GKN PLC

HALF YEAR REPORT 2010

EXPECT MORE

Cautionary statement

This half year report 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.

Basis of reporting
The financial statements for the period are shown on pages 8 to 26 and have been prepared using accounting policies which were used in the preparation of audited accounts for the year ended 31 December 2009 and which will form the basis of the 2010 Annual Report, except as set out in the basis of preparation on page 16.

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 margins are to trading profit expressed as a percentage of sales. Management profit or loss before tax is management trading profit less net subsidiary interest payable and receivable and the Group's share of net interest payable and receivable and taxation of joint ventures. These figures better reflect performance of continuing businesses. Where appropriate, reference is made to underlying results which exclude the impact of acquisitions as well as currency translation on the results of overseas operations. Free cash flow is operating cash flow including interest, tax, joint venture dividends and dividends paid to non-controlling interests. Operating cash flow is cash generated from operations adjusted for capital expenditure, net of capital grants, proceeds from disposal of fixed assets and UK Government refundable advances.

(2) Comparative data has been restated following the announcement to exit the Axles operations of the former OffHighway segment.

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

	Average First Half		Period End		2009 Full Year	
	2010	2009	June **2010**	June 2009	Average	Period End
Euro	**1.15**	1.12	**1.22**	1.17	1.12	1.13
US Dollar	**1.53**	1.49	**1.50**	1.65	1.56	1.61

The approximate impact on 2010 trading profit of subsidiaries and joint ventures of a 1% movement in the average rate would be euro – £0.5 million, US dollar – £0.7 million.

FINANCIAL PERFORMANCE

	Management basis[1]			As reported		
	First half			First half		
	2010 £m	2009[2] £m	Change £m	**2010 £m**	2009[2] £m	Change £m
Sales	**2,701**	2,165	536	**2,536**	2,062	474
Trading profit	**202**	25	177	**179**	17	162
Margin	***7.5%***	1.2%	6.3pts			
Operating profit	**202**	25	177	**203**	31	172
Profit/(loss) before tax	**175**	(6)	181	**180**	(16)	196
Earnings per share – p	**9.6**	(0.3)		**10.0**	–	
Free cash flow	**107**	23				
Interim dividend per share – p	**1.5**	–		**1.5**	–	

Highlights

- Group results reflect the strong recovery in Driveline, Powder Metallurgy and Land Systems sales relative to a weak first half of 2009, a good performance in Aerospace and the on-going benefits from restructuring:
  - sales up 25% (£536 million) to £2,701 million.
  - trading profit of £202 million, up £177 million, and trading margin of 7.5%.
- Driveline sales up 47% and 6.9% trading margin.
- Powder Metallurgy sales up 65%, with 6.9% trading margin.
- Aerospace sales 5% lower, trading margin, however, increased from 10.3% to 10.9%.
- Land Systems sales up 9% and 5.3% trading margin.
- New business:
  - more than $1 billion of long term contracts for aero engine products;
  - major driveshafts capacity expansion to meet growth in demand.
- Positive free cash flow of £107 million (2009: £23 million).
- Net debt down £98 million to £202 million (31 December 2009: £300 million).
- Actions to provide certainty to pension contributions and a reduction in benefits reduces UK pension accounting deficit.
- Dividend payments restored with an interim of 1.5p per share (2009: no interim dividend).

INTERIM MANAGEMENT REPORT

GKN's recovery has moved into another gear and we are continuing to build on our global market-leading businesses. The first half trading environment has seen an improving trend for GKN's Driveline, Powder Metallurgy and Land Systems businesses whilst the Aerospace market has continued to hold up well.

The benefits of our restructuring actions have enabled us to improve our margins and the continued focus on cash generation has resulted in a significant improvement in the net debt position. As a result, and with a more positive outlook, we are pleased to be able to recommence payment of a dividend at this half year stage.

Although macro-economic uncertainties continue, we remain confident that our strong market positions and sector leading technologies will enable us to take full advantage of growth opportunities as markets continue to recover.

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 2010.

These results reflect the significant volume improvements in automotive markets relative to the weak first half of 2009, continued good performance in Aerospace, and an improving trend in land systems markets. They also include the impact of the final stages of the Group's restructuring programme.

Management sales

Management sales increased 25% in the six months ended 30 June 2010 to £2,701 million (2009 restated: £2,165 million). The effect of currency translation was £10 million negative and there was a £7 million benefit from acquisitions. Excluding these items, the underlying increase was £539 million (25%). Within this figure, Driveline was £369 million higher, Powder Metallurgy increased by £151 million, Land Systems was £37 million higher, while Aerospace was £33 million lower.

Management trading profit

Management trading profit increased £177 million to £202 million (2009 restated: £25 million). The currency translational benefit was £1 million and there was a £1 million benefit from acquisitions. Excluding these items, the underlying increase was £175 million. Within this figure, Driveline was £116 million higher, Powder Metallurgy increased by £40 million and Land Systems was £18 million higher, all largely as a result of volume improvements and cost reduction benefits. Market conditions remained favourable for Aerospace where underlying profit rose by £1 million. Group trading margin in the first half increased to 7.5% (2009 restated: 1.2%)

2010	First Quarter	Second Quarter	**First Half**
Sales (£m)	1,306	1,395	**2,701**
Trading profit (£m)	84	118	**202**
Trading margin (%)	*6.4%*	*8.5%*	***7.5%***

Restructuring

Restructuring charges in the period amounted to £26 million, including £2 million of short-time working and £24 million redundancy and reorganisation charges. The benefit of the actions to address the permanent cost base is estimated to be £27 million. Cash spend on the restructuring programme amounted to £28 million.

Divisional Performance

Launch of Land Systems

On 16 June 2010 the Group announced the formation of its Land Systems division which brought together the operations of GKN OffHighway, GKN AutoStructures and GKN Industrial and Distribution Services. The aim of GKN Land Systems is to develop into a fourth global leader alongside Driveline, Powder Metallurgy and Aerospace, building on existing strengths in the off-highway market and, by applying the leading-edge technologies developed across the Group, capitalising on growth opportunities in new and existing markets. See note 1 for further details.

Markets

The Group operates in the global automotive, aerospace and land systems markets. Driveline sales are in the automotive market to manufacturers of passenger cars and light vehicles. Around 80% of Powder Metallurgy sales are also to this market, with the balance to other industrial customers. Aerospace sells to manufacturers of military and civil aircraft, aircraft engines and equipment, whilst Land Systems sells to producers of agricultural, construction, mining and industrial equipment.

Automotive

Production of cars and light vehicles continued to improve in 2010 as markets recovered following the recession of late 2008 and early 2009. As shown in the table below, all markets experienced production growth relative to a weak first half of 2009, with the strongest being Americas, Japan, China and India.

Car and light vehicle production (millions of units)	First half 2010	First half 2009	Change (%)
Europe	9.9	7.9	25
Americas	7.5	4.8	56
Japan	4.7	3.2	47
China	8.2	5.6	46
India	1.5	1.1	36
Others	5.0	3.7	35
Total – global	36.8	26.3	40

Overall, global production volumes increased 40% in the first half of 2010 to 36.8 million vehicles (2009: 26.3 million) whilst sales of cars and light vehicles increased by 20%, from 30.2 million vehicles to 36.1 million vehicles.

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

Forecasts indicate that global production is likely to show a slight improvement in the second half of 2010 compared with 2009, albeit around 7% lower than the first half of 2010, mostly as a result of normal seasonal patterns of demand returning and reduced production in Europe. GKN's customer production schedules for the third quarter, however, remain good relative to normal seasonal patterns of demand.

Driveline

Driveline is the world's leading supplier of automotive driveline components and systems. As a global tier one supplier serving the world's major vehicle manufacturers, Driveline develops, builds and supplies an extensive range of automotive driveline components — for use in the smallest ultra low-cost car through to the most sophisticated premium vehicle, demanding the most complex driving dynamics. Driveline is the leading global producer of constant velocity jointed (CVJ) sideshafts, propshafts, and mechanically and electronically controlled torque management products.

The key financial results for the period are as follows:

	Q1 2010 £m	Q2 2010 £m	First half **2010** **£m**	First half 2009 Restated £m	Change Headline £m	Change Underlying £m
Sales	580	609	**1,189**	811	378	369
Trading profit	37	45	**82**	(36)	118	116
Margin	*6.4%*	*7.4%*	***6.9%***	*(4.4)%*		

Driveline's sales increased 47% to £1,189 million (2009 restated: £811 million) compared with global vehicle production which increased 40%. This market outperformance reflects recent market share gains and the Group's stronger position in premium vehicles, demand for which recovered strongly. Trading profit increased substantially to £82 million (2009 restated: trading loss of £36 million) reflecting higher sales and the benefits of restructuring. Driveline trading margin was 6.9%.

Although new model launch activity continued to be low during the period, Driveline was successful in winning 75% of replacement and new driveshaft programmes for which it was invited to bid.

During the first half of 2010, Driveline opened a new sideshafts plant in Turkey and launched a number of innovative products designed to help vehicle manufacturers improve vehicle handling performance and reduce fuel consumption and emissions, including:

- Direct Torque Flow technology: a new design solution to connect the propshaft to the vehicle's transmission in a way that saves weight, assembly time, space and cost. The first application is on the Audi A8 Quattro high performance luxury saloon;
- Face Spline and Twin Ball CVJ which results in smaller products, lighter weight and tighter turning circles. This has launched on the BMW 7 Series and will appear on the new BMW 5 and 6 Series all-wheel drive vehicles later this year;
- Electromagnetic control device (EMCD): GKN Driveline's all-wheel drive (AWD) coupling is smaller, lighter and more efficient. New customer wins were achieved in both the USA and Japan; and
- Strong market interest in GKN's hybrid/electric drive products continued, with a new contract for a Japanese customer being won.

In order to meet production demands from underlying growth in China, India and North America, major driveshaft capacity expansion is underway which will increase installed capacity in these markets by around 60% over the next four years. North America is a key target market for GKN and recent programme wins should allow Driveline to grow market share significantly in the region over the next few years.

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. It 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 2010 £m	Q2 2010 £m	First half **2010** **£m**	First half 2009 £m	Change Headline £m	Change Underlying £m
Sales	180	198	**378**	229	149	151
Trading profit	11	15	**26**	(14)	40	40
Margin	*6.1%*	*7.6%*	***6.9%***	*(6.1)%*		

Powder Metallurgy sales were £378 million (2009: £229 million), an increase of 65%. 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 78% in North America and 47% in Europe. Hoeganaes' underlying sales were 108% higher, reflecting improved automotive end market sales.

Powder Metallurgy reported a trading profit of £26 million (2009: £14 million trading loss) with a divisional trading margin of 6.9%.

Increasing trends 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 period, approximately £60 million (annualised sales) of new programme business was awarded. New contracts include the first application of GKN's sinter forged differential gears which offer size and weight benefits.

Aerospace

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

The overall aerospace market remained generally positive in the first half with modest growth in the defence sector and the impact of the recession on large civil aircraft production being much less than expected.

US defence spending remained strong with the planned reduction in sales of the F-22 being offset by good demand for F-18, F-15, C-130J and C-17 transport aircraft. The C-17 production programme continues for both US defence and foreign military sales. Although at low production rates currently, the Lockheed F-35 (Joint Strike Fighter) remains a key defence programme committed to by the US Department of Defense with plans to build in excess of 2,500 aircraft. In Europe, where GKN has very limited exposure, defence budgets remain under significant pressure and in Asia and the Middle East, a number of significant export programmes are being pursued by GKN's customers.

In the civil aerospace market, Airbus and Boeing benefited from their extensive backlogs and delivered a combined total of 472 aircraft, a reduction of 6% over the 500 deliveries in the first half of 2009. However, despite this recent reduction, large civil aircraft deliveries are being supported by a recovery in passenger and cargo volumes. As a result, production levels of the Boeing 777 are returning to pre-recession levels with proposed increases in production for single aisle aircraft having been announced by both Airbus and Boeing. Furthermore, 32 new orders were made for the Airbus A380 in the first half.

The key financial results for the period are as follows:

	Q1 2010 £m	Q2 2010 £m	First half **2010** **£m**	First half 2009 £m	Change Headline £m	Change Underlying £m
Sales	353	381	**734**	770	(36)	(33)
Trading profit	32	48	**80**	79	1	1
Margin	*9.1%*	*12.6%*	***10.9%***	*10.3%*		

Aerospace sales of £734 million were £36 million lower than the prior year (2009: £770 million) reflecting lower F-22 sales as the programme started its run down, softer military aftermarket business and broadly flat sales in the civil aerospace sector. The impact from currency on translation of sales was £10 million negative and from acquisitions was £7 million positive, representing sales from GKN Aerospace Services Structures Corp., for which the Group gained management control in April 2010 (note 13 has further details). The underlying decrease in sales of £33 million represented a 4% reduction.

INTERIM MANAGEMENT REPORT CONTINUED

Trading profit increased by £1 million to £80 million (2009: £79 million). The impact from currency on translation of results was £1 million negative and from acquisitions was £1 million positive. The trading margin was 10.9% (2009: 10.3%).

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

- two new contracts for detailed parts for the inboard and outboard landing flaps for the Airbus A350 XWB;
- a five year $300 million agreement with GE Aviation to supply a range of new and existing flight critical aluminium and titanium components for GE's range of commercial and military engines;
- a ten year agreement with a value of $360 million with Pratt & Whitney for high performance engine ducts for the F135 engine;
- a $300 million ten year contract with Rolls-Royce for Trent 700 and Trent 1000 engine structures; and
- becoming a founding member of the National Composites Centre where GKN has a strong role to play in developing the use of composites in aerospace and other applications/industries.

The division has a balanced position in civil and defence programmes and has continued to secure its market position with a range of customers and programmes that maintains its diversity. A number of these programmes are now entering the initial phase of scheduled ramp-up and are projected to reach rate production over the next five years.

Land Systems

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

Following a very difficult second half of 2009 for Land Systems businesses, 2010 started more positively. Sales in the first quarter of 2010 were ahead of expectations, albeit still lower than the comparable period in the prior year, and the recovery continued strongly into the second quarter, particularly for mining and heavy construction equipment.

Agricultural markets in Europe remained relatively soft while in North America they continued their gradually improving trend, supported by more stable commodity prices and some re-stocking within the supply chain.

In the construction equipment market, sales continued to increase particularly for heavy construction to support government infrastructure projects. The low level of housing starts in the US and Europe has continued to depress demand for light construction equipment. Demand for mining equipment has recovered strongly.

The industrial machinery sector includes products for material handling and a range of other applications. Demand in this sector has improved slightly in line with improving economic conditions in many markets and industries.

The Aftermarket and Service business was not impacted by the recession to the same extent as other parts of Land Systems and therefore has seen a more modest improvement in sales as markets have recovered.

The key financial results for the period are as follows:

	Q1	Q2	First half		Change	
	2010 £m	2010 £m	**2010 £m**	2009 £m	Headline £m	Underlying £m
Sales	173	186	**359**	329	30	37
Trading profit	6	13	**19**	1	18	18
Margin	*3.5%*	*7.0%*	***5.3%***	*0.3%*		

Against this background, sales in the first half were £359 million (2009: £329 million), with an improving trend throughout the period. The division reported a management trading profit of £19 million (2009: £1 million). Trading margin was 5.3%.

Good progress was made in attracting new business. Specific areas of success included integrated continuously variable drive (ICVD) business secured with JCB and Dieci for telehandlers which offer 10-15% fuel efficiency improvements, a fan clutch retrofit programme for large mining equipment delivering significant energy savings and propshaft business for the UK Warrior military upgrade programme. New integrated driveline system business, comprising nine components, was won for a new John Deere tractor.

Other Businesses

GKN's other businesses, comprise Cylinder Liners, which manufactures engine cylinder liners for the truck market in the US 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 of £41 million were £15 million higher than the first half of 2009, reflecting the recovery in automotive markets. A profit of £2 million for the period compares with a loss of £2 million in the prior year.

Other Financial Information

Corporate costs

Corporate costs, which comprise the costs of stewardship of the Group and operating charges associated with the Group's legacy businesses, were £7 million (2009: £3 million including a legacy post-employment past service credit of £1 million).

Restructuring and impairment charges

Group restructuring and impairment charges of £26 million (2009: £62 million) relate to the restructuring programme initially announced in November 2008 and updated during the course of 2009. The major elements arose within subsidiaries and represent redundancy and re-organisation costs of £24 million and short-time working costs of £2 million. Impairment charges were a net nil in the period. Further restructuring charges of around £11 million are expected in the second half as facility rationalisation and closure actions are concluded.

Profits and losses on sale or closures of businesses

In the first half of 2010 the decision was taken to exit the Axles business of the former OffHighway segment. During the period, the business incurred a trading loss of £1 million and impairment charges of £5 million. The Group is actively pursuing various exit options.

Amortisation of non-operating intangibles arising on business combinations

The charge for the amortisation of non-operating intangibles (e.g. customer contracts, relationships and order backlogs and intellectual property rights) arising on business combinations was £9 million (2009: £15 million). The decrease relates to the amortisation of short-life customer order backlog intangible assets arising from the Filton acquisition in 2009.

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 2010 and 30 June 2010, or the date of maturity if earlier, is reflected in the income statement as a component of operating profit and has resulted in a charge of £32 million (2009: £106 million credit). There was a £5 million credit arising from the change in the value of embedded derivatives in the year (2009: £27 million charge) and a credit of £23 million attributable to the translational currency impact on Group funding balances (2009: £13 million credit).

Post-tax earnings of joint ventures

The post-tax earnings of joint ventures in the period were £19 million (2009: £7 million) with trading profit of £23 million (2009: £8 million). The tax charge amounted to £4 million (2009: £1 million) with no net financing costs in either period. Underlying trading profit increased £15 million reflecting recovery in automotive markets, especially China.

Net financing costs

Net financing costs totalled £42 million (2009: £54 million) and include the non-cash charge on post-employment benefits of £18 million (2009: £23 million). The net of interest payable and interest receivable was £23 million (2009: £30 million) and arose mainly on the bonds, bank deposits and bank borrowings. The £7 million decrease in net interest payable includes the benefits from the July 2009 rights issue and subsequent bond buy-backs in December 2009 and May 2010 and a £1 million premium related to the £25 million bond buy-back completed in May 2010. Capitalised interest costs attributable to the Group's A350 investment were £2 million (2009: nil) and interest charged on government refundable advances was £1 million (2009: nil).

The non-cash charge on post-employment benefits arises as the expected return on scheme assets of £70 million (2009: £63 million) was more than offset by interest on post-employment obligations of £88 million (2009: £86 million). Details of the assumptions used in calculating post-employment costs and income are provided in note 12.

Profit/(loss) before tax

The management profit before tax was £175 million (2009 restated: loss before tax of £6 million). The profit before tax on a statutory basis was £180 million compared with a £16 million loss before tax in the first half of 2009.

Taxation

The book tax rate on management profits of subsidiaries was 14% (2009 restated: 15%), as detailed in note 8.

The Group's theoretical weighted average tax rate, which assumes that book profits/losses are tax effected at the statutory tax rates in the countries in which they arise is 33% (2009: 31%). The book tax rate is significantly lower, largely because of the recognition of substantial deferred tax assets (mainly in the US) due to increased confidence in the Group's ability to make future taxable profits to absorb brought forward tax deductions. 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 charge was 9%. In the near term, the cash tax rate is expected to continue below 20% as brought forward tax deductions are used.

The tax rate on statutory profits of subsidiaries was 9% (2009: 65%) arising as a £15 million tax charge on a statutory profit of £161 million.

Non-controlling interests

The profit attributable to non-controlling interests was £9 million (2009: loss of £1 million) reflecting the recovery in automotive markets and a £5 million impact from the pension partnership.

Earnings per share

Management earnings per share were 9.6 pence (2009 restated: (0.3) pence). On a statutory basis earnings per share were 10.0 pence (2009: nil pence). The improvement is mainly due to the higher profitability of the Group, discussed above. Average shares outstanding in 2010 were 1,552.5 million.

Dividend

In view of the improving trading environment, the Board has decided to recommence dividend payments with an interim dividend of 1.5 pence per share (2009: no interim dividend). 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 29 September 2010 to shareholders on the register at 13 August 2010. 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 15 September 2010.

Cash flow

Operating cash flow, which is defined as cash generated from operations of £197 million (2009: £92 million) adjusted for capital expenditure (net of proceeds from capital grants) of £72 million (2009: £80 million) and proceeds from the disposal/realisation of fixed assets of £3 million (2009: £33 million), was an inflow of £128 million (2009: £45 million).

Within operating cash flow there was an outflow of working capital and provisions of £45 million (2009: £59 million inflow), principally as a result of higher inventory across the Group as volumes increased.

Capital expenditure (net of proceeds from capital grants) on both tangible and intangible assets totalled £72 million (2009: £80 million), including £13 million (2009: £5 million) on the A350 programme. Of this, £64 million (2009: £72 million) was on tangible fixed assets and was 0.7 times (2009: 0.7 times) the depreciation charge. Expenditure on intangible assets, mainly initial non-recurring costs on Aerospace programmes, totalled £8 million (2009: £8 million).

Free cash flow

Free cash flow, which is operating cash flow including joint venture dividends and after interest, tax and dividends paid to non-controlling interests, was an inflow of £107 million (2009: £23 million). The year on year improvement reflects the improving profitability of the Group. Expenditure on the Group's restructuring programmes was £29 million (2009: £52 million). Net interest paid totalled £20 million (2009: £26 million) and tax paid in the year was £21 million (2009: £9 million).

Net borrowings

At the end of the period, the Group had net debt of £202 million compared with £800 million at 30 June 2009 and £300 million at 31 December 2009.

Post-employment obligations

Post-employment costs comprise both pensions and post-employment medical benefits. During the period the Group agreed with the Trustee of the UK Pension Scheme an asset-backed cash payment partnership

INTERIM MANAGEMENT REPORT CONTINUED

which will provide the Scheme with £30 million per annum for 20 years.

For the six month period, the current service cost included in operating profit was £18 million compared with £19 million in the first half of 2009. The reduction is largely in the Americas following the closure of two pension schemes to future accrual.

A curtailment gain of £69 million resulted from benefit changes introduced in the UK in April whereby accrued final salary benefits for active members were crystallised and future revaluation will be linked to RPI compared to the previous salary increase assumption of RPI + 1%.

Financing charges in respect of post-employment obligations totalled £18 million (2009: £23 million) and comprised expected returns on scheme assets for the period of £70 million (2009: £63 million) which were more than offset by the £88 million (2009: £86 million) of notional interest on scheme liabilities.

The deficit of all schemes at 30 June 2010 was £764 million, a £232 million decrease over December 2009.

The UK deficit of £215 million was £295 million lower than the December 2009 year end figure of £510 million. The reduction was mainly due to the £331 million special contribution provided as part of the partnership arrangement and the £69 million curtailment gain together with a 0.20% reduction in inflation to 3.05% (£62 million), partially offset by the 0.40% reduction in the discount rate to 5.3% (£154 million).

The deficit of overseas businesses increased by £63 million to £549 million, with £61 million of the increase as a result of reductions in discount rates for both Europe and Americas of 0.75% and 0.50%, respectively.

Normal contributions for the six months across the Group totalled £29 million (2009: £31 million).

Net assets

Net assets of £1,388 million were £416 million higher than the December 2009 year end figure of £972 million. The increase includes the £331 million impact of the pension partnership, retained profit of £165 million and currency movements of £52 million offset by actuarial changes in respect of post-employment obligations of £173 million.

Funding and liquidity

At 30 June 2010, there were £11 million of drawings against the £706 million of the Group's UK committed bank credit facilities. Committed bank facilities reduced to £356 million by the end of July 2010 as the maturing £350 million committed bank facilities were not renewed as they are not required following an assessment of current and future funding needs. After a further £25 million bond buy-back, capital market borrowings reduced to £526 million at 30 June 2010 and include unsecured issues of £176 million 7% bonds maturing in May 2012 and £350 million 6.75% bonds maturing in October 2019.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group in the remaining six months of the year have not changed since the publication of the 2009 annual report. In summary these risks include changes in macro-economic conditions, customer demand and availability of credit; customer concentration; highly competitive markets; technology advancements; supply chain disruption; 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 these risks can be found in pages 30 and 31 of the 2009 annual report.

Outlook

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

In automotive, following a strong second quarter, external forecasts for global production in 2010 have increased from 68 million vehicles to around 71 million vehicles. With the ending of a number of government incentive schemes, particularly in Western Europe, and a return to normal seasonal patterns of demand, second half global production is forecast to be around 7% lower than the first half, but remaining slightly ahead of the second half of 2009.

In aerospace, the US defence market is expected to remain solid, although the F-22 has started its production rundown. Civil aircraft production is likely to be stable throughout the balance of 2010, with customers increasing some production schedules in 2011. The Airbus A400M, Boeing 787 and 747-8 and the Joint Strike Fighter are all now moving into their production phase.

The markets for Land Systems are improving, particularly for heavy construction and mining equipment globally and agricultural equipment in North America, although demand for agricultural equipment in Europe remains soft.

GKN's Performance
Against this background, Driveline and Powder Metallurgy are expected to show strong growth in the third quarter when compared with last year benefiting from recent market share gains and positions in the European premium car segment. For the second half as a whole a small reduction in sales is expected for both these businesses when compared with the first half reflecting more normal seasonal demand patterns.

Ongoing restructuring actions in Driveline will complete around the end of the year, providing additional benefits to operating performance.

Aerospace sales are anticipated to remain similar to first half levels with increased revenue from civil aircraft programmes offsetting the continuing rundown of the F-22 military aircraft.

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

With strong order books, improving markets and the conclusion of restructuring, GKN is well placed to deliver sustainable growth and improving margins.

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 of 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 2009 Annual Report that could do so.

The Directors of GKN plc are listed in the GKN Annual Report for the year ended 31 December 2009, with the exception of the following changes: Sir Peter Williams and Sir Christopher Meyer retired as non-executive Directors on 6 May 2010 and Shonaid Jemmett-Page was appointed a non-executive Director on 1 June 2010.

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

Roy Brown
Chairman

2 August 2010

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2010

	Notes	Unaudited **First half 2010 £m**	Unaudited First half 2009 Restated £m	Full year 2009 Restated £m
	2			
Sales	1a	**2,536**	2,062	4,223
Trading profit	1b	***179***	*17*	*133*
Restructuring and impairment charges	3	***(26)***	*(62)*	*(144)*
Amortisation of non-operating intangible assets arising on business combinations		***(9)***	*(15)*	*(24)*
UK Pension scheme curtailment	12	***69***	–	–
Profits and losses on sale or closures of businesses	4	***(6)***	*(2)*	*(2)*
Change in value of derivative and other financial instruments	5	***(4)***	*93*	*76*
Operating profit		**203**	31	39
Share of post-tax earnings of joint ventures	6	**19**	7	21
Interest payable		**(25)**	(32)	(67)
Interest receivable		**2**	2	3
Other net financing charges	7	**(19)**	(24)	(50)
Net financing costs		**(42)**	(54)	(114)
Profit/(loss) before taxation		**180**	(16)	(54)
Taxation	8	**(15)**	15	15
Profit/(loss) after taxation from continuing operations		**165**	(1)	(39)
Profit after taxation from discontinued operations		**–**	5	5
Profit/(loss) after taxation for the period		**165**	4	(34)
Profit/(loss) attributable to non-controlling interests		**9**	(1)	2
Profit/(loss) attributable to equity shareholders		**156**	5	(36)
		165	4	(34)
Earnings per share – p	9			
Continuing operations – basic		**10.0**	–	(3.2)
Continuing operations – diluted		**10.0**	–	(3.2)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2010

	Notes	Unaudited **First half 2010 £m**	Unaudited First half 2009 £m	Full year 2009 £m
Profit/(loss) after taxation for the period		**165**	4	(34)
Other comprehensive income/(expense)				
Currency variations				
Subsidiaries				
Arising in period		**42**	(237)	(154)
Reclassified in period		**–**	(10)	8
Joint ventures				
Arising in period		**10**	(15)	(12)
Reclassified in period		**–**	–	(2)
Derivative financial instruments				
Transactional hedging				
Arising in period		**–**	3	2
Reclassified in period		**–**	3	5
Actuarial gains and losses on post-employment obligations				
Subsidiaries	12	**(173)**	(198)	(190)
Joint ventures		**–**	–	–
Tax on items taken directly to equity	8	**46**	1	17
		(75)	(453)	(326)
Total comprehensive income/(expense) for the period		**90**	(449)	(360)
Total comprehensive income/(expense) for the period attributable to:				
Equity shareholders		**80**	(447)	(362)
Non-controlling interests		**10**	(2)	2
		90	(449)	(360)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2010

	Notes	Share capital £m	Capital redemption reserve £m	Share premium £m	Retained earnings £m	Other reserves £m	Shareholders' equity £m	Non-controlling interests: Pension partnership £m	Non-controlling interests: Other £m	Total equity £m
At 1 January 2010		**457**	**–**	**9**	**431**	**51**	**948**	**–**	**24**	**972**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**28**	**52**	**80**	**5**	**5**	**90**
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)**
At 30 June 2010 (unaudited)		**159**	**298**	**9**	**459**	**102**	**1,027**	**336**	**25**	**1,388**
At 1 January 2009		372	–	29	290	214	905	–	23	928
Total comprehensive income/(expense) for the period		–	–	–	(193)	(254)	(447)	–	(2)	(449)
Share-based payments		–	–	–	1	–	1	–	–	1
At 30 June 2009 (unaudited)		372	–	29	98	(40)	459	–	21	480
At 1 January 2009		372	–	29	290	214	905	–	23	928
Total comprehensive income/(expense) for the year		–	–	–	(213)	(149)	(362)	–	2	(360)
Rights issue		85	–	–	–	338	423	–	–	423
Rights issue costs		–	–	(20)	–	–	(20)	–	–	(20)
Share-based payments		–	–	–	2	–	2	–	–	2
Transfers		–	–	–	352	(352)	–	–	–	–
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	(1)	(1)
At 31 December 2009		457	–	9	431	51	948	–	24	972

CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2010

	Notes	Unaudited 30 June 2010 £m	Unaudited 30 June 2009 Restated £m	31 December 2009 £m
	2			
Assets				
Non-current assets				
Goodwill		**367**	334	338
Other intangible assets		**184**	193	187
Property, plant and equipment	15	**1,622**	1,606	1,636
Investments in joint ventures		**120**	99	112
Other receivables and investments		**24**	20	24
Derivative financial instruments		**24**	17	16
Deferred tax assets		**113**	62	71
		2,454	2,331	2,384
Current assets				
Inventories		**621**	583	563
Trade and other receivables		**810**	603	644
Current tax assets		**18**	20	13
Derivative financial instruments		**9**	5	6
Other financial assets		**–**	–	20
Cash and cash equivalents		**403**	138	316
		1,861	1,349	1,562
Total assets		**4,315**	3,680	3,946
Liabilities				
Current liabilities				
Borrowings		**(65)**	(69)	(72)
Derivative financial instruments		**(26)**	(17)	(14)
Trade and other payables		**(1,067)**	(834)	(873)
Current tax liabilities		**(74)**	(106)	(79)
Provisions		**(66)**	(54)	(84)
		(1,298)	(1,080)	(1,122)
Non-current liabilities				
Borrowings		**(540)**	(869)	(564)
Derivative financial instruments		**(77)**	(49)	(51)
Deferred tax liabilities		**(57)**	(56)	(57)
Other payables		**(106)**	(71)	(97)
Provisions		**(85)**	(85)	(87)
Post-employment obligations	12	**(764)**	(990)	(996)
		(1,629)	(2,120)	(1,852)
Total liabilities		**(2,927)**	(3,200)	(2,974)
Net assets		**1,388**	480	972
Shareholders' equity				
Share capital		**159**	372	457
Capital redemption reserve		**298**	–	–
Share premium account		**9**	29	9
Retained earnings		**459**	98	431
Other reserves		**102**	(40)	51
		1,027	459	948
Non-controlling interests		**361**	21	24
Total equity		**1,388**	480	972

CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 30 JUNE 2010

	Notes	Unaudited First half 2010 £m	Unaudited First half 2009 £m	Full year 2009 £m
Cash flows from operating activities				
Cash generated from operations	14	**197**	92	288
Special contribution to the UK Pension scheme	12	**(331)**	–	–
Interest received		**3**	6	7
Interest paid		**(23)**	(32)	(68)
Tax paid		**(21)**	(9)	(15)
Dividends received from joint ventures		**21**	13	15
		(154)	70	227
Cash flows from investing activities				
Purchase of property, plant and equipment		**(66)**	(73)	(140)
Purchase of intangible assets		**(8)**	(8)	(14)
Receipt of government refundable advances		**–**	–	28
Receipts of government capital grants		**2**	1	1
Proceeds from sale and realisation of fixed assets		**3**	33	35
Acquisitions of subsidiaries (net of cash acquired)		**–**	(99)	(99)
Proceeds from sale of joint venture		**–**	–	1
Investment in joint ventures		**–**	(1)	(2)
Investment loans and capital contributions	13	**(3)**	–	(11)
		(72)	(147)	(201)
Cash flows from financing activities				
Investment in pension partnership by UK Pension scheme	12	**331**	–	–
Net proceeds from rights issue		**–**	–	403
Proceeds from borrowing facilities		**23**	137	148
Bond buy-back including buy-back premium		**(26)**	–	(131)
Repayment of other borrowings		**(10)**	(22)	(241)
Finance lease payments		**–**	(1)	(1)
Dividends paid to shareholders	11	**–**	–	–
Dividends paid to non-controlling interests		**(1)**	–	(1)
		317	114	177
Currency variations on cash and cash equivalents		**4**	(9)	(9)
Movement in cash and cash equivalents		**95**	28	194
Cash and cash equivalents at 1 January		**288**	94	94
Cash and cash equivalents at end of period	14	**383**	122	288

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 JUNE 2010

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.

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

a) Sales

FOR THE HALF YEAR ENDED 30 JUNE 2010 (unaudited)

	Automotive				
	Driveline £m	**Powder Metallurgy £m**	**Aerospace £m**	**Land Systems £m**	**Total £m**
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 HALF YEAR ENDED 30 JUNE 2009 (unaudited) – restated					
Subsidiaries	728	229	770	320	
Joint ventures	83	–	–	9	
	811	229	770	329	2,139
Other businesses					26
Management sales					2,165
Businesses sold and closed – Axles					9
Less: Joint venture sales					(112)
Income statement – sales					2,062
FOR THE YEAR ENDED 31 DECEMBER 2009 – restated					
Subsidiaries	1,628	512	1,486	569	
Joint ventures	175	–	–	24	
	1,803	512	1,486	593	4,394
Other businesses					60
Management sales					4,454
Businesses sold and closed – Axles					14
Less: Joint venture sales					(245)
Income statement – sales					4,223

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2010

1 Segmental analysis (continued)

b) Trading profit

FOR THE HALF YEAR ENDED 30 JUNE 2010 (unaudited)

	Automotive				
	Driveline £m	Powder Metallurgy £m	Aerospace £m	Land Systems £m	Total £m
EBITDA	**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 HALF YEAR ENDED 30 JUNE 2009 (unaudited) – restated					
EBITDA	8	1	106	8	
Depreciation and impairment of property, plant and equipment	(53)	(15)	(22)	(7)	
Amortisation of operating intangible assets	(2)	–	(4)	–	
Trading profit/(loss) – subsidiaries	(47)	(14)	80	1	
Trading profit/(loss) – joint ventures	11	–	(1)	–	
	(36)	(14)	79	1	30
Other businesses					(2)
Corporate and unallocated costs					(3)
Management trading profit					25
Less: Joint venture trading profit					(8)
Income statement – trading profit					17
FOR THE YEAR ENDED 31 DECEMBER 2009 – restated					
EBITDA	95	24	217	12	
Depreciation and impairment of property, plant and equipment	(107)	(30)	(41)	(15)	
Amortisation of operating intangible assets	(3)	(1)	(6)	(1)	
Trading profit/(loss) – subsidiaries	(15)	(7)	170	(4)	
Trading profit/(loss) – joint ventures	25	–	(1)	1	
	10	(7)	169	(3)	169
Other businesses					(1)
Corporate and unallocated costs					(12)
Management trading profit					156
Less: Joint venture trading profit					(23)
Income statement – trading profit					133

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

Trading profit in the first half 2010 included no individually significant items of income or expense. Trading profit in the first half 2009 included a £5 million surplus on realisation of Aerospace fixed assets and credits in respect of changes to US retiree benefit arrangements, net of expenses, as follows: Driveline £3 million, Powder Metallurgy £1 million, Aerospace £5 million and Corporate £1 million.

1 Segmental analysis (continued)

EBITDA is subsidiary trading profit before depreciation, impairment and amortisation charges included in trading profit.

Restructuring and impairment disclosures, including segmental analysis, are included in note 3.

c) Goodwill, fixed assets and working capital – subsidiaries only
FOR THE HALF YEAR ENDED 30 JUNE 2010 (unaudited)

	Automotive				
	Driveline £m	Powder Metallurgy £m	Aerospace £m	Land Systems £m	Total £m
Property, plant and equipment and operating intangible fixed 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 fixed assets	**80**	**30**	**314**	**55**	
Net investment	**1,023**	**427**	**787**	**220**	
FOR THE HALF YEAR ENDED 30 JUNE 2009 (unaudited) – restated					
Property, plant and equipment and operating intangible fixed assets	855	310	356	122	1,643
Working capital	79	71	62	74	286
Net operating assets	934	381	418	196	
Goodwill and non-operating intangible fixed assets	73	28	298	55	
Net investment	1,007	409	716	251	
FOR THE YEAR ENDED 31 DECEMBER 2009 – restated					
Property, plant and equipment and operating intangible fixed assets	870	313	374	120	1,677
Working capital	53	65	80	58	256
Net operating assets	923	378	454	178	
Goodwill and non-operating intangible fixed assets	78	28	294	56	
Net investment	1,001	406	748	234	

d) Inter segment sales

Subsidiary segmental sales gross of inter segment sales are; Driveline £1,091 million (first half 2009 restated: £747 million, full year 2009 restated: £1,669 million), Powder Metallurgy £380 million (first half 2009: £230 million, full year 2009: £515 million), Aerospace £734 million (first half 2009: £770 million, full year 2009: £1,486 million) and Land Systems £342 million (first half 2009: £321 million, full year 2009: £571 million).

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

	Unaudited		
	First half 2010 £m	First half 2009 Restated £m	Full year 2009 Restated £m
Segmental analysis – Property, plant and equipment and operating intangible fixed assets	**1,667**	1,643	1,677
Segmental analysis – Goodwill and non-operating intangible fixed assets	**479**	454	456
Goodwill	**(367)**	(334)	(338)
Other businesses	**20**	19	18
Businesses sold and closed – Axles	**2**	12	5
Corporate assets	**5**	5	5
Balance Sheet – Property, plant and equipment and other intangible assets	**1,806**	1,799	1,823

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2010

1 Segmental analysis (continued)

f) Reconciliation of segmental working capital to the Balance Sheet

	Unaudited		
	First half 2010 £m	First half 2009 Restated £m	Full year 2009 Restated £m
Segmental analysis – Working capital	**311**	286	256
Other businesses	**6**	6	5
Businesses sold and closed – Axles	**1**	4	2
Short-term joint venture financing facilities	**–**	1	1
Accrued net financing costs	**(26)**	(30)	(24)
Restructuring provisions	**(52)**	(34)	(59)
Deferred consideration	**(35)**	(32)	(31)
Government refundable advances	**(29)**	–	(28)
Investment and loan to GKN Aerospace Services Structures Corp.	**–**	–	12
Corporate items	**(45)**	(39)	(44)
Balance Sheet – Inventories, Trade and other receivables, Trade and other payables and Provisions	**131**	162	90

2 Basis of preparation

These half year condensed consolidated financial statements for the six months ended 30 June 2010 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 2009.

These financial statements do not constitute statutory accounts. A copy of the audited consolidated statutory accounts for the year ended 31 December 2009 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

i During the period the decision was taken to exit the Axles business of the former OffHighway segment. The losses of this business have been re-analysed from trading profit to profits and losses on sale or closures of businesses with no impact on operating profit, eps or the balance sheet. The impact of this restatement is as follows:

	First half 2009 (unaudited)		**Full year 2009**	
	As previously reported £m	Restated £m	As previously reported £m	Restated £m
Trading profit	15	17	129	133
Profits and losses on sale or closures of businesses	–	(2)	2	(2)
Operating profit	31	31	39	39
Adjusted performance measures				
Management profit before tax	(8)	(6)	83	87
Management profit after tax	(6)	(4)	72	75
Management basic eps – pence	(0.5)[1]	(0.3)	5.5	5.7

ii Following finalisation of the fair value adjustments in respect of the acquisition of Filton, the balance sheet as at 30 June 2009 has been restated. The impact of the restatement has been to increase other intangible assets and decrease inventories by £2 million.

iii The amendment to IAS 1 'Presentation of financial statements' clarified the classification of derivative financial instruments between current and non-current and the balance sheet at 30 June 2009 has been restated. The Group had previously classified derivative financial instruments as current, they are now classified according to their maturity profile with no impact on total assets or total liabilities.

[1] Previously reported management basic eps was (0.7) pence which is (0.5) pence as restated for the bonus issue inherent in the rights issue which was approved on 6 July 2009.

Accounting policies

The accounting policies applied in these financial statements, other than as noted below, are the same as those applied in the audited consolidated financial statements for the year ended 31 December 2009.

2 Basis of preparation (continued)

Presentation of the income statement
In consultation with the Trustee of the UK Pension scheme and scheme members during the period a number of benefit changes have been implemented. The impact of these changes was a £69 million curtailment credit. Due to the size of this credit it has been analysed as a separate component of operating profit.

Standards, revisions and amendments to standards and interpretations
As outlined in the audited consolidated financial statements for the year ended 31 December 2009, IFRS 3 (Revised) 'Business combinations', accompanied by IAS 27 (Revised) 'Consolidated and separate financial statements' were identified as likely to impact the reporting of the Group's results, assets and liabilities. These standards were adopted on 1 January 2010. During the period there has been one business combination, the fair value exercise of which is not finalised, and a purchase of a non-controlling interest. Due to the amounts involved and the status of the fair value exercise there has been no material impact on the Group's results, assets or liabilities from the adoption of these standards. In addition, following the amendment to IAS 21 'The effects of changes in foreign exchange rates' reclassification adjustments regarding intra-group funding are no longer required with effect from 1 January 2010.

As outlined in the audited consolidated financial statements for the year ended 31 December 2009 the impact of other developments is being assessed.

Estimates, judgements and assumptions
The Group's accounting policies are set out in the audited consolidated financial statements for the year ended 31 December 2009. 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 acquired non-operating intangibles – business combinations, post-employment obligations, 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, 3e, 21, 5 and 12 of the audited consolidated financial statements for the year ended 31 December 2009 as updated in notes 8 and 12 of these financial statements.

Date of approval
These financial statements were approved by the Board of Directors on Monday 2 August 2010.

3 Restructuring and impairment charges – 2008 Restructuring programme
In response to the severe economic downturn in our automotive markets and in anticipation of activity reductions in both off-highway and aerospace markets, the Group commenced further restructuring in the final quarter of 2008.

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

2008 Restructuring programme

	Unaudited		
	First half 2010 £m	First half 2009 £m	Full year 2009 £m
Goodwill impairment	**–**	–	(7)
Fixed asset impairments/reversals	**–**	–	(2)
Other asset write-downs	**–**	–	(3)
Impairments	**–**	–	(12)
Redundancy and post-employment costs	**(10)**	(38)	(86)
Short-time working costs	**(2)**	(20)	(24)
Other reorganisation costs	**(14)**	(4)	(22)
Redundancy and other costs	**(26)**	(62)	(132)
Subsidiaries	**(26)**	(62)	(144)
Joint venture impairment reversal	**–**	–	3
Subsidiaries and joint ventures	**(26)**	(62)	(141)

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2010

3 Restructuring and impairment charges – 2008 Restructuring programme (continued)

2008 Restructuring programme – analysis by segment

	First half 2010 (unaudited)				First half 2009 (unaudited)				Full year 2009
	Impairments £m	**Short-time working £m**	**Redundancy and other costs £m**	**Total £m**	Impairments £m	Short-time working £m	Redundancy and other costs £m	Total £m	Total £m
Driveline	**1**	**(2)**	**(18)**	**(19)**	–	(15)	(23)	(38)	(79)
Powder Metallurgy	**–**	**–**	**(1)**	**(1)**	–	(4)	(5)	(9)	(20)
Aerospace	**–**	**–**	**(2)**	**(2)**	–	–	(3)	(3)	(10)
Land Systems	**(1)**	**–**	**(3)**	**(4)**	–	(1)	(11)	(12)	(20)
Corporate	**–**	**–**	**–**	**–**	–	–	–	–	–
Businesses sold and closed – Axles	**–**	**–**	**–**	**–**	–	–	–	–	(12)
	–	**(2)**	**(24)**	**(26)**	–	(20)	(42)	(62)	(141)
Subsidiaries	**–**	**(2)**	**(24)**	**(26)**	–	(20)	(42)	(62)	(144)
Joint ventures	**–**	**–**	**–**	**–**	–	–	–	–	3

In Driveline, reorganisation costs of £8 million have been charged in respect of the announced UK and Japanese site rationalisation initiatives and redundancy and reorganisation charges of £6 million were made regarding headcount and capacity reduction actions in European operations. Short-time working arrangements concluded in the period with £2 million charged in European and Japanese operations. The impairment reversal arose in the UK following completion of the sale of one site. In Powder Metallurgy, a further £1 million of integration costs were charged in finalisation of the European rationalisation. In Aerospace, the closure of one facility was announced in France, with a £2 million charge made in respect of redundancy costs. Fixed asset impairments relating to this closure were charged in 2008. In Land Systems, actions initiated in the former OffHighway segment and AutoStructures and Industrial & Distribution Services businesses have continued, including rationalisation at a UK facility with associated redundancy costs of £1 million, restructuring of the European distribution network including redundancy charges of £1 million and fixed asset impairments of £1 million and reorganisation costs of £1 million associated with manufacturing concentration initiatives in North America.

Restructuring cash outflow in respect of 2008 and 2004 restructuring plans amounts to £29 million (first half 2009: £52 million) and proceeds from sale of fixed assets of £1 million were recognised in the period (first half 2009: nil).

4 Profits and losses on sale or closures of businesses

	Unaudited		
	First half 2010 £m	First half 2009 Restated £m	Full year 2009 Restated £m
Businesses sold and closed – Axles			
Trading losses	**(1)**	(2)	(4)
Tangible fixed asset impairments	**(2)**	–	–
Other asset write-downs	**(3)**	–	–
Profit on sale of joint venture	**–**	–	2
	(6)	(2)	(2)

5 Change in value of derivative and other financial instruments

	Unaudited		
	First half 2010 £m	First half 2009 £m	Full year 2009 £m
Forward exchange contracts (not hedge accounted)	**(32)**	106	106
Embedded derivatives	**5**	(27)	(29)
Commodity contracts (not hedge accounted)	**–**	1	2
	(27)	80	79
Net gains and losses on intra-group funding	**23**	13	(3)
	(4)	93	76

6 Share of post-tax earnings of joint ventures

	Unaudited		
	First half 2010 £m	First half 2009 £m	Full year 2009 £m
Sales	**174**	112	245
Operating costs and other income	**(151)**	(104)	(222)
Trading profit	**23**	8	23
Net financing costs	**–**	–	(1)
Profit before taxation	**23**	8	22
Taxation	**(4)**	(1)	(4)
Share of post-tax earnings – before impairments	**19**	7	18
Impairment reversal, including tax of nil	**–**	–	3
Share of post-tax earnings	**19**	7	21

7 Other net financing charges

	Unaudited		
	First half 2010 £m	First half 2009 £m	Full year 2009 £m
Expected return on scheme assets	**70**	63	121
Interest on post-employment obligations	**(88)**	(86)	(170)
Post-employment finance costs	**(18)**	(23)	(49)
Unwind of discounts	**(1)**	(1)	(1)
Other net financing charges	**(19)**	(24)	(50)

8 Taxation

	Unaudited		
	First half 2010 £m	First half 2009 £m	Full year 2009 £m
Analysis of tax charge in respect of statutory profits in the period			
Current tax			
Current period	**(41)**	(13)	(31)
Utilisation of previously unrecognised tax attributes	**15**	–	1
Adjustments in respect of prior periods	**–**	(1)	5
Net movement on provisions for uncertain tax positions	**1**	9	25
	(25)	(5)	–
Deferred tax	**10**	20	15
Total tax (charge)/credit for the period	**(15)**	15	15

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2010

8 Taxation (continued)

	Unaudited		
Analysed as:	**First half 2010 £m**	First half 2009 Restated £m	Full year 2009 Restated £m
Tax in respect of management profit			
Current tax	**(26)**	(6)	(1)
Deferred tax	**4**	8	(11)
	(22)	2	(12)
Tax in respect of restructuring and impairments, profits and losses on sale or closures of businesses, derivative and other financial instruments and other net financing charges (items excluded from management profit)			
Current tax	**1**	1	1
Deferred tax	**6**	12	26
	7	13	27
Tax on items included in equity			
Deferred tax on post-employment obligations	**33**	–	14
Deferred tax on non-qualifying assets	**–**	–	(1)
Deferred tax on foreign exchange gains and losses on intra-group funding	**–**	(2)	(2)
Current tax on post-employment obligations	**12**	–	–
Current tax on foreign exchange gains and losses on intra-group funding	**1**	3	6
	46	1	17

Management tax rate
The tax charge arising on management profits was £22 million (first half 2009: £2 million credit, full year 2009: £12 million charge) giving an effective tax rate of 14% (first half 2009 restated: 15%, full year 2009 restated: 17%).

Deferred tax asset recognition
There is a net £10 million deferred tax credit to the Income Statement in the period, primarily on account of the recognition of previously unrecognised future tax deductions in the US. In addition, a deferred tax credit of £33 million has been recorded directly in equity in relation to the recognition of the availability of future tax deductions for pension contributions in the US, UK and Germany. The recognition of these assets has been based on management projections which indicate the availability of taxable profits to absorb the deductions in future years. In territories where there is more uncertainty regarding the availability of a sufficient level of future taxable profits, deferred tax assets have not been recognised in full.

Pension partnership interest
Note 12 refers to an asset-backed cash payment arrangement which the Group has agreed with the Trustee of the UK Pension scheme. As a result of this arrangement, the Group will obtain UK tax deductions spread over 4 years for the £331 million initial cash pension contribution. Over the next 20 years, the Group is also expected to obtain tax deductions for the remaining £269 million of the total amount likely to be paid to the UK Pension scheme. Where there is insufficient tax capacity to utilise these two types of tax deductions as they fall due, they will be carried forward as tax losses with the potential to be used to reduce future taxable profits in the UK.

As this arrangement has been put in place to fund a pension deficit which arose partly as a result of actuarial losses, the current tax benefits for the deductions will be reflected partly in equity and partly in the Income Statement as they are utilised. Current tax benefits of £8 million (£2 million Income Statement; £6 million equity) have been recognised in the half year ended 30 June 2010 in this respect. At the half year a deferred tax asset of £18 million has been recognised on the Balance Sheet in respect of the £331 million deduction. Further deferred tax assets may become recognisable in the future. Similar to the current tax credits referred to above, the deferred tax credits for these deferred tax assets are recognised partly in equity and partly in the Income Statement.

UK Emergency budget
On 22 June 2010, the UK Government announced a number of tax measures in its emergency budget, including a phased reduction in the mainstream rate of UK corporation tax from 28% to 24% over the next four years. These measures had not been substantively enacted by 30 June 2010, so their effect is not included in the half year results. As these measures are brought into law, the expectation is that there will be a reduction in the value of potential UK deferred tax assets over the next four years, given that deferred tax is measured at the prevailing tax rate. However because, at present, a large part of the potential UK deferred tax asset is unrecognised, there is not expected to be a material impact on the tax rate.

Franked investment income – litigation
Since 2003 the Group has been involved in litigation with HMRC in respect of certain tax payments, as detailed in Note 5 to the 2009 Annual Accounts. During 2009, GKN received a £4 million payment on account from HMRC in respect of the litigation, but following a Court of Appeal judgement issued on 23 February 2010, £3 million of this payment on account was repaid to HMRC. This has had no impact on the Income Statement. A further Court of Appeal hearing to decide whether the remaining payment on account should be repaid is likely later in 2010 or early in 2011. The continuing complexity of the case and uncertainty over the issues raised mean 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.

9 Earnings per share

	Unaudited								
	First half 2010			First half 2009 - restated			Full year 2009		
	Earnings £m	**Weighted average number of shares m**	**Earnings per share pence**	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence
Continuing operations									
Basic eps	**156**	**1,552.5**	**10.0**	–	1,045.3	–	(41)	1,271.7	(3.2)
Dilutive securities	**–**	**0.4**	**–**	–	–	–	–	–	–
Diluted eps	**156**	**1,552.9**	**10.0**	–	1,045.3	–	(41)	1,271.7	(3.2)

The weighted average number of shares for the first half 2009 has been restated for the bonus issue inherent in the rights issue that was approved on 6 July 2009.

10 Adjusted performance measures

10a) Management profit before tax

	Unaudited		
	First half 2010 £m	First half 2009 Restated £m	Full year 2009 Restated £m
Management profit/(loss) before tax	**175**	(6)	87
Other net financing charges	**(19)**	(24)	(50)
Restructuring and impairment charges	**(26)**	(62)	(144)
Amortisation of non-operating intangible assets arising on business combinations	**(9)**	(15)	(24)
UK Pension scheme curtailment	**69**	–	–
Profits and losses on sale or closures of businesses	**(6)**	(2)	(2)
Change in value of derivative and other financial instruments	**(4)**	93	76
Joint venture impairment reversal	**–**	–	3
Income Statement – Profit/(loss) before tax	**180**	(16)	(54)

10b) Management earnings per share

	Unaudited		
	First half 2010 £m	First half 2009 Restated £m	Full year 2009 Restated £m
Management profit/(loss) before tax	**175**	(6)	87
Tax on management profit/(loss) before tax	**(22)**	2	(12)
Non-controlling interests – other	**(4)**	1	(2)
Management earnings	**149**	(3)	73
Management basic earnings per share – pence	**9.6**	(0.3)	5.7

Comparative adjusted performance measures have been restated following the decision to exit the Axles business of the former OffHighway segment. First half 2009 earnings per share has been further restated for the bonus issue inherent in the rights issue that was approved on 6 July 2009.

11 Dividends

An interim dividend of 1.5 pence per share has been declared by the Directors and will be paid on 29 September 2010 to shareholders on the register at 13 August 2010. Based on the number of shares ranking for dividend at 30 June 2010, the interim dividend is expected to absorb £23 million. The last dividend paid was the 2008 interim dividend of 4.5 pence per share (3.0 pence per share as restated for the bonus shares inherent in the rights issue approved on 6 July 2009).

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2010

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 2010.

Movement in post-employment obligations during the period:

	Unaudited		
	First half 2010 £m	First half 2009 £m	Full year 2009 £m
At 1 January	**(996)**	(834)	(834)
Business acquired	**–**	(20)	(20)
Current service cost	**(18)**	(19)	(34)
Curtailments/settlements			
UK Pension scheme benefit changes	**69**	–	–
Other	**–**	6	7
Past service cost	**–**	3	4
Interest/expected return on assets	**(18)**	(23)	(49)
Actuarial gains and losses	**(173)**	(198)	(190)
Special contribution	**331**	–	–
Normal contributions/benefits paid	**29**	31	68
Currency variations	**12**	64	52
At end of period	**(764)**	(990)	(996)

Post-employment obligations as at the period end comprise:

	Unaudited		
	30 June 2010 £m	30 June 2009 £m	31 December 2009 £m
Pensions - funded	**(343)**	(628)	(597)
- unfunded	**(358)**	(309)	(345)
Medical - funded	**(17)**	(11)	(13)
- unfunded	**(46)**	(42)	(41)
	(764)	(990)	(996)

	UK £m	**Americas £m**	**Europe £m**	**ROW £m**	**Total £m**
At 30 June 2010 – unaudited	**(215)**	**(189)**	**(336)**	**(24)**	**(764)**
At 30 June 2009 – unaudited	(549)	(130)	(289)	(22)	(990)
At 31 December 2009	(510)	(140)	(325)	(21)	(996)

12 Post-employment obligations (continued)

Assumptions

Actuarial assessments of all the principal defined benefit retirement plans were carried out as at 30 June 2010. The major assumptions used were:

	UK %	Americas %	Europe %	ROW %
At 30 June 2010 – unaudited				
Rate of increase in pensionable salaries	**3.05**	**3.5**	**2.50**	**3.5**
Rate of increase in payment and deferred pensions	**3.05**	**2.0**	**1.75**	**n/a**
Discount rate	**5.3**	**5.5**	**4.65**	**2.0**
Inflation assumption	**3.05**	**2.5**	**1.75**	**1.0**
Initial rate of increase in medical costs	**7.0**	**9.0**	**n/a**	**n/a**
Long term rate of increase in medical costs	**4.5**	**5.0**	**n/a**	**n/a**
At 30 June 2009 – unaudited				
Rate of increase in pensionable salaries	4.4	3.5	2.50	2.0
Rate of increase in payment and deferred pensions	3.6	2.0	1.75	n/a
Discount rate	6.2	6.8	5.90	2.3
Inflation assumption	3.4	2.5	1.75	1.0
Initial rate of increase in medical costs	6.6	9.0	n/a	n/a
Long term rate of increase in medical costs	4.5	5.0	n/a	n/a
At 31 December 2009				
Rate of increase in pensionable salaries	4.25	3.5	2.50	3.5
Rate of increase in payment and deferred pensions	3.40	2.0	1.75	n/a
Discount rate	5.70	6.0	5.40	2.0
Inflation assumption	3.25	2.5	1.75	1.0
Initial rate of increase in medical costs	7.0	9.0	n/a	n/a
Long term rate of increase in medical costs	4.5	5.0	n/a	n/a

No adjustments to mortality assumptions have been made in the period to those used as at 31 December 2009. The UK scheme assumption is based on PA92 (year of birth) tables adjusted by 2.5 years to reflect actual scheme experience and using medium cohort projections. A 1% mortality improvement would increase liabilities by £60 million. In the USA CL2010 tables are used, whilst in Germany RT2005G tables were again used.

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 2010 is set out below:

	UK £m	Americas £m	Europe £m	ROW £m
Discount rate +1%	346	46	40	n/a
Discount rate −1%	(413)	(57)	(45)	n/a
Rate of inflation +1%	(331)	–	(33)	–
Rate of inflation −1%	266	–	30	–

UK deficit funding and funding arrangement with Trustee

The last scheme specific funding valuation was as at April 2007 which revealed a deficit of £52 million. The current valuation as at April 2010 is still ongoing and Company and the Trustee are currently agreeing the most appropriate actuarial assumptions. The first deficit funding payment under the 2007 Recovery Plan of £11 million was paid in July 2010. If further payments are required the 2007 Recovery Plan requires additional payments of £11 million in July 2011 and July 2012 with any remaining balance of the £52 million due in April 2014.

Pension partnership interest

On 31 March 2010 the Group agreed an asset-backed cash payment arrangement with the Trustee of the UK Pension scheme to help address the UK pension funding deficit. In connection with the arrangement certain UK freehold properties and a non-exclusive licence over the Group's trade marks, together with associated rental and royalty rights, were transferred to a limited partnership established by the Group. The partnership is controlled by and its results are consolidated by the Group. The fair value of the assets transferred was £535 million. On 31 March 2010 the UK Pension scheme obtained a nominal limited interest in the partnership. The UK Pension scheme's nominal partnership interest allows it to a distribution from the profits of the partnership of £30 million per annum for 20 years subject to discretion exercisable by the Group. At inception the discounted value of the cash distributions was assessed at £331 million which has been recognised as a pension plan asset and as a non-controlling interest (formerly known as minority interests) in equity. The first distribution of £23 million for the period from 31 March to 31 December 2010 is expected to occur in the first half of 2011.

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2010

13 Acquisitions of subsidiaries – unaudited

GKN Aerospace Services Structures Corp. ("GASS") is an entity in which the Group has, since 2003, had a 100% share in the equity. GASS operated under a Proxy Agreement with the United States Department of Defense developing high technology, classified products for the United States Airforce. The Proxy Agreement placed significant restrictions on the Group's management and control of the business so that, in accordance with IAS 27, it was excluded from consolidation and treated as an investment. In January 2010 clearance was obtained to commence the process to remove the significant restrictions on the Group's management and control of GASS and on 1 April 2010 all significant restrictions were removed. The assumption of control by the Group has been accounted for as a business combination in accordance with IFRS 3.

The values stated below are provisional as the review of acquired assets and liabilities remains ongoing. The main area of ongoing review is the determination of customer and technology related intangible assets.

	£m
Intangible fixed assets	–
Property, plant and equipment	3
Inventories	5
Trade and other payables	(2)
Deferred tax	(3)
Provisional goodwill	12
	15
Satisfied by:	
Investment	10
Loan	5
	15

Since acquisition GASS contributed sales of £7 million and trading profit of £1 million. If the acquisition had occurred on 1 January 2010 sales and trading profit are estimated at £10 million and nil. Acquisition related expenses will be less than £1 million.

14 Cash flow notes

	Unaudited		
	First half 2010 £m	First half 2009 £m	Full year 2009 £m
Cash generated from operations			
Operating profit	**203**	31	39
Adjustments for:			
Depreciation, impairment and amortisation of fixed assets			
Charged to trading profit			
Depreciation	**96**	98	193
Impairment	**–**	–	2
Amortisation	**5**	6	11
Amortisation of non-operating intangible assets arising on business combinations	**9**	15	24
Restructuring and impairment charges	**–**	–	9
Change in value of derivative and other financial instruments	**7**	(90)	(71)
Amortisation of capital grants	**–**	(1)	(1)
Net surpluses on sale/realisation of fixed assets	**(1)**	(6)	(6)
Profits and losses on sale or closures of businesses	**2**	–	(2)
Charge for share-based payments	**1**	1	2
Movement in post-employment obligations	**(80)**	(21)	(45)
Change in inventories	**(46)**	95	133
Change in receivables	**(171)**	(27)	(36)
Change in payables and provisions	**172**	(9)	36
	197	92	288
Movement in net debt			
Net movement in cash and cash equivalents	**95**	28	194
Net movement in other borrowings	**(13)**	(115)	93
Bond buy-back	**25**	–	124
Finance leases	**–**	1	1
Currency variations	**(9)**	(6)	(4)
Subsidiaries acquired and sold	**–**	–	–
Movement in period	**98**	(92)	408
Net debt at beginning of period	**(300)**	(708)	(708)
Net debt at end of period	**(202)**	(800)	(300)
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per balance sheet	**403**	138	316
Bank overdrafts included within current liabilities – borrowings	**(20)**	(16)	(28)
Cash and cash equivalents per cash flow	**383**	122	288

15 Property, plant and equipment (unaudited)

During the six months ended 30 June 2010 the Group asset additions were £63 million (first half 2009: £55 million). Additions through business combinations were £3 million (first half 2009: £57 million). Assets with a carrying value of £2 million (first half 2009: £8 million) were disposed of during the six months ended 30 June 2010.

16 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. At 30 June 2010 £5 million was owed to a former non-controlling interest in respect of the purchase of their interest by the Group during the period.

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2010

17 Other financial information (unaudited)

Commitments relating to future capital expenditure at 30 June 2010 amounted to £92 million (30 June 2009: £97 million) and the Group's share relating to joint ventures amounted to £1 million (30 June 2009: £1 million).

Intangible fixed assets with a carrying value of £19 million were realised in the first half of 2009. No intangible fixed assets were disposed in the first half of 2010.

385,328 ordinary shares were issued out of treasury and 2,286 new ordinary shares were issued in the six months ended 30 June 2010 which generated a cash inflow of less than £1 million (first half 2009: nil). All deferred shares of 40p created on 6 July 2009 as part of the capital reorganisation were cancelled in the period and the nominal value of £298 million has been credited to capital redemption reserve.

On 28 May 2010 the Group repurchased £25 million of its 7% 2012 unsecured bond. The associated bond buy-back premium of £1 million was charged to Interest payable.

18 Contingent assets and liabilities (unaudited)

Aside from the unrecognised contingent asset referred to in note 8 there are no other material contingent assets at 30 June 2010 or 30 June 2009. At 30 June 2010 the Group had no contingent liabilities in respect of bank and other guarantees (30 June 2009: £10 million). In the case of certain businesses performance bonds and customer finance obligations have been entered into in the normal course of business.

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 2010 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, 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 2010 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 2010

Notes:
(a) The maintenance and integrity of the GKN plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Half year report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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The half year results were announced on 3 August 2010. This half year report was published on 10 August 2010.