million).

The Group paid its first distribution of £23 million from the Pension Partnership to the UK pension scheme in June 2011.

## Net assets

Net assets of £1,825 million were £138 million higher than the December 2010 year end figure of £1,687 million. The increase includes profit attributable to equity shareholders of £161 million, currency movements of subsidiaries of £4 million and actuarial gains in respect of post-employment obligations of £29 million.

## Exchange rates

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

	Average		Period End		2010 Full Year	
	H1 2011	H1 2010	June 2011	June 2010	Average	Period End
Euro	1.15	1.15	1.11	1.22	1.16	1.17
US Dollar	1.61	1.53	1.61	1.50	1.55	1.57

The approximate impact on H1 2011 trading profit of subsidiaries and joint ventures of a 1% movement in the average rate would be euro - £0.8 million, US dollar - £0.6 million.

## Funding and liquidity

At 30 June 2011, there were £280 million of UK committed revolving credit facilities of which £45 million expires in October 2011 and £11 million was utilised against letters of credit. In June 2011, the Group drew down in full its £80 million facility from the European Investment Bank. The loan is repayable in five £16 million instalments from 2015 and bears interest at 4.1%. Capital market

borrowings were £526 million at 30 June 2011 and include unsecured issues of £176 million 7% bonds maturing in May 2012 and £350 million 6.75% bonds maturing in October 2019.

### **Financial resources and going concern**

At 30 June 2011, the Group had gross borrowings of £658 million (31 December 2010: £593 million) and cash and deposits of £484 million (31 December 2010: £442 million) resulting in net borrowings of £174 million (31 December 2010: £151 million).

The Directors have reviewed forecast cash flows and utilisation of banking facilities, including the impact of the proposed acquisitions as outlined in Note 18 to the financial statements.

After making enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue funding its operations for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

### **Principal risks and uncertainties**

The principal risks and uncertainties faced by the Group in the remaining six months of the year remain largely unchanged from those reported in the 2010 annual report. Tensions in the Middle East, European currency concerns, inflation in Asian economies, US budget worries and overall macro-economic instability have however increased. Additional risks noted in the annual report include changes in customer demand; customer concentration; highly competitive markets; technology advancements; changes in the legal, regulatory, political and socio-economic conditions of the countries of operation; supply chain disruption; rising input costs; product quality issues; reliance on key personnel; effectiveness of acquisition integration; volatility in the financial reporting of pension deficits; foreign exchange risk; and operating internationally in environments subject to complex tax laws. A more detailed explanation of the principal risks and uncertainties, together with the mitigating actions in place, can be found in pages 32 and 33 of the 2010 annual report.

The incidents at our Hoeganaes plant in Gallatin, US, during the first half of the year, described elsewhere in this announcement, have caused us to review our processes across the Group with a particular emphasis on health and safety. We continue to make improvements to strengthen the management of health and safety which remains of the utmost importance to the Group.

### **Basis of Reporting**

The financial statements for the period are shown on pages 18-38 and have been prepared using accounting policies which were used in the preparation of audited accounts for the year ended 31 December 2010 and which will form the basis of the 2011 Annual Report, except as set out in the basis of preparation on page 27.

## **Directors' Responsibility Statement**

The half yearly financial report is the responsibility of the Directors who confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as endorsed and adopted by the EU;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the 2010 Annual Report that could do so.

The Directors of GKN plc are listed in the GKN Annual Report for the year ended 31 December 2010, and in addition Tufan Erginbilgic was appointed as a non-executive Director with effect from 9 May 2011.

Approved by the Board of GKN plc and signed on its behalf by:

**Roy Brown**  
Chairman

2 August 2011

## APPENDICES

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# CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2011

	Notes	Unaudited		Full year 2010
		First half 2011	First half 2010	
	2	£m	Restated £m	£m
Sales	1a	<b>2,799</b>	2,536	5,084
<i>Trading profit</i>	1b	<b>198</b>	179	367
<i>Restructuring and impairment charges</i>	4	-	(26)	(39)
<i>Change in value of derivative and other financial instruments</i>	5	<b>18</b>	(4)	12
<i>Amortisation of non-operating intangible assets arising on business combinations</i>		<b>(10)</b>	(9)	(19)
<i>UK Pension scheme curtailment</i>	12	-	69	68
<i>Gains and losses on changes in Group structure</i>	6	<b>4</b>	(5)	(4)
<b>Operating profit</b>		<b>210</b>	204	385
<b>Share of post-tax earnings of joint ventures</b>	7	<b>20</b>	19	35
Interest payable		<b>(21)</b>	(25)	(46)
Interest receivable		<b>2</b>	2	6
Other net financing charges	8	<b>(9)</b>	(19)	(35)
<b>Net financing costs</b>		<b>(28)</b>	(42)	(75)
<b>Profit before taxation</b>		<b>202</b>	181	345
<b>Taxation</b>	9	<b>(27)</b>	(15)	(20)
<b>Profit after taxation for the period</b>		<b>175</b>	166	325
Profit attributable to other non-controlling interests		<b>3</b>	4	5
Profit attributable to the Pension partnership		<b>11</b>	5	15
Profit attributable to non-controlling interests		<b>14</b>	9	20
Profit attributable to equity shareholders		<b>161</b>	157	305
		<b>175</b>	166	325
<b>Earnings per share - pence</b>	10			
Continuing operations - basic		<b>10.4</b>	10.1	19.6
Continuing operations - diluted		<b>10.4</b>	10.1	19.6

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2011

	Notes	Unaudited		Full year 2010
		First half 2011	First half 2010 Restated	
	2	£m	£m	£m
Profit after taxation for the period		175	166	325
Other comprehensive income/(expense):				
Currency variations				
Subsidiaries				
Arising in period		4	42	42
Reclassified in period		-	-	(1)
Joint ventures				
Arising in period		(2)	10	9
Reclassified in period		(2)	-	-
Derivative financial instruments				
Transactional hedging				
Arising in period		1	-	1
Reclassified in period		-	-	-
Actuarial gains and losses on post-employment obligations				
Subsidiaries	12	29	(173)	(24)
Joint ventures		-	-	-
Taxation	9	12	46	58
		42	(75)	85
<b>Total comprehensive income for the period</b>		<b>217</b>	<b>91</b>	<b>410</b>
Total comprehensive income for the period attributable to:				
Equity shareholders		203	81	387
Other non-controlling interest		3	5	8
Pension partnership		11	5	15
Non-controlling interests		14	10	23
		217	91	410

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2011

	Notes	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Other reserves £m	Share- holders' equity £m	Non-controlling interests		Total equity £m
								Pension partner- ship £m	Other £m	
<b>At 1 January 2011</b>		<b>159</b>	<b>298</b>	<b>9</b>	<b>788</b>	<b>59</b>	<b>1,313</b>	<b>346</b>	<b>28</b>	<b>1,687</b>
Profit for the period		-	-	-	161	-	161	11	3	175
Other comprehensive income/(expense)										
for the period		-	-	-	41	1	42	-	-	42
Share-based payments		-	-	-	3	-	3	-	-	3
Distribution from Pension partnership										
to UK Pension scheme	12	-	-	-	-	-	-	(23)	-	(23)
Purchase of own shares by Employee										
Share Ownership Plan Trust	16	-	-	-	(5)	-	(5)	-	-	(5)
Dividends paid to equity shareholders	11	-	-	-	(54)	-	(54)	-	-	(54)
<b>At 30 June 2011 (unaudited)</b>		<b>159</b>	<b>298</b>	<b>9</b>	<b>934</b>	<b>60</b>	<b>1,460</b>	<b>334</b>	<b>31</b>	<b>1,825</b>
<b>At 1 January 2010</b>		457	-	9	431	51	948	-	24	972
Profit for the period		-	-	-	157	-	157	5	4	166
Other comprehensive income/(expense)										
for the period		-	-	-	(128)	52	(76)	-	1	(75)
Share-based payments		-	-	-	1	-	1	-	-	1
Transfers		(298)	298	-	1	(1)	-	-	-	-
Investment in Pension partnership by										
UK Pension scheme	12	-	-	-	-	-	-	331	-	331
Purchase of non-controlling interests		-	-	-	(2)	-	(2)	-	(3)	(5)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	(1)	(1)
<b>At 30 June 2010 (unaudited)</b>		159	298	9	460	102	1,028	336	25	1,389
<b>At 1 January 2010</b>		457	-	9	431	51	948	-	24	972
Profit for the period		-	-	-	305	-	305	15	5	325
Other comprehensive income/(expense)										
for the period		-	-	-	36	46	82	-	3	85
Investment in Pension partnership by										
UK Pension scheme	12	-	-	-	-	-	-	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)
<b>At 31 December 2010</b>		159	298	9	788	59	1,313	346	28	1,687

# CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2011

	Notes	Unaudited		31 December 2010
		30 June 2011	30 June 2010	
	2	£m	Restated £m	£m
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill		347	359	350
Other intangible assets		208	193	200
Property, plant and equipment	14	1,672	1,622	1,651
Investments in joint ventures		122	120	143
Other receivables and investments	16	29	24	23
Derivative financial instruments		23	24	19
Deferred tax assets		186	113	171
		<b>2,587</b>	<b>2,455</b>	<b>2,557</b>
<b>Current assets</b>				
Inventories		699	621	637
Trade and other receivables		909	810	762
Current tax assets		5	18	10
Derivative financial instruments		18	9	13
Other financial assets		4	-	4
Cash and cash equivalents		480	403	438
		<b>2,115</b>	<b>1,861</b>	<b>1,864</b>
<b>Total assets</b>		<b>4,702</b>	<b>4,316</b>	<b>4,421</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings		(223)	(65)	(61)
Derivative financial instruments		(11)	(26)	(13)
Trade and other payables		(1,185)	(1,067)	(1,065)
Current tax liabilities		(118)	(74)	(100)
Provisions		(40)	(66)	(57)
		<b>(1,577)</b>	<b>(1,298)</b>	<b>(1,296)</b>
<b>Non-current liabilities</b>				
Borrowings		(435)	(540)	(532)
Derivative financial instruments		(49)	(77)	(61)
Deferred tax liabilities		(62)	(57)	(63)
Trade and other payables		(114)	(106)	(108)
Provisions		(66)	(85)	(74)
Post-employment obligations	12	(574)	(764)	(600)
		<b>(1,300)</b>	<b>(1,629)</b>	<b>(1,438)</b>
<b>Total liabilities</b>		<b>(2,877)</b>	<b>(2,927)</b>	<b>(2,734)</b>
<b>Net assets</b>		<b>1,825</b>	<b>1,389</b>	<b>1,687</b>
<b>Shareholders' equity</b>				
Share capital		159	159	159
Capital redemption reserve		298	298	298
Share premium account		9	9	9
Retained earnings		934	460	788
Other reserves		60	102	59
		<b>1,460</b>	<b>1,028</b>	<b>1,313</b>
Non-controlling interests		365	361	374
<b>Total equity</b>		<b>1,825</b>	<b>1,389</b>	<b>1,687</b>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2011

	Notes	Unaudited		
		First half 2011 £m	First half 2010 £m	Full year 2010 £m
<b>Cash flows from operating activities</b>				
Cash generated from operations	13	175	197	420
Special contribution to the UK Pension scheme	12	-	(331)	(331)
Interest received		3	3	7
Interest paid		(17)	(23)	(53)
Tax paid		(13)	(21)	(33)
Dividends received from joint ventures		34	21	23
		182	(154)	33
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(109)	(66)	(162)
Receipts of government capital grants		1	2	3
Purchase of intangible assets		(23)	(8)	(31)
Receipt of government refundable advances		-	-	10
Proceeds from sale and realisation of fixed assets		2	3	5
Acquisitions of subsidiaries (net of cash acquired)		-	-	(6)
Acquisition of other investments	16	(4)	-	-
Purchase of non-controlling interests		-	-	(5)
Proceeds from sale of businesses		-	-	5
Proceeds from sale of joint ventures	6	8	-	1
Investment in joint ventures		(1)	-	(10)
Investment loans and capital contributions		-	(3)	(3)
		(126)	(72)	(193)
<b>Cash flows from financing activities</b>				
Investment in Pension partnership by UK Pension scheme	12	-	331	331
Distribution from Pension partnership to UK Pension scheme	12	(23)	-	-
Purchase of own shares by Employee Share Ownership Plan Trust	16	(5)	-	-
Proceeds from borrowing facilities	13	104	23	38
Bond buy-back including buy-back premium		-	(26)	(26)
Repayment of other borrowings		(25)	(10)	(48)
Finance lease payments		-	-	(1)
Amounts placed on deposit		(4)	-	(4)
Amounts returned from deposit		4	-	20
Dividends paid to equity shareholders	11	(54)	-	(23)
Dividends paid to non-controlling interests		-	(1)	(1)
		(3)	317	286
Currency variations on cash and cash equivalents		3	4	7
<b>Movement in cash and cash equivalents</b>		<b>56</b>	<b>95</b>	<b>133</b>
Cash and cash equivalents at beginning of period		421	288	288
<b>Cash and cash equivalents at end of period</b>	13	<b>477</b>	<b>383</b>	<b>421</b>

# NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 JUNE 2011

## 1 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 agricultural, construction and mining equipment 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.

### a) Sales

#### FOR THE HALF YEAR ENDED 30 JUNE 2011 (unaudited)

	Automotive			Land Systems £m	Total £m
	Driveline £m	Powder Metallurgy £m	Aerospace £m		
Subsidiaries	1,206	435	723	421	
Joint ventures	127	-	-	23	
	1,333	435	723	444	2,935
Other businesses					53
Management sales					2,988
Less: Joint venture sales					(189)
Income statement – sales					2,799

#### FOR THE HALF YEAR ENDED 30 JUNE 2010 (unaudited)

Subsidiaries	1,065	378	734	341	
Joint ventures	124	-	-	18	
	1,189	378	734	359	2,660
Other businesses					41
Management sales					2,701
Businesses sold and closed – Axles					9
Less: Joint venture sales					(174)
Income statement – sales					2,536

#### FOR THE YEAR ENDED 31 DECEMBER 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

# NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE HALF YEAR ENDED 30 JUNE 2011

## 1 Segmental analysis (continued)

### b) Trading profit

**FOR THE HALF YEAR ENDED 30 JUNE 2011**  
**(unaudited)**

	Automotive			Land Systems £m	Total £m
	Driveline £m	Powder Metallurgy £m	Aerospace £m		
Trading profit before depreciation and amortisation	125	54	100	43	
Depreciation of property, plant and equipment	(52)	(15)	(17)	(7)	
Amortisation of operating intangible assets	(2)	-	(2)	-	
Trading profit - subsidiaries	71	39	81	36	
Trading profit/(loss) - joint ventures	23	-	(1)	3	
	94	39	80	39	252
Other businesses					2
Gallatin temporary plant closure					(23)
Corporate and unallocated costs					(7)
Management trading profit					224
Less: Joint venture trading profit					(26)
Income Statement - trading profit					198

**FOR THE HALF YEAR ENDED 30 JUNE 2010**  
**(unaudited)**

Trading profit before depreciation, impairment and amortisation	116	41	104	25	
Depreciation and impairment of property, plant and equipment	(52)	(15)	(20)	(8)	
Amortisation of operating intangible assets	(2)	-	(3)	-	
Trading profit - subsidiaries	62	26	81	17	
Trading profit/(loss) - joint ventures	20	-	(1)	2	
	82	26	80	19	207
Other businesses					2
Corporate and unallocated costs					(7)
Management trading profit					202
Less: Joint venture trading profit					(23)
Income Statement - trading profit					179

**FOR THE YEAR ENDED 31 DECEMBER 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

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.

Trading profit in the first half of 2011 includes a one-off charge of £23 million in relation to the temporary plant closure at Gallatin (see page 11). Trading profit in the first half of 2010 included no individually significant items of income or expense.

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

# NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE HALF YEAR ENDED 30 JUNE 2011

## 1 Segmental analysis (continued)

### b) Trading profit (continued)

#### Temporary plant closure at Gallatin

As a consequence of the temporary plant closure at Gallatin, a Hoeganaes facility within Powder Metallurgy, following an incident on 27 May 2011, the Group has incurred a significant amount of incremental, one-off costs and has also recognised a liability for certain future costs in accordance with IAS 37. The information presented in this note should be read in conjunction with page 11.

The Group income statement for the half year ended 30 June 2011 includes a pre-tax charge of £23 million in relation to the temporary Gallatin plant closure. The £23 million, which has been charged to trading profit, covers the cost of responding to customer obligations, £16 million, including premium freight and powder supply charges. Additionally the costs incurred and committed in respect of rectification and corrections to the plant configuration amounted to £5 million with professional fees and other costs amounting to £2 million. Other costs include £1 million of fixed employment costs that were unabsorbed in June with no productive activity possible.

The £23 million charge attracts taxation relief of £9 million.

£20 million, which was unspent as at 30 June 2011 is held within "trade and other payables". The balance sheet amount includes £3 million in respect of both future costs where the Group has a constructive obligation to rectify and correct the plant infrastructure (£1 million) and onerous customer obligations (£2 million). The impact on first half cashflows from operating activities was an outflow of £3 million.

No amounts have been recognised for potential recovery of costs from insurers as, given the stage of discussions with insurers, there is insufficient certainty of recovery to warrant recognition at the period end. The Group is working with its insurance provider to establish the full extent of recoveries under its insurance policies.

The amount charged during the period ended 30 June 2011 represents expenditure incurred in June 2011 and the current best estimate of constructive obligations at the period end. There will be further operating expenditure in relation to the temporary closure of the plant during the second half of the year along with potential expenditure where it is currently not possible to measure reliably.

# NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE HALF YEAR ENDED 30 JUNE 2011

## 1 Segmental analysis (continued)

### c) Goodwill, fixed assets and working capital - subsidiaries only

**FOR THE HALF YEAR ENDED 30 JUNE 2011 (unaudited)**

	Automotive			Land Systems £m	Total £m
	Driveline £m	Powder Metallurgy £m	Aerospace £m		
Property, plant and equipment and operating intangible assets	881	309	455	111	1,756
Working capital	139	109	63	76	387
Net operating assets	1,020	418	518	187	
Goodwill and non-operating intangible assets	82	28	283	54	
Net investment	1,102	446	801	241	

**FOR THE HALF YEAR ENDED 30 JUNE 2010 (unaudited)**

Property, plant and equipment and operating intangible assets	855	303	399	110	1,667
Working capital	88	94	74	55	311
Net operating assets	943	397	473	165	
Goodwill and non-operating intangible assets - restated	80	30	315	55	
Net investment - restated	1,023	427	788	220	

**FOR THE YEAR ENDED 31 DECEMBER 2010**

Property, plant and equipment and operating intangible 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 assets	81	29	296	54	
Net investment	1,031	425	784	222	

### d) Inter segment sales

Subsidiary segmental sales gross of inter segment sales are; Driveline £1,234 million (first half 2010: £1,091 million, full year 2010: £2,234 million), Powder Metallurgy £438 million (first half 2010: £380 million, full year 2010: £765 million), Aerospace £723 million (first half 2010: £734 million, full year 2010: £1,451 million) and Land Systems £422 million (first half 2010: £342 million, full year 2010: £665 million).

### e) Reconciliation of segmental property, plant and equipment and operating intangible assets to the Balance Sheet

	Unaudited		
	First half 2011 £m	First half 2010 Restated £m	Full year 2010 £m
Segmental analysis - Property, plant and equipment and operating intangible assets	1,756	1,667	1,716
Segmental analysis - Goodwill and non-operating intangible assets	447	480	460
Goodwill	(347)	(359)	(350)
Other businesses	18	20	19
Businesses sold and closed	-	2	-
Corporate assets	6	5	6
Balance Sheet - property, plant and equipment and other intangible assets	1,880	1,815	1,851

### f) Reconciliation of segmental working capital to the Balance Sheet

	Unaudited		
	First half 2011 £m	First half 2010 £m	Full year 2010 £m
Segmental analysis - working capital	387	311	286
Other businesses	9	6	6
Businesses sold and closed	-	1	-
Accrued net financing costs	(24)	(26)	(19)
Restructuring provisions	(21)	(52)	(41)
Deferred and contingent consideration	(28)	(35)	(27)
Government refundable advances	(41)	(29)	(40)
Other investments	4	-	-
Corporate items	(54)	(45)	(47)
Balance Sheet - inventories, trade and other receivables, trade and other payables and provisions	232	131	118

# NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

## FOR THE HALF YEAR ENDED 30 JUNE 2011

### 2 Basis of preparation

These half year condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and International Financial Reporting Standards, as adopted by the European Union, in accordance with IAS 34 'Interim Financial Reporting'. These financial statements have been prepared on a going concern basis. These financial statements, which are unaudited but have been reviewed by the auditors, provide an update of previously reported information and should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2010.

These financial statements do not constitute statutory accounts. A copy of the audited consolidated statutory accounts for the year ended 31 December 2010 has been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

#### Restatement of comparative data

Following the Group's assumption of control over GKN Aerospace Services Structures Corp. ("GASS") on 1 April 2010 the fair value exercise was not finalised until 31 December 2010. In accordance with IFRS 3 *Business Combinations* the 30 June 2010 comparatives included in this report have been restated to reflect the fair value changes.

An investment write up of £1m has been recorded in 'Gains and losses on changes in Group structure' within the income statement. This adjustment also increases by £1 million previously reported half year operating profit, profit before and after tax and profit attributable to equity shareholders with basic and diluted earnings per share increasing by 0.1 pence. Previously reported half year goodwill reduces by a net £8 million with intangible assets increasing by £9 million.

There is no impact on management performance measures or cash measures for the period ended 30 June 2010 or any of the 31 December 2010 balances. Amortisation of non-operating intangible assets arising from business combinations for the period ended 30 June 2010 was not materially impacted.

#### Accounting policies

The accounting policies and methods of presentation applied in these financial statements, other than as noted below are the same as that applied in the audited consolidated financial statements for the year ended 31 December 2010.

#### Standards, revisions and amendments to standards and interpretations

As outlined in the audited consolidated financial statements for the year ended 31 December 2010, there were no changes in accounting standards, revision and amendments and interpretations that would have a material impact on this set of financial statements. The Group has adopted the following relevant amendments to standards with no material impact on its results, assets and liabilities:

- Annual improvements 2010
- Amendment to IAS 32 'Financial instruments: Presentation', on classification of rights issues
- Amendment to IAS 24 'Related party disclosures'
- IFRIC 19 'Extinguishing financial liabilities with equity instruments'
- Amendment to IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

As outlined in the audited consolidated financial statements for the year ended 31 December 2010 the impact of other accounting developments is being assessed.

#### Estimates, judgements and assumptions

The Group's significant accounting policies are set out in audited consolidated financial statements for the year ended 31 December 2010. The application of the Group's accounting policies requires the use of estimates, subjective judgement and assumptions. The Directors base these estimates, judgements and assumptions on a combination of past experience, professional expert advice and other evidence that is relevant to the particular circumstance.

The accounting policies where the Directors consider the more complex estimates, judgements and assumptions have to be made are those in respect of the temporary Gallatin plant closure (see note 1b), acquired non-operating intangible assets – business combinations, post-employment obligations including the valuation of the pension partnership plan asset, derivative and other financial instruments, taxation and impairment of non-current assets. The details of the principal estimates, judgements and assumptions are set out in notes 24, 26, 4c, 21, 6 and 12 of the audited consolidated financial statements for the year ended 31 December 2010 as updated in notes 5 (change in value of derivative and other financial instruments), 9 (Taxation) and 12 (Post-employment obligations) of these financial statements.

#### Date of approval

These financial statements were approved by the Board of Directors on Tuesday 2 August 2011.

**NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
FOR THE HALF YEAR ENDED 30 JUNE 2011

**3 Adjusted performance measures**

**(a) Reconciliation of reported and management performance measures**

**FIRST HALF 2011 (unaudited)**

	As reported £m	Joint ventures £m	Exceptional and non- trading items £m	Management basis £m
<b>Sales</b>	<b>2,799</b>	<b>189</b>	<b>-</b>	<b>2,988</b>
<i>Trading profit</i>	198	26	-	224
<i>Restructuring and impairment charges</i>	-	-	-	-
<i>Change in value of derivative and other financial instruments</i>	18	-	(18)	-
<i>Amortisation of non-operating intangible assets arising on business combinations</i>	(10)	-	10	-
<i>UK Pension scheme curtailment</i>	-	-	-	-
<i>Gains and losses on changes in Group structure</i>	4	-	(4)	-
<b>Operating profit</b>	<b>210</b>	<b>26</b>	<b>(12)</b>	<b>224</b>
<b>Share of post-tax earnings of joint ventures</b>	<b>20</b>	<b>(26)</b>	<b>1</b>	<b>(5)</b>
Interest payable	(21)	-	-	(21)
Interest receivable	2	-	-	2
Other net financing charges	(9)	-	9	-
<b>Net financing costs</b>	<b>(28)</b>	<b>-</b>	<b>9</b>	<b>(19)</b>
<b>Profit/(loss) before taxation</b>	<b>202</b>	<b>-</b>	<b>(2)</b>	<b>200</b>
<b>Taxation</b>	<b>(27)</b>	<b>-</b>	<b>(1)</b>	<b>(28)</b>
<b>Profit/(loss) for the period from continuing operations</b>	<b>175</b>	<b>-</b>	<b>(3)</b>	<b>172</b>
Profit attributable to non-controlling interests	(14)	-	11	(3)
Earnings	161	-	8	169
Earnings per share - pence	10.4	-	0.5	10.9

**Impact of temporary Gallatin plant closure**

Given the significance of the Gallatin incident and related charges in the first half of 2011, the table below highlights the impact of the temporary Gallatin plant closure on management performance measures:

	Management basis	Temporary Gallatin plant closure	Management basis (excl. Gallatin)
Trading profit (£m)	224	23	247
Trading margin (%)	7.5	0.8	8.3
Profit before taxation (£m)	200	23	223
Profit after taxation (£m)	172	14	186
Earnings (£m)	169	14	183
Earnings per share (pence)	10.9	0.9	11.8

**NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
FOR THE HALF YEAR ENDED 30 JUNE 2011

**3 Adjusted performance measures (continued)**

**(a) Reconciliation of reported and management performance measures (continued)**

FIRST HALF 2010 (unaudited)				
	As reported	Joint ventures	Exceptional and non-trading items	Management basis
	£m	£m	£m	£m
<b>Sales</b>	2,536	174	(9)	2,701
<i>Trading profit</i>	179	23	-	202
<i>Restructuring and impairment charges</i>	(26)	-	26	-
<i>Change in value of derivative and other financial instruments</i>	(4)	-	4	-
<i>Amortisation of non-operating intangible assets arising on business combinations</i>	(9)	-	9	-
<i>UK Pension scheme curtailment</i>	69	-	(69)	-
<i>Gains and losses on changes in Group structure</i>	(5)	-	5	-
<b>Operating profit</b>	204	23	(25)	202
<b>Share of post-tax earnings of joint ventures</b>	19	(23)	-	(4)
Interest payable	(25)	-	-	(25)
Interest receivable	2	-	-	2
Other net financing charges	(19)	-	19	-
<b>Net financing costs</b>	(42)	-	19	(23)
<b>Profit/(loss) before taxation</b>	181	-	(6)	175
<b>Taxation</b>	(15)	-	(7)	(22)
<b>Profit/(loss) for the period from continuing operations</b>	166	-	(13)	153
Profit attributable to non-controlling interests	(9)	-	5	(4)
Earnings	157	-	(8)	149
Earnings per share - pence	10.1	-	(0.5)	9.6

FULL YEAR 2010

	As reported	Joint ventures	Exceptional and non-trading items	Management basis
	£m	£m	£m	£m
<b>Sales</b>	5,084	355	(10)	5,429
<i>Trading profit</i>	367	44	-	411
<i>Restructuring and impairment charges</i>	(39)	-	39	-
<i>Change in value of derivative and other financial instruments</i>	12	-	(12)	-
<i>Amortisation of non-operating intangible assets arising on business combinations</i>	(19)	-	19	-
<i>UK Pension scheme curtailment</i>	68	-	(68)	-
<i>Gains and losses on changes in Group structure</i>	(4)	-	4	-
<b>Operating profit</b>	385	44	(18)	411
<b>Share of post-tax earnings of joint ventures</b>	35	(44)	1	(8)
Interest payable	(46)	-	-	(46)
Interest receivable	6	-	-	6
Other net financing charges	(35)	-	35	-
<b>Net financing costs</b>	(75)	-	35	(40)
<b>Profit before taxation</b>	345	-	18	363
<b>Taxation</b>	(20)	-	(17)	(37)
<b>Profit for the year from continuing operations</b>	325	-	1	326
Profit attributable to non-controlling interests	(20)	-	15	(5)
Earnings	305	-	16	321
Earnings per share - pence	19.6	-	1.1	20.7

**NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
FOR THE HALF YEAR ENDED 30 JUNE 2011

**3 Adjusted performance measures (continued)**

**(b) Summary by segment**

**FIRST HALF 2011 (unaudited)**

	Sales £m	Trading profit £m	Margin
Driveline	1,333	94	7.1%
Powder Metallurgy	435	39	9.0%
Aerospace	723	80	11.1%
Land Systems	444	39	8.8%
Other businesses (Cylinder Liners and Emitec)	53	2	
Corporate and unallocated costs	-	(7)	
	<b>2,988</b>	<b>247</b>	<b>8.3%</b>
Temporary Gallatin plant closure	-	(23)	
	<b>2,988</b>	<b>224</b>	<b>7.5%</b>

**FIRST HALF 2010 (unaudited)**

	Sales £m	Trading profit £m	Margin
Driveline	1,189	82	6.9%
Powder Metallurgy	378	26	6.9%
Aerospace	734	80	10.9%
Land Systems	359	19	5.3%
Other businesses (Cylinder Liners and Emitec)	41	2	
Corporate and unallocated costs	-	(7)	
	<b>2,701</b>	<b>202</b>	<b>7.5%</b>

**FULL YEAR 2010**

	Sales £m	Trading profit £m	Margin
Driveline	2,433	169	6.9%
Powder Metallurgy	759	54	7.1%
Aerospace	1,451	162	11.2%
Land Systems	699	37	5.3%
Other businesses (Cylinder Liners and Emitec)	87	3	
Corporate and unallocated costs	-	(14)	
	<b>5,429</b>	<b>411</b>	<b>7.6%</b>

## NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE HALF YEAR ENDED 30 JUNE 2011

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

The 2008 Programme restructuring actions comprised 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.

There have been no further restructuring charges under the 2008 programme during the period to 30 June 2011.

In the comparative period to 30 June 2010 the Group incurred charges of £10 million for redundancy and post-employment costs (full year 2010: £12 million), £2 million for short-time working costs (full year 2010: £2 million) and £14 million for other reorganisation costs (full year 2010: £25 million). All of these costs were incurred in subsidiaries.

The segmental allocation of restructuring costs in the period to 30 June 2010 was; Driveline £19 million (full year 2010: £29 million), Powder Metallurgy £1 million (full year 2010: £1 million), Aerospace £2 million (full year 2010: £4 million) and Land Systems £4 million (full year 2010: £5 million).

Restructuring cash outflow in respect of 2008 and 2004 restructuring plans amounts to £22 million (first half 2010: £29 million, full year 2010: £55 million) and proceeds from sale of fixed assets, which were made available for disposal as a result of the restructuring, were £1 million (first half 2010: £1 million, full year 2010: £2 million).

### 5 Change in value of derivative and other financial instruments

	Unaudited		
	First half 2011 £m	First half 2010 £m	Full year 2010 £m
Forward currency contracts (not hedge accounted)	24	(32)	(3)
Embedded derivatives	(2)	5	3
Commodity contracts (not hedge accounted)	-	-	-
	22	(27)	-
Net gains and losses on intra-group funding			
Arising in period	(4)	23	12
Reclassified in period	-	-	-
	(4)	23	12
<b>Change in value of derivative and other financial instruments</b>	<b>18</b>	<b>(4)</b>	<b>12</b>

## NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE HALF YEAR ENDED 30 JUNE 2011

### 6 Gains and losses on changes in Group structure

	Unaudited		
	First half 2011	First half 2010 Restated	Full year 2010
	£m	£m	£m
Profits and losses on sale or closure of business			
Businesses sold and closed			
Trading losses	-	(1)	(2)
Tangible fixed asset impairments	-	(2)	(1)
Other asset write-downs	-	(3)	(3)
Recycling of cumulative translational currency adjustments	-	-	1
Profit on sale of joint venture	4	-	-
Investment write up on acquisition of GKN Aerospace Services Structures Corp.	-	1	1
	<b>4</b>	<b>(5)</b>	<b>(4)</b>

During the period the Group sold its 49% share in a joint venture company, GKN JTEKT Limited, for cash consideration of £8 million. A profit on sale of £4 million was realised which includes £2 million of previous currency variations reclassified from other reserves.

### 7 Share of post-tax earnings of joint ventures

	Unaudited		
	First half 2011	First half 2010	Full year 2010
	£m	£m	£m
Sales	189	174	355
Operating costs	(163)	(151)	(311)
Trading profit	26	23	44
Net financing costs	-	-	(1)
Profit before taxation	26	23	43
Taxation	(5)	(4)	(7)
Share of post-tax earnings - before exceptional and non-trading items	21	19	36
Amortisation of non-operating intangible assets arising on business combinations and other net financing charges, including tax of nil	(1)	-	(1)
<b>Share of post-tax earnings</b>	<b>20</b>	<b>19</b>	<b>35</b>

### 8 Other net financing charges

	Unaudited		
	First half 2011	First half 2010	Full year 2010
	£m	£m	£m
Expected return on scheme assets	77	70	145
Interest on post-employment obligations	(85)	(88)	(176)
Post-employment finance charges	(8)	(18)	(31)
Unwind of discounts	(1)	(1)	(4)
<b>Other net financing charges</b>	<b>(9)</b>	<b>(19)</b>	<b>(35)</b>

# NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE HALF YEAR ENDED 30 JUNE 2011

## 9 Taxation

The tax charge for the period is based on an estimate of the Group's expected annual effective rate of tax for 2011 based on tax legislation substantively enacted at 30 June 2011 applied to taxable profit for the period ended 30 June 2011.

	Unaudited		
	First half 2011 £m	First half 2010 £m	Full year 2010 £m
<b>Analysis of tax charge in the period</b>			
Current tax charge			
Current period charge	(37)	(41)	(65)
Utilisation of previously unrecognised tax losses and other assets	2	15	20
Adjustments in respect of prior periods	(1)	-	(1)
Net movement on provisions for uncertain tax positions	(8)	1	(27)
	(44)	(25)	(73)
Deferred tax	17	10	53
<b>Total tax charge for the period</b>	<b>(27)</b>	<b>(15)</b>	<b>(20)</b>

	Unaudited		
	First half 2011 £m	First half 2010 £m	Full year 2010 £m
<b>Analysed as:</b>			
<b>Tax in respect of management profit</b>			
Current tax	(44)	(26)	(84)
Deferred tax	16	4	47
	(28)	(22)	(37)
<b>Tax in respect of items excluded from management profit</b>			
Current tax	-	1	11
Deferred tax	1	6	6
	1	7	17
<b>Total tax charge for the period</b>	<b>(27)</b>	<b>(15)</b>	<b>(20)</b>
<b>Tax included in other comprehensive income</b>			
Deferred tax on post-employment obligations	3	33	46
Deferred tax on foreign currency gains and losses on intra-group funding	-	-	(3)
Current tax on post-employment obligations	10	12	14
Current tax on foreign currency gains and losses on intra-group funding	(1)	1	1
	12	46	58

### Management tax rate

The tax charge arising on management profit was £28 million (first half 2010: £22 million charge, full year 2010: £37 million charge) giving an effective tax rate of 16% (first half 2010: 14%, full year 2010: 11%).

### Deferred tax asset recognition

There is a net £17 million (first half 2010: £10 million, full year 2010: £53 million) deferred tax credit to the Income Statement in the period, primarily on account of the recognition of previously unrecognised tax losses amounting to £48 million, largely in the US.

**NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
FOR THE HALF YEAR ENDED 30 JUNE 2011

**9 Taxation (continued)**

**Changes in UK tax rate**

On 23 March 2011, the UK government confirmed a 1% cut in the mainstream rate of UK Corporation tax from April 2011 to 26%, falling to 23% by 2014. The reduction to 26% was substantially enacted on 29 March 2011 with the result that the recognised UK deferred tax asset was valued at 26%. As further reductions to reach the anticipated 23% 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 Group effective tax rate.

**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 the Group's EU community law rights. A Court of Appeal hearing regarding payments on account will take place later in 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 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**

	Unaudited								
	First half 2011			First half 2010 - restated			Full year 2010		
	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
£m	m	pence	£m	m	pence	£m	m	pence	
<b>Continuing operations</b>									
Basic eps	161	1,553.0	10.4	157	1,552.5	10.1	305	1,552.6	19.6
Dilutive securities	-	1.2	-	-	0.4	-	-	0.7	-
Diluted eps	161	1,554.2	10.4	157	1,552.9	10.1	305	1,553.3	19.6

Management basis earnings per share are presented in note 3 and use the weighted average number of shares consistent with basic earnings per share calculations.

**11 Dividends**

An interim dividend of 2.0 pence per share has been declared by the Directors and will be paid on 26 September 2011 to shareholders on the register at 12 August 2011. Based on the number of shares ranking for dividend at 30 June 2011, the interim dividend is expected to absorb £31 million.

During the period £54 million (first half 2010: nil, full year 2010: £23 million) was paid in respect of dividends to equity shareholders.

**NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
FOR THE HALF YEAR ENDED 30 JUNE 2011

**12 Post-employment obligations**

Actuarial assessments of the key defined benefit pension and post-employment medical plans (representing 97% of liabilities and 98% of assets) were carried out as at 30 June 2011.

Movement in post-employment obligations during the period:

	Unaudited		Full Year 2010 £m
	First half 2011 £m	First half 2010 £m	
At 1 January	(600)	(996)	(996)
Business acquired	-	-	-
Current service cost	(19)	(18)	(35)
Curtailments/settlements			
UK Pension scheme benefit changes	-	69	68
Other	4	-	9
Past service cost	-	-	-
Interest/expected return on assets	(8)	(18)	(31)
Actuarial gains and losses	29	(173)	(24)
Special contribution	-	331	331
Normal contributions/benefits paid	34	29	74
Currency variations	(14)	12	4
At end of period	(574)	(764)	(600)

Post-employment obligations as at the period end comprise:

	Unaudited		
	30 June 2011 £m	30 June 2010 £m	31 December 2010 £m
Pensions - funded	(139)	(343)	(176)
- unfunded	(376)	(358)	(363)
Medical - funded	(17)	(17)	(17)
- unfunded	(42)	(46)	(44)
	(574)	(764)	(600)

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 30 June 2011 - unaudited	(56)	(144)	(353)	(21)	(574)
At 30 June 2010 - unaudited	(215)	(189)	(336)	(24)	(764)
At 31 December 2010	(84)	(154)	(341)	(21)	(600)

**Assumptions**

Actuarial assessments of the major defined benefit retirement plans were carried out as at 30 June 2011. The major assumptions used were:

	UK %	Americas %	Europe %	ROW %
<b>At 30 June 2011 – unaudited</b>				
Rate of increase in pensionable salaries	4.35	3.50	2.50	-
Rate of increase in payment and deferred pensions	2.85	2.00	1.75	n/a
Discount rate	5.40	5.50	5.10	1.75
Inflation assumption	3.35	2.90	1.75	0.75
Initial rate of increase in medical costs	6.50	9.00	n/a	n/a
Long term rate of increase in medical costs	6.00	5.00	n/a	n/a
<b>At 30 June 2010 – unaudited</b>				
Rate of increase in pensionable salaries	3.05	3.50	2.50	3.50
Rate of increase in payment and deferred pensions	3.05	2.00	1.75	n/a
Discount rate	5.30	5.50	4.65	2.00
Inflation assumption	3.05	2.50	1.75	1.00
Initial rate of increase in medical costs	7.00	9.00	n/a	n/a
Long term rate of increase in medical costs	4.50	5.00	n/a	n/a
<b>At 31 December 2010</b>				
Rate of increase in pensionable salaries	4.35	3.50	2.50	-
Rate of increase in payment and deferred pensions	2.90	2.00	1.75	n/a
Discount rate	5.40	5.50	5.00	1.75
Inflation assumption	3.35	2.50	1.75	0.75
Rate of increase in medical costs:				
Initial/long term	6.5/6.0	9.0/5.0	n/a	n/a

No adjustments to mortality assumptions have been made in the period to those used as at 31 December 2010. The UK scheme assumption is based on SINA (year of birth) mortality tables allowing for medium cohort projections with a minimum improvement of 1%. In the USA PPA2010 tables are used, whilst in Germany RT2005G tables were again used.

**NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
 FOR THE HALF YEAR ENDED 30 JUNE 2011

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

**Assumption sensitivity analysis**

The impact of a one percentage point movement in the primary assumptions on the defined benefit net obligations as at 30 June 2011 is set out below:

	UK £m	Americas £m	Europe £m	ROW £m
Discount rate +1%	317	43	52	6
Discount rate -1%	(395)	(54)	(61)	(6)
Rate of inflation +1%	(298)	-	(35)	-
Rate of inflation -1%	247	-	32	-

**UK deficit funding and funding arrangement with Trustee**

The last scheme specific funding valuation was as at April 2010 which revealed a deficit of £49 million. Under the 2010 Recovery Plan a first potential funding payment may become payable in Q1 2014 depending on asset performance in the 3 years to 5 April 2013. If required, the amount payable in 2014 will be capped at £14 million.

During the period the Group has paid £23 million to the UK Pension scheme through the Pension partnership. This was the first distribution under an asset-backed cash payment arrangement with the Trustee of the UK Pension scheme.

# NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE HALF YEAR ENDED 30 JUNE 2011

## 13 Cash flow notes

	Unaudited		
	First half 2011 £m	First half 2010 £m	Full year 2010 £m
<b>Cash generated from operations</b>			
Operating profit	210	204	385
Adjustments for:			
Depreciation, impairment and amortisation of fixed assets			
Charged to trading profit			
Depreciation	92	96	191
Impairment	-	-	2
Amortisation	4	5	10
Amortisation of non-operating intangible assets arising on business combinations	10	9	19
Restructuring and impairment charges	-	-	-
Change in value of derivative and other financial instruments	(18)	7	(12)
Amortisation of government capital grants	-	-	(1)
Net profits on sale/realisation of fixed assets	(1)	(1)	(1)
Gains and losses on changes in Group structure	(4)	1	(1)
Charge for share-based payments	3	1	3
Movement in post-employment obligations	(19)	(80)	(116)
Change in inventories	(58)	(46)	(63)
Change in receivables	(141)	(171)	(117)
Change in payables and provisions	97	172	121
	<b>175</b>	<b>197</b>	<b>420</b>
<b>Movement in net debt</b>			
Net movement in cash and cash equivalents	56	95	133
Net movement in other borrowings and deposits	(79)	(13)	(6)
Bond buy-back	-	25	25
Finance leases	-	-	1
Currency variations	-	(9)	(4)
Movement in period	(23)	98	149
Net debt at beginning of period	(151)	(300)	(300)
<b>Net debt at end of period</b>	<b>(174)</b>	<b>(202)</b>	<b>(151)</b>
<b>Reconciliation of cash and cash equivalents</b>			
Cash and cash equivalents per balance sheet	480	403	438
Bank overdrafts included within "current liabilities – borrowings"	(3)	(20)	(17)
<b>Cash and cash equivalents per cash flow</b>	<b>477</b>	<b>383</b>	<b>421</b>

On 22 June 2011, the Group drew £80 million under its European Investment Bank unsecured loan facility. The loan is due for repayment in five equal annual instalments of £16 million, commencing in June 2015. The loan attracts a fixed interest rate of 4.1% per annum payable annually in arrears.

## NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE HALF YEAR ENDED 30 JUNE 2011

### 14 Property, plant and equipment (unaudited)

During the six months ended 30 June 2011 the Group asset additions were £94 million (first half 2010: £63 million). Additions through business combinations were nil (first half 2010: £3 million). Assets with a carrying value of £1 million (first half 2010: £2 million) were disposed of during the six months ended 30 June 2011.

### 15 Related party transactions (unaudited)

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and joint venture companies priced on an 'arm's length' basis. The Group also provides short-term financing facilities in respect of one joint venture company. There have been no significant changes in the nature of transactions between subsidiaries and joint ventures that have materially affected the financial statements in the period. Similarly, there has been no material impact on the financial statements arising from changes in the aggregate compensation of key management.

### 16 Other financial information (unaudited)

Commitments relating to future capital expenditure at 30 June 2011 amounted to £107 million (30 June 2010: £92 million) and the Group's share relating to joint ventures amounted to £2 million (30 June 2010: £1 million).

Intangible assets with a carrying value of nil were realised in the first half of 2011 (first half 2010: nil).

124,861 ordinary shares were issued, satisfied by treasury shares, in the six months ended 30 June 2011 which generated a cash inflow of less than £1 million (first half 2010: less than £1 million). During the period the Group purchased 2,213,306 own shares, through its Employee Share Ownership Plan Trust, for cash consideration of £5 million.

On 22 June 2011, the Group acquired a 31% shareholding (25% on a fully diluted basis) in EVO Electric Limited for consideration of £4 million. The investment has been designated as an associated undertaking and its balance sheet carrying value is included in "other receivables and investments" as a non-current asset.

### 17 Contingent assets and liabilities (unaudited)

Aside from the unrecognised contingent asset referred to in note 9 there are no other material contingent assets at 30 June 2011 or 30 June 2010. At 30 June 2011 the Group had no contingent liabilities in respect of bank and other guarantees (30 June 2010: nil). In the case of certain businesses, performance bonds and customer finance obligations have been entered into in the normal course of business.

### 18 Post balance sheet events (unaudited)

On 18 July 2011 the Group announced it had signed an agreement with shareholders of Stromag Holding GmbH intending to acquire the entire share capital of the business. The acquisition cost comprises £146 million of cash for the equity and repayment of debt of £28 million. Closing of the transaction is still subject to regulatory approval.

On 28 July 2011 the Group announced an agreement to acquire the Driveline Products business of Getrag KG. The cash consideration, net of cash within the business, is £268 million for the equity with a further deferred element of up to £12 million contingent on future business awards. Closing of the transaction is still subject to regulatory approval.

## **Independent review report to GKN plc**

### **Introduction**

We have been engaged by the Company to review the condensed consolidated financial statements in the Half year report for the six months ended 30 June 2011 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement and related notes. We have read the other information contained in the Half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

### **Directors' responsibilities**

The Half year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half year report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial statements included in this Half year report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed consolidated financial statements in the Half year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of Half year financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the Half year report for the six months ended 30 June 2011 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Birmingham  
2 August 2011