INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GKN PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements of GKN plc (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company balance sheets;
- the consolidated cash flow statement;
- the related notes to the consolidated financial statements 1 to 30; and
- the related notes to the company financial statements 1 to 5.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: > Existence and valuation of inventory; > Presentation and disclosure of the adjustments arising from the balance sheet review in Aerospace North America; > Management override of controls; > Carrying value of goodwill, intangible and tangible assets; > Assumptions made in determining pension liabilities; and > Presentation and disclosure of non-trading items. Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ▶.
Materiality	The materiality that we used for the Group financial statements was £23.5 million. We determine materiality using profit before tax adjusted to exclude the impact of changes in valuation of derivatives and other financial instruments, impairment charges and losses arising as a result of changes in group structure as it provides us with a consistent year on year basis for determining materiality.
Scoping	We selected 55 reporting units representing 44% of the Group's revenue where we requested components auditors to perform a full scope audit of the components' financial information. We also requested component auditors to perform specified audit procedures on certain account balances and transactions at a further 48 reporting units. These units represented a further 42% of the Group's revenue. A full audit was also performed at the SDS joint venture in China, which represented 96% of the share of post-tax earnings of equity accounted investments.
Significant changes in our approach	We presented our audit plan to the Audit & Risk Committee in September 2017. As set out on page 105, below, this included a planned reduction in full scope audits and increase in focused audit procedures due to our scope being higher in 2016 as it was our first year as auditor. As a result of certain matters identified by management, reported in the trading updates issued in October and November, we refined our audit approach identifying new risks and expanding the scope of work as follows: > We extended the scope of our audit to include all of the Aerospace North American businesses which management was investigating in their balance sheet review; > We increased the minimum levels of risk we associated with inventory, accounts receivable and other payables at a number of businesses, including specifically identifying an additional key audit matter in relation to inventory existence and valuation at a number of locations; > We updated the key audit matters in relation to both management override of controls and financial presentation, with a specific focus on the reporting and disclosures of the adjustments arising from the North American Balance Sheet Review; > We performed enhanced management override procedures at all businesses in scope for group audit testing. This included extending our audit procedures in relation to journals, balance sheet reconciliations and enquiries of management; and > We reduced group materiality reflecting the lower forecast result and the anticipated adjustments arising from the North American Balance Sheet Review.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement on page 29 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

> the disclosures on pages 30-39 that describe the principal risks and explain how they are being managed or mitigated;

> the Directors' confirmation on pages 30 and 54 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or

> the Directors' explanation on page 29 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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

New key audit matters in the current year reflect changes in our risk assessment and include:

> Existence and valuation of inventory – specifically in relation to the Aerospace North American businesses which were subject to the management balance sheet review and four other businesses where we identified heightened risks of material misstatement.

> Presentation and disclosure of the adjustments arising from the North American Balance Sheet Review.

> Management override of control – which has been elevated to represent a key audit matter in 2017 given the perceived increase in risk in Aerospace North America which led to enhanced management override procedures being performed.

Key audit matters from the prior year which have not been included in the current year audit report include:

> Recoverability of material contract related assets relating to development costs and other intangibles arising from acquisitions. Aerospace programmes with material exposures have now reached a level of profitability where impairment risk is reduced.

> Revenue recognition. This has not been included because there has only been one material contract modification in the year. Whilst we audited the accounting for and effect of this modification it has not required a significant amount of audit effort.

Existence and valuation of inventory

Key audit matter description	Refer to page 26 (Strategic report) and page 68 (Audit & Risk Committee report), and note 2 (Segmental analysis). Following ongoing pricing pressure, continuing operational challenges and the impact of programme transitions, a detailed review was carried out by management in the GKN Aerospace North America Alabama plant which resulted in a £15 million charge relating principally to programme inventory balances. The subsequent balance sheet review across Aerospace North America identified inventory write-downs totalling a further £64 million. Given the nature of the adjustments identified and the quantum of the write off we identified a significant risk and key audit matter relating to the existence and valuation of inventory at these locations. As set out in note 15 to the accounts total inventories are £1.4 billion of which £523 million relates to WIP and £370 million to finished goods. Estimation is required in determining the recoverable value of inventory. As part of our risk assessment, using our programme specific knowledge at each location as well as a range of metrics including stock turn and inventory provisioning percentage, we identified inventory balances either similar in nature to those where write-downs had occurred, or sites where inventory displayed characteristics which appeared to be outliers to the divisional norm. Given the adjustments identified by management the focus of our key audit matter was inventory existence and valuation at these locations. Inventory where we identified a key audit matter in relation to either its existence or valuation totalled £363 million. In locations where we had previously considered inventory to be a higher risk, and recognising the aggregation risk with the balances identified above, we also updated our risk assessment to consider inventory valuation and existence at these sites to be significant risks.
How the scope of our audit responded to the key audit matter	Members of the group audit team visited our local component audit teams at each business where significant risks were identified in relation to inventory. We designed audit procedures which responded specifically to the local risks identified. In response to the significant risk we performed additional procedures which included: > testing of the design and implementation of key controls such as the periodic counting of inventory and review of inventory provisions; > performing detailed sample tests of inventory identified at the stock count, including focused testing on quarantined WIP, tying each sample to the relevant engineering assessment and making direct enquiries of engineers and programme managers to understand the nature of the stock and its realisable value; > evaluating the findings of the independent engineers, engaged by management to challenge the company's assessment of inventory, and the independence and competence of the external engineers, together with the scope of their work, in order to enable us to place reliance on the work of management's external engineering consultant; > performing testing of net realisable value of finished goods against subsequent sales; > performing a profitability review by programme; and > performing movement analysis on the inventory balances to understand the movement of WIP.
Key observations	From our work performed we found inventory to be fairly stated and that the inventory write downs the company recorded in the Aerospace North American sites of £79 million were materially appropriate.

Presentation and disclosure of the adjustments arising from the North American Balance Sheet Review	
Key audit matter description	Refer to page 26 (Strategic report), page 68 (Audit & Risk Committee report), note 2 (Segmental analysis). As referenced above, in the final quarter of 2017 management carried out an investigation into potential accounting adjustments in Aerospace North America. This led to the identification of £123 million of adjustments (including the £15 million charge in relation to Alabama which was reported in October 2017). Working with independent advisors, management sought to age the adjustments identified and in doing so determine which may have been reflective of circumstances that existed at 31 December 2016 and therefore merit consideration for a prior year restatement. IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, defines a prior period error as an omission from, and misstatement in, the entity's financial statements for one of more prior periods resulting from a failure to use, or misuse of, reliable information that was available when the financial statements were authorised for issue and could reasonably have expected to have been obtained and taken into account. When such a determination has been made IAS 8 requires restatement where prior period errors have a material impact on the financial statements. It distinguishes prior period errors from accounting estimates which, by their nature, may need to be revised as additional information becomes known. IAS 8 defines a material misstatement as one that could, individually, or collectively, influence the economic decisions that users make on the basis of the financial statements. The review concluded that £22 million of the adjustments constituted prior period errors under IAS 8. Management concluded that the prior period error of £22 million, considered individually or in aggregate with the range of other items which may contain both an element of error and change in estimate, were neither qualitatively or quantitatively material and a restatement of the prior year financial statements was not required. Given the complexity in the judgements taken by management, our key audit matter focused on whether the adjustments were appropriately presented and disclosed.
How the scope of our audit responded to the key audit matter	In addition to the procedures set out in relation to the inventory existence and valuation, we performed specific audit procedures to analyse the nature of the adjustments. These procedures were designed to assess whether adjustments related to estimation or error, and the availability of information to make those adjustments at the prior year end. This included: > making direct enquiries of external advisers, including those performing the conduct review and the balance sheet review; > re-performing ageing calculations and re-calculating provision levels; > testing of the completeness and accuracy of reports used to identify which inventory adjustments in 2017 related to inventory which existed in 2016; > reviewing a key contract and understanding the nature and status of negotiations with that customer to challenge the point at which it became onerous; > assessed the information available, or which could have been reasonably expected to be taken into account, at 31 December 2016; and > reviewing prior year work papers, the conduct review and our wider audit procedures to search for evidence that the prior year error was larger than £22 million. In order to determine whether the level of error was material, we reviewed management's paper and the rationale they provided for not restating the prior year financial statements. We have challenged their views and formed our own opinion, based on a number of qualitative and quantitative, factors in determining whether a restatement is required.
Key observations	Having completed our procedures, we concur with management's judgement that the impact of the identified prior year error is not material and so no restatement of previous results is required.

Management override of controls	
Key audit matter description	Refer to pages 68 and 71 (Audit & Risk Committee report). Management is in a unique position to override controls that otherwise appear to be operating effectively. In the final quarter of 2017 an investigation in to potential accounting adjustments in North America was undertaken. As set out above we identified a key audit matter relating to the carrying value of inventory and another relating to the presentation of the findings. In addition to these matters we considered whether the adjustments identified in the Aerospace North American balance sheet indicated a breakdown in the control environment in those businesses and therefore a heightened risk that controls preventing management override had not operated effectively. As a result, we identified an additional key audit matter relating to management override of controls across all businesses in our group audit scope. The Aerospace North America review management performed included an assessment of the root causes and potential failures in GKN's internal control and risk management systems which provides a base for future remediation.
How the scope of our audit responded to the key audit matter	In addition to the procedures above to respond to the inventory and presentation key audit matters, we extended our audit testing to perform enhanced management override procedures at all material in scope units. This included, but was not limited to: > understanding the overall governance and oversight process surrounding management's investigation, including the balance sheet review and conduct review; > examining the scope and results of work carried out by management's experts. We utilised an in-house forensics team to support our procedures and challenge, specifically in relation to the scope of work and performance of the conduct review; > making direct enquiries of the lawyers involved in the conduct review to understand the procedures performed in reaching their conclusion that there was no hard evidence of fraud or deliberate misconduct; > evaluating the specific changes made to the inventory provisioning approach; > using our journal interrogation tools to perform journal testing at 78 in-scope businesses by reconciling a complete population of journals and selecting those that met our specific risk criteria based on our professional judgement and scepticism; > reviewing balance sheet reconciliations related to other payables and other receivables and testing reconciling items to a lower level of materiality; > using our questionnaire to make direct enquiries of over 100 personnel at local sites to identify any potential fraud risks; and > examining the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors.
Key observations	From our work we have not identified any indicators of inappropriate management override of controls in these areas.

Carrying value of goodwill, intangible and tangible assets

Key audit matter description	Refer to page 69 (Audit & Risk Committee report), note 1 (Accounting policies and presentation), note 11c (Goodwill and other intangible assets) and note 12 (Property, plant and equipment). The Group holds goodwill of £492 million, other intangible assets of £1.2 billion and tangible assets of £2.7 billion at 31 December 2017. The Group recognised impairment charges of £131 million in 2017. IAS 36 'Impairment of assets' requires the Group to perform an annual impairment test on goodwill and indefinite lived intangibles and to perform a review for impairment of other assets where there are indicators that the carrying value of assets exceeds their recoverable value. The latter is relevant to businesses such as St. Louis which has no goodwill balance but demonstrated indicators of impairment during the year. We identified two key audit matters relating to the carrying value of assets and the annual impairment review as follows: > Management's estimate of cash flows to support the business valuation for EP West and St Louis, which we assessed to be a key audit matter as the businesses have faced operational challenges in the year and a reasonably possible change in assumptions could give rise to a material impairment; and > Identification and allocation of goodwill to cash generating units ('CGUs') within the Driveline division, where business change prompted a review of the historical CGU structure and judgements were required to be taken as to whether cash inflows continued to support the historical CGU assessment. We tested a number of other risks associated with the carrying value of goodwill but did not consider them to represent key audit matters where significant additional audit effort was applied. These included two areas which were identified as key audit matters in the prior year being the derivation of discount rates and long growth rates, and the presentation of the results of the impairment review in accordance with the requirements of IAS 36.
How the scope of our audit responded to the key audit matter	We have obtained and understood the Directors' impairment models for those CGUs where the carrying value is subject to significant management judgement. We have challenged management's key assumptions around the business drivers of the cash flow forecasts for EP West and St Louis. In evaluating the forecast cash flows presented we have: > obtained support for forecast sales growth; > agreed cost savings to detailed management plans and savings already contracted; > assessed the future margins relative to historical performance for each CGU and evaluated the risk factors in the cash flows by reference to forecasting accuracy; > compared the position set out by management to our understanding of industry factors relevant to that CGU; > challenged whether the period management have used internal cash flows forecasts for prior to the perpetuity calculation is supportable; > directed our internal valuation specialists to review the detailed impairment model to ensure it complies with the requirements of IAS 36 and is a robust mathematical valuation model including assessing the discount rates and growth rates applied; and > considered whether the value in use methodology represents the highest recoverable value and whether management's future intentions support the use of the value in use model. In determining the identification of CGUs we have made enquiries of management and challenged the fact pattern, including considering the independence of cash inflows and challenging whether each plant should represent its own CGU. We obtained support for the current level of interaction between plants within sub-segments, and therefore for the new CGU structure. We recalculated the allocation of goodwill, and other non-monetary assets, between the new CGUs and tested impairment reviews prepared by management.
Key observations	From our work performed we are satisfied with the carrying value of assets recognised and the identification of cash generating units.

Assumptions made in determining pension liabilities	
Key audit matter description	Refer to page 39 (Risk management), page 69 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 24 (Post-employment obligations). The Group has a number of defined benefit obligation schemes with a gross liability of £4.4 billion, the majority of which relates to schemes in the UK, US and Germany. We have identified a key audit matter relating to the valuation of the pension scheme liabilities in the UK, US and Germany with specific focus on management judgements exercised in selecting the discount rates used to determine the pension liability in accordance with IAS 19. A relatively small change in assumptions could cause a material impact on the liability.
How the scope of our audit responded to the key audit matter	We used our internal actuarial experts to assess the key assumptions for the UK, US and German schemes. Our assessment included reviewing yield curves to recalculate a reasonable range for the key assumptions. We challenged management to understand the sensitivity of changes in key assumptions and quantify a range of reasonable rates that could be used in their calculations. Additionally, we benchmarked key assumptions against other listed companies to identify any outliers in the data used.
Key observations	From the work performed we are satisfied that the significant assumptions applied in respect of the valuation of the scheme liabilities are appropriate and that the discount rate methodology responds to specific market conditions at 31 December 2017.

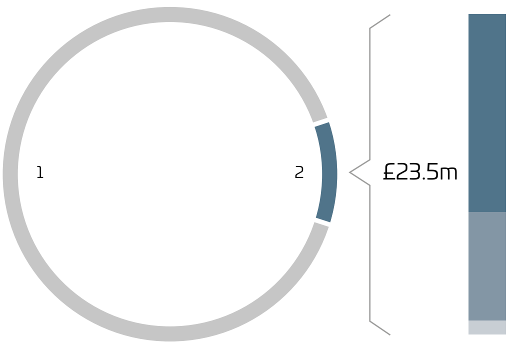
Presentation and disclosure of non-trading items	
Key audit matter description	Refer to page 69 (Audit & Risk Committee report), note 1 (Accounting policies and presentation) and note 3 (Adjusted performance measures). Trading profit, a non-statutory measure, is used by the group to report the business performance to investors and wider stakeholders. We have identified a key audit matter relating to the presentation of the financial performance of the group, including the separate identification of 'non-trading' items in arriving at the 'trading profit' measure, and the completeness of items separately identified. The non-trading items excluded from trading profit in 2017 represent a net credit of £131 million (2016: net charge of £349 million), which comprises changes in derivatives and other financial instruments, amortisation of non-operating intangible assets and impairment charges. Applying consistent principles in determining which items of profit or loss should be separately presented, or referenced in narrative, is important to avoid distorting the reported result.
How the scope of our audit responded to the key audit matter	We challenged and understood management's rationale for including certain items outside trading profit to provide appropriate disclosure in the financial statements. This was performed in the context of recent regulatory guidance, ensuring the purpose of using alternative performance measures was set out and that they were clearly defined, consistent over time and included appropriate reconciliations to statutory financial information. We assessed the completeness of items separately identified as non-trading items through an examination of costs recorded to determine whether they only related to those non-trading items defined above. We agreed the amounts recorded through to underlying financial records and other audit support to verify the amounts disclosed were complete and accurate. We focussed our review of the Group financial statements on the financial statement and narrative presentation of items which may be considered to be non-recurring in nature to determine whether principles are being consistently applied and the resulting financial presentation is true and fair. We checked whether the narrative within the financial statements is balanced and that there are no items in trading profit which are outside of the ordinary course of business and materially distort the result.
Key observations	We are satisfied that the items excluded from trading profit and the related disclosure of these items in the financial statements are in line with the accounting policy.

Our application of materiality

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

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

	Group financial statements	**Parent company financial statements**
Materiality	£23.5 million (2016: £25.0 million)	£22.3 million (2016: £22.3 million)
Basis for determining materiality	Materiality was determined as approximately 5.5% of adjusted pre-tax profit which was determined on the basis of profit before tax adjusted to exclude the impact of changes in valuation of derivatives and other financial instruments, impairment charges and losses arising as a result of changes in group structure, ("Adjusted PBT").	Materiality was based on net assets capped at the component materiality level which supports our group audit opinion to reflect aggregation risk. Net assets total £2.2 billion. Component materiality represents 1% of net assets.
Rationale for the benchmark applied	We determine materiality using Adjusted PBT as it provides us with a consistent year on year basis for determining materiality. As a public company we consider profit is most aligned to the interests of the users of the financial statements.	The entity is non-trading and its financial position comprises intercompany investments, receivables and payables, therefore net assets is considered an appropriate basis.



1 **Adjusted PBT £427 million**
2 **Group materiality**
- Group materiality £23.5 million
- Component materiality range £4 million to £9 million for trading entities and £22 million for GKN plc.
- Audit & Risk Committee reporting threshold £1 million

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £1 million (2016: £1 million) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

During the year the Group restructured to recognise three separate segments operating principally in two markets, being the aerospace and automotive markets. The three segments are:

> GKN Aerospace, mainly located in the UK, US, Sweden and the Netherlands;

> GKN Driveline, mainly located in Europe and North America as well as a material joint venture in China; and

> GKN Powder Metallurgy, mainly located in North America as well as sites in Europe and Asia Pacific.

Each division consists of a number of reporting units, and manages operations on a geographical and product basis. There are 236 reporting units in total, each of which is responsible for maintaining their own accounting records and controls and using an integrated consolidation system to report to UK head office.

Our audit was scoped using the detailed understanding of the Group we gained in the prior period as well as our understanding of operational activities in the year, commercial markets and geographies the Group operates in. We also considered the controls exercised by management at a business, divisional and group level. In the prior year we performed detailed on site audit procedures at 78 reporting units. This enabled us to gain a detailed understanding of the Group in our first year. Given the nature of the Group and its systems we continue to be of the view that high coverage is required to gain sufficient assurance to provide an opinion on the Group financial statements. In the current year, building on the information obtained in the prior year, we focused our component audit teams on testing account balances, classes of transaction and disclosures that presented risks of material misstatement in a particular business rather than performing full scope audits in all locations.

In line with our expectations for our recurring audit, from year two onwards, we performed full scope audits at a lower number of reporting units in 2017 (55) compared to 2016 (71). Together these businesses represented 44% (2016: 68%) of the Group's revenue. We requested component auditors to perform specified audit procedures on certain account balances and transactions at a further 48 (2016: 47) reporting units. These units represented a further 42% (2016: 20%) of the Group's revenue. A full audit was also performed at the SDS joint venture in China, which represented 96% (2016: 86%) of the share of post-tax earnings of equity accounted investments.

Following the identification of the accounting adjustments in Aerospace North America, we expanded our scope in the US to perform audit work at three businesses (two Aerospace, one Powder Metallurgy) which were not originally in scope. To introduce additional unpredictability into our procedures we also added two additional businesses in Driveline Europe. Given the focus of management, and their advisors, on the Aerospace North American businesses extending the coverage of group reporting to account balances, transactions and components outside of this sub-segment was deemed an appropriate response to ensure that the adjustments were limited to that market.

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

The Group engagement team visited 23 locations based on significance and/or risk characteristics, as well as on a rotational basis to ensure coverage across the Group. We follow a programme of planned visits that has been designed so that senior members of the audit team will continue to visit new sites as well as returning to the largest and most complex sites on a rotational basis or when our ongoing risk assessment identifies such a need.

The Group engagement team had on-going communication with component audit teams throughout the year. Senior members of the Group audit team were in contact, at each stage of the audit, with all component teams including holding global planning and fraud risk assessment calls on a group, divisional and reporting unit basis which provided an opportunity for component teams to discuss the detailed instructions issued by the group audit team and escalate any findings during the year.

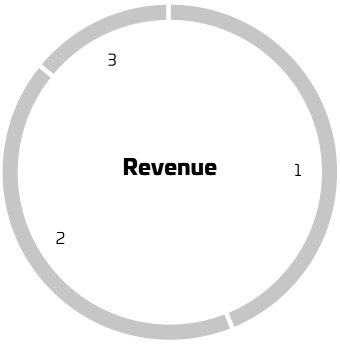
We increased this interaction during the period November 2017 to February 2018 reflecting the changing pressures in the Group including the November balance sheet review, and one call where the Audit & Risk Committee chairman provided her perspectives and addressed queries raised by local audit teams.

The group audit team participated in every audit close meeting of full scope entities, reviewed the component auditor work papers and discussed the detailed findings of the audit with the component team.

The parent company is located in Redditch and audited directly by the group audit team.

Coverage

As set out in the chart below we performed audit work on site at locations which together contributed 86% of Group revenue.



1 **Full audit scope** (44%)
2 **Specified audit procedures** (42%)
3 **Review at group level** (14%)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

> *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

> *Audit & Risk Committee reporting* – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee; or

> *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

> the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

> the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: > we have not received all the information and explanations we require for our audit; or > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or > the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were appointed at the Annual General Meeting on 5 May 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 December 2016 to 31 December 2017.

Consistency of the audit report with the additional report to the Audit & Risk Committee

Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

Ian Waller *(Senior statutory auditor)*
for and on behalf of Deloitte LLP
Statutory Auditor
London, UK
26 February 2018

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Sales	2	**9,671**	8,822
Trading profit	2,4	**568**	684
Change in value of derivative and other financial instruments	4	**364**	(154)
Amortisation of non-operating intangible assets arising on business combinations	4	**(100)**	(103)
Gains and losses on changes in Group structure	4	**(2)**	(9)
Acquisition-related restructuring charges	4	**–**	(31)
Impairment charges	4	**(131)**	(52)
Operating profit		**699**	335
Share of post-tax earnings of equity accounted investments	13	**80**	73
Interest payable		**(86)**	(86)
Interest receivable		**10**	7
Other net financing charges		**(45)**	(37)
Net financing costs	5	**(121)**	(116)
Profit before taxation		**658**	292
Taxation	6	**(149)**	(48)
Profit after taxation for the year		**509**	244
Profit attributable to non-controlling interests		**6**	2
Profit attributable to owners of the parent		**503**	242
		509	244
Earnings per share – pence	7		
Continuing operations – basic		**29.3**	14.1
Continuing operations – diluted		**29.1**	14.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Profit after taxation for the year		**509**	244
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency variations – subsidiaries			
Arising in year		**(214)**	671
Reclassified in year	4	**(3)**	2
Currency variations – equity accounted investments			
Arising in year	13	**(4)**	22
Net investment hedge changes in fair value			
Arising in year	20	**55**	(177)
Taxation	6	**3**	(14)
		(163)	504
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plans			
Subsidiaries	24	**291**	(396)
Taxation	6	**(64)**	63
		227	(333)
Other comprehensive income for the year		**64**	171
Total comprehensive income for the year		**573**	415
Total comprehensive income attributable to non-controlling interests		**4**	6
Total comprehensive income attributable to owners of the parent		**569**	409
		573	415

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Notes	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Other reserves: Exchange reserve £m	Other reserves: Hedging reserve £m	Other reserves: Other reserves £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2017		**173**	**298**	**330**	**981**	**881**	**(402)**	**(134)**	**2,127**	**35**	**2,162**
Profit for the year		**–**	**–**	**–**	**503**	**–**	**–**	**–**	**503**	**6**	**509**
Other comprehensive income/(expense):											
Remeasurement of defined benefit plans and related tax		**–**	**–**	**–**	**227**	**–**	**–**	**–**	**227**	**–**	**227**
Currency variations and related tax		**–**	**–**	**–**	**–**	**(204)**	**–**	**–**	**(204)**	**(2)**	**(206)**
Net investment hedge changes in fair value and related tax		**–**	**–**	**–**	**–**	**–**	**43**	**–**	**43**	**–**	**43**
		–	**–**	**–**	**227**	**(204)**	**43**	**–**	**66**	**(2)**	**64**
Total comprehensive income		**–**	**–**	**–**	**730**	**(204)**	**43**	**–**	**569**	**4**	**573**
Share-based payments	10	**–**	**–**	**–**	**4**	**–**	**–**	**–**	**4**	**–**	**4**
Purchase of own shares by Employee Share Ownership Plan Trust	22	**–**	**–**	**–**	**(6)**	**–**	**–**	**–**	**(6)**	**–**	**(6)**
Share options exercised	22	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Dividends paid to equity shareholders	8	**–**	**–**	**–**	**(154)**	**–**	**–**	**–**	**(154)**	**–**	**(154)**
At 31 December 2017		**173**	**298**	**330**	**1,556**	**677**	**(359)**	**(134)**	**2,541**	**39**	**2,580**
At 1 January 2016		173	298	330	1,217	243	(264)	(134)	1,863	23	1,886
Profit for the year		–	–	–	242	–	–	–	242	2	244
Other comprehensive income/(expense):											
Remeasurement of defined benefit plans and related tax		–	–	–	(333)	–	–	–	(333)	–	(333)
Currency variations and related tax		–	–	–	–	638	–	–	638	4	642
Net investment hedge changes in fair value and related tax		–	–	–	–	–	(138)	–	(138)	–	(138)
		–	–	–	(333)	638	(138)	–	167	4	171
Total comprehensive income		–	–	–	(91)	638	(138)	–	409	6	415
Share-based payments	10	–	–	–	5	–	–	–	5	–	5
Share options exercised	22	–	–	–	1	–	–	–	1	–	1
Addition of non-controlling interest	30	–	–	–	–	–	–	–	–	9	9
Purchase of non-controlling interest	30	–	–	–	(1)	–	–	–	(1)	(1)	(2)
Dividends paid to equity shareholders	8	–	–	–	(150)	–	–	–	(150)	–	(150)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(2)	(2)
At 31 December 2016		173	298	330	981	881	(402)	(134)	2,127	35	2,162

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

CONSOLIDATED BALANCE SHEET

At 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill	11	**492**	588
Other intangible assets	11	**1,179**	1,320
Property, plant and equipment	12	**2,677**	2,670
Equity accounted investments	13	**249**	233
Other receivables and investments	14	**153**	49
Derivative financial instruments	20	**37**	25
Deferred tax assets	6	**374**	557
		5,161	5,442
Current assets			
Inventories	15	**1,431**	1,431
Trade and other receivables	16	**1,748**	1,648
Current tax assets	6	**68**	7
Derivative financial instruments	20	**28**	19
Other financial assets	18	**5**	5
Cash and cash equivalents	18	**421**	411
		3,701	3,521
Total assets		**8,862**	8,963
Liabilities			
Current liabilities			
Borrowings	18	**(38)**	(64)
Derivative financial instruments	20	**(78)**	(206)
Trade and other payables	17	**(2,333)**	(2,186)
Current tax liabilities	6	**(132)**	(142)
Provisions	21	**(80)**	(71)
		(2,661)	(2,669)
Non-current liabilities			
Borrowings	18	**(1,126)**	(842)
Derivative financial instruments	20	**(248)**	(521)
Deferred tax liabilities	6	**(184)**	(227)
Trade and other payables	17	**(485)**	(427)
Provisions	21	**(74)**	(82)
Post-employment obligations	24	**(1,504)**	(2,033)
		(3,621)	(4,132)
Total liabilities		**(6,282)**	(6,801)
Net assets		**2,580**	2,162
Shareholders' equity			
Share capital	22	**173**	173
Capital redemption reserve		**298**	298
Share premium account		**330**	330
Retained earnings		**1,556**	981
Other reserves		**184**	345
Equity attributable to equity holders of the parent		**2,541**	2,127
Non-controlling interests		**39**	35
Total equity		**2,580**	2,162

The financial statements on pages 108 to 162 were approved by the Board of Directors and authorised for issue on 26 February 2018.
They were signed on its behalf by:

Anne Stevens, Jos Sclater
Directors

STRATEGIC REPORT GOVERNANCE REPORT **FINANCIAL STATEMENTS** OTHER INFORMATION

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	23	**600**	778
Interest received		**8**	7
Interest paid		**(79)**	(83)
Tax paid		**(113)**	(93)
Dividends received from equity accounted investments	13	**60**	57
		476	666
Cash flows from investing activities			
Purchase of property, plant and equipment		**(442)**	(416)
Receipt of government capital grants		**2**	6
Purchase of intangible assets		**(79)**	(84)
Repayment of government refundable advance		**(8)**	(6)
Proceeds from sale and realisation of fixed assets		**8**	37
Payment of deferred and contingent consideration		**(2)**	(1)
Acquisition of subsidiaries (net of cash acquired)	30	**(25)**	(17)
Costs associated with disposal of subsidiaries		**(2)**	–
Purchase of investment	14	**–**	(5)
Proceeds from disposal of subsidiary, net of cash	4	**6**	151
Equity accounted investments loan settlement		**–**	4
		(542)	(331)
Cash flows from financing activities			
Purchase of own shares by Employee Share Ownership Plan Trust	22	**(6)**	–
Purchase of non-controlling interests	30	**–**	(2)
Proceeds from exercise of share options	22	**1**	1
Proceeds from borrowing facilities		**302**	102
Repayment of other borrowings		**(37)**	(243)
Dividends paid to shareholders	8	**(154)**	(150)
Dividends paid to non-controlling interests		**–**	(2)
		106	(294)
Movement in cash and cash equivalents		**40**	41
Cash and cash equivalents at 1 January		**385**	291
Currency variations on cash and cash equivalents		**(13)**	53
Cash and cash equivalents at 31 December	23	**412**	385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 Accounting policies and presentation

The Group's significant accounting policies are summarised below.

Basis of preparation

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

These statements have been prepared using all standards and interpretations required for financial periods beginning 1 January 2017. No standards or interpretations have been adopted before the required implementation date.

Standards, revisions and amendments to standards and interpretations

The Group adopted all applicable amendments to standards with an effective date in 2017 with no material impact on its results, assets and liabilities. All other accounting policies have been applied consistently.

Basis of consolidation

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

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

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

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

Equity accounted investments

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

Foreign currencies

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

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

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

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

Presentation of the income statement

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

Sales shown in the income statement are those of subsidiaries.

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

> the impact of the annual goodwill impairment review. *These impairment charges can be irregular and significant in nature and as a result adjusted to enable the reader to understand the underlying business performance without the impact of these non-cash items.*

> asset impairment and restructuring charges which arise from events that are significant to any reportable segment. *Asset impairment charges can be irregular and significant in nature and therefore adjusted to enable the reader to understand the underlying business performance without the impact of these non-cash items. Restructuring charges arising as a result of acquisitions are unrelated to the performance of the Group and its continuing operations, and adjusted from management results.*

> amortisation of the fair value of non-operating intangible assets arising on business combinations. *This charge relates to the historical acquisitions, rather than the Group's performance in the year, therefore the unwind of intangibles is excluded from management trading profit.*

> changes in the fair value of derivative financial instruments and material currency translation movements arising on intra-group funding. *Gains and losses related to these items can be volatile in nature and significantly impacted by fair value movements outside management control, therefore adjusted in management results.*

1 Accounting policies and presentation continued

Presentation of the income statement continued

- gains or losses on changes in Group structure which do not meet the definition of discontinued operations or which the Group views as capital rather than revenue in nature. *These arise as a result of acquisitions and divestments and, given this, are unrelated to the trading performance of the Group, thus included as an adjusting item.*
- profits or losses arising from business combinations including fair value adjustments to pre-combination shareholdings, changes in estimates of contingent consideration made after the provisional fair value period and material expenses and charges incurred on a business combination. *Changes such as these are related to prior acquisitions and the Group adjusts for these when they first occur, therefore for consistency, any revisions to these balances would also be adjusted in management results.*
- significant pension scheme curtailments and settlements. *These are excluded given they are significant in size and irregular in nature, and often driven by factors outside the control of management, including the triennial review.*

The Group's post-tax share of equity accounted investment earnings is shown as a separate component of profit before tax. The Group's share of material restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations and other net financing charges and their related taxation are separately identified in note 4.

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

Alternative performance measures

Management use non-GAAP measures, commonly referred to as alternative performance measures (APMs), in the preparation and presentation of the financial information which are not defined or specified under the requirements of IFRS.

The Group uses management measures to provide additional useful information to assess the operating performance on a comparable basis and these are not intended to be a substitute for, or superior to, IFRS measures.

Management measures are consistent with how information is reported to the Board and enables management to chart progress, make decisions and allocate resources based on the same underlying performance of the Group, without volatility arising from significant non-trading items such as impairment charges, portfolio change transactions or change in value of derivatives and other financial instruments. These measures are also used in the setting of certain remuneration targets.

Management measures used comprise:

Management measure: management results

		2017 £m	2016 £m
Management sales are sales of subsidiaries with the Group's share of the sales of equity accounted investments (EAI).	Sales of subsidiaries	**9,671**	8,822
	Sales of EAI	**738**	592
	Management sales	**10,409**	9,414

		£m	£m
Management trading profit is trading profit (defined as operating profit excluding the impact of non-trading items, see note 3) of subsidiaries with the Group's share of the trading of EAI.	Trading profit of subsidiaries	**568**	684
	Trading profit of EAI	**94**	89
	Management trading profit	**662**	773

		£m	£m
Management profit before tax is management trading profit less net subsidiary interest payable and receivable and the Group's share of net interest payable and receivable and taxation of EAI.	Management trading profit	**662**	773
	Net subsidiary interest	**(76)**	(79)
	Group share of EAI interest	**2**	(1)
	Group share of EAI tax	**(16)**	(15)
	Management profit before tax	**572**	678

		£m	£m
Management trading margin is management trading profit expressed as a percentage of management sales.	Management sales	**10,409**	9,414
	Management trading profit	**662**	773
	Management trading margin	**6.4%**	8.2%

Management earnings per share is management profit after tax attributable to owners of the parent divided by the weighted average number of ordinary shares in issue (excluding treasury shares).

	2017 £m	2016 £m
Management profit after tax	**456**	530
Weighted average number of shares	**1,714.7**	1,712.1
Management earnings per share	**26.6p**	31.0p

These are key internal management metrics used to assess the Group as a whole including its equity accounted investments enabling full view of the overall performance.

Management measure: organic sales growth

Management sales measured both in absolute terms and on an underlying basis (excluding the effects of currency translation, acquisitions and divestments relative to the prior year). Organic sales growth is organic change as a percentage of management sales, currency impact and divestments.

	£m	£m
Group management sales	**9,414**	7,689
Currency impact	**456**	862
Divestments	**(114)**	–
	9,756	8,551
Acquisitions	**27**	654
Organic change	**626**	209
Group management sales	**10,409**	9,414
Organic sales growth	**6.4%**	2.4%

This enables readers to understand the underlying sales growth rate on a comparable basis without the effect of those items mentioned which could impact the rate of growth.

Management measure: organic trading profit growth

Management trading profit measured both in absolute terms and on an underlying basis (excluding the effects of currency translation, acquisitions and divestments relative to the prior year). Organic trading profit growth is organic change as a percentage of prior year management trading profit, currency impact and divestments. In 2017, this excludes the impact of the North American Aerospace Balance Sheet Review.

	£m	£m
Group management trading profit	**773**	679
Currency impact	**43**	89
Divestments	**(12)**	–
	804	768
Acquisitions	**3**	62
North American Aerospace Balance Sheet Review	**(112)**	–
Organic change	**(33)**	(57)
Group management trading profit	**662**	773
Organic trading profit decline	**(4.1)%**	(7.4)%

This enables readers to understand the underlying trading profit growth rate on a comparable basis without the effect of those items mentioned which could impact the rate of growth.

Management measure: operating cash flow

Cash generated from operations adjusted for capital expenditure (tangible and intangible), government capital grants, proceeds from disposal of fixed assets and government refundable advances.

	£m	£m
Cash generated from operations	**600**	778
Capital expenditure	**(521)**	(500)
Government capital grants	**2**	6
Proceeds from fixed asset disposals	**8**	37
Government refundable advances	**(8)**	(6)
Operating cash flow	**81**	315

This measure shows the cash generated by the Group following the inclusion of capital items.

1 Accounting policies and presentation continued

Alternative performance measures continued

Management measure: free cash flow

Operating cash flow including interest, tax, equity accounted investment dividends, special pension payments and amounts paid to non-controlling interests, but excluding dividends paid to GKN shareholders.

	2017 £m	2016 £m
Operating cash flow	**81**	315
Dividends from EAI	**60**	57
Interest	**(71)**	(76)
Tax	**(113)**	(93)
Special pension repayment	**250**	–
Dividends paid to NCI	**–**	(2)
Free cash flow	**207**	201

This measure shows the cash generated and retained by the Group in the year available for distribution to shareholders.

Management measure: management operating cash flow

Operating cash flow adjusted for pension deficit funding and cash flows associated with restructuring charges excluded from management trading profit.

	£m	£m
Operating cash flow	**81**	315
Pension deficit funding	**292**	57
Acquisition-related restructuring	**13**	16
Portfolio change restructuring	**11**	–
Management operating cash flow	**397**	388

This measure allows clarity of operating cash flow excluding the impact of large one-off items in the year.

Management measure: return on average invested capital (ROIC)

Management trading profit as a percentage of average total net assets, which is defined as the net assets of the Group excluding post-employment obligations, tax, borrowings and derivatives throughout the year.

	£m	£m
Management trading profit	**662**	773
Average invested capital	**5,076**	4,823
ROIC	**13.0%**	16.0%

This allows ROIC to be calculated on the operating assets of the business within the control of management.

Management measure: impact of the North American Balance Sheet Review

Given the significance of the £112 million charge booked as a result of the North American Balance Sheet Review, certain management measures have been included to avoid possible distortion of prior year comparisons. The additional 2017 measures are noted below.

	2017 £m
Management trading profit (as adjusted for £112 million)	**774**
Management profit before tax (as adjusted for £112 million)	**684**
Management earnings per share (as adjusted for the after tax effect of the £112 million)	**31.7p**
Aerospace organic trading profit decline (as adjusted for £108 million)	**(20.5)%**

Revenue recognition

Sales

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

Sales of product

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

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

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

Risk and revenue sharing partnerships (RRSPs)

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

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

Design and build

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

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

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

Property, plant and equipment

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

Cost

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

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

Depreciation

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

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

The range of depreciation lives are:

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

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

1 Accounting policies and presentation continued

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

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

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

Other financial assets and liabilities, including short-term receivables and payables, are initially recognised at fair value and subsequently measured at amortised cost less any impairment provision unless the impact of the time value of money is not considered to be material.

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

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

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

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

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

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

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

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

Development costs
Where development expenditure results in a new or substantially improved product or process and it is probable that this expenditure will be recovered, it is capitalised. Cost comprises development expenditure and borrowing costs on qualifying assets or fair value on initial recognition when as a result of a business combination.

Participation fees
Payments made to engine manufacturers and original equipment manufacturers for participation fees relating to risk and revenue sharing partnerships and long-term agreements, are carried forward in intangible assets to the extent that they can be recovered from future sales.

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

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

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

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

Assets acquired on business combinations – non-operating intangible assets

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

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

Inventories

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

Taxation

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

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

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

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

Pensions and post-employment benefits

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

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

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

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

Government refundable advances

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

Share-based payments

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

Provisions

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

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

1 Accounting policies and presentation continued

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

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

> IFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018).

> IFRS 9 'Financial Instruments' (effective from 1 January 2018).

> IFRS 16 'Leases' (effective from 1 January 2019).

These standards and other revisions to standards and interpretations which have an implementation date in 2018 or thereafter are being assessed.

IFRS 15

The Group will adopt IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) for the year ending 31 December 2018 which changes the way that revenue is recognised and expands disclosure for revenue arrangements with customers. The current intention is to adopt this standard using the modified retrospective approach.

Following disclosures in the 2016 Annual Report and Accounts, significant progress has been made during the year on the Group project which has included: developing policies; engaging external advisers; benchmarking initial findings against market announcements; and running focus groups for the Aerospace and Automotive businesses to inform transition considerations with significant involvement from commercial teams. The largest effort has been on reviewing a significant number of contracts and evaluating the implications of transition to IFRS 15. The contracts subject to review have been targeted based on: output from the impact assessment work to cover specific risk factors; complexity of business models in each division; and ensuring that major customers and geographies have been included.

Nothing significant has come from the incremental work that changes the initial views previously communicated and the majority of more complex areas under the new standard continue to be within the Aerospace business. While the timing of revenue recognition will change, there will be no impact on either timing or quantum of cash flows.

The Group's Executive Committee and Audit Committee have been appraised on the implications of IFRS 15 and the wider organisation has been provided with appropriate training to ensure changes are embedded in normal business activity.

Based on the work completed to date, it is expected that the key financial impacts will be the following. All of these are expected to be within Aerospace, with participation fees also impacting Driveline.

> **Non-recurring prices**
In certain contracts the 'non-recurring' price, which explicitly compensates the Group for specific aspects of a work package (e.g. engineering design and development or capital expenditure), is recovered over a specific number of products. This recovery period is often established using expected volumes or milestones at the time of negotiating a framework agreement. However, similar to the price-down scenario noted below, IFRS 15 considers there to be a 'material right' for the customer where they are able to buy future units at a reduced price. Where there is a single performance obligation for delivery of product and the recovery period of incremental pricing does not match the life of the programme, material rights have been assessed.

> **Over time recognition of revenue**
Under IFRS 15, it should be assessed whether revenue is recognised at a point in time or over time depending on the contract terms. The vast majority of the Group's revenue will continue to be recognised at the point in time when control has passed, however on specific contracts within Aerospace there is a legal right to compensation for work completed where there is no alternative use for the customer's asset. In these instances revenue would be recognised over time.

> **Material rights to price downs**
Contractual price downs have been identified in a number of contracts and under the new standard the value of any 'material right' for the customer needs to be recognised over the life of the contract on all relevant products sold. IFRS 15 takes a view that where products sold are substantially the same, a relatively consistent allocation of revenue will apply. Where such price-downs are relevant, they will have the impact of deferring some early invoiced revenue to later units sold. For the majority of such arrangements in the Group, price downs are not considered material.

> **Participation fees**
Under IFRS 15 the amortisation of participation fees will need to be recorded as a reduction of revenue over the life of the contract to which it relates. This is a change to current accounting as previously these have been amortised through cost of sales.

> **Risk and Revenue Sharing Partnership ('RRSP') contracts**
While RRSP contracts only affect a small number of businesses in the Group, exclusively in the Aerospace division, the implication of the new accounting standard is likely to be most significant on these revenues.

Due to the nature of RRSP contracts, original equipment 'OE' products sold to engine manufacturers are deeply discounted with more favourable pricing in the aftermarket phase. Where the Group has a contractual right to aftermarket revenue, IFRS 15 requires that the revenue for the contract be allocated to the performance conditions based on their stand-alone selling price and be recognised as control is transferred for the performance obligations. This will result in increased margins recognised during the OE phase of contracts through recognition of contract assets (i.e. unbilled receivables) on the balance sheet. However, revenue allocated to the performance obligations will only be recognised to the point it is probable that there will not be a significant reversal of revenue in the future.

> **Timing of recognition**
Under IFRS 15, revenue should be recognised when control passes rather than the point of transfer for risks and rewards of ownership. This change will not affect the majority of the Group's sales; however, due to specific arrangements under risk and revenue sharing partnerships it will likely impact certain of those contracts. This change will move the recognition point earlier to despatch from GKN or acceptance at the customer rather than sale of the engine or aeroplane.

IFRS 9

The Group will adopt IFRS 9 'Financial Instruments' (IFRS 9) for the year ending 31 December 2018 which introduces changes to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. Conclusions from the impact assessment show that there will not be a material financial change following the adoption of IFRS 9.

The Group has net investment hedges in place as at 31 December 2017 which are not impacted by the adoption of IFRS 9, and the classification and measurement changes have an immaterial impact on the financial assets and liabilities held. From an impairment perspective, the Group continues to trade with large original equipment manufacturers (OEMs) around the world with stable credit ratings and a strong payment history, and as a result does not expect a material change when applying the expected credit loss model under IFRS 9.

IFRS 16

The Group will adopt IFRS 16 'Leases' (IFRS 16) for the year ending 31 December 2019 which removes the classification of leases as either operating or finance, and replaces it with one model for all leasing arrangements. Lessees will be required to recognise lease assets and lease liabilities on the balance sheet and show depreciation of assets and interest on liabilities separately within the income statement. IFRS 16 will require the Group to recognise the current operating lease portfolio on the balance sheet where relevant. The financial implications of this are currently being assessed and a further update will be provided when conclusions have been reached.

Significant judgements and key estimates

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

The judgements and estimates that have the most significant effect on the amounts included in the financial statements are described below.

Significant judgements

- Following the North American Balance Sheet Review, a judgement has been taken regarding the presentation and disclosure of the charges identified. No adjustment will be made to the 2016 financial statements. The total value of the adjustment related to prior periods is £22 million, which is not considered to be material and this has been discussed in more detail on page 26.
- The decision taken on which management measures will be included within the annual report and financial statements and the adjustments made to derive those management measures (note 1).

Key estimates

- Assumptions made in the value in use calculations in the AWD eDrive model comprising the pre-tax discount rates, cash flow projections and the long-term growth rates. Estimation was also used in relation to cash flow forecasts in certain Aerospace businesses specifically the reduction of the number of years used prior to the perpetuity calculation (note 11).
- Actuarial assumptions in relation to the defined benefit plans, in particular the discount rates, inflation rates and life expectancies (note 24).

The Group has considered that in the majority of cases the range of possible outcomes within provisions and the potential change from using alternative sources within derivatives and other financial instruments to be narrow, therefore no longer consider these as significant judgements and key estimates.

2 Segmental analysis

The Group's reportable segments in 2017 have been determined based on reports reviewed by the Executive Committee led by the Chief Executive. The operating activities of the Group are largely structured according to the markets served; aerospace and automotive markets. Automotive is managed according to product groups; driveline and powder metallurgy. Reportable segments derive their sales from the manufacture of products and sale of service. Revenue from royalties is not significant.

(a) Sales

		Automotive		
	Aerospace £m	Driveline £m	Powder Metallurgy £m	Total £m
2017				
Subsidiaries	**3,556**	**4,652**	**1,174**	
Equity accounted investments	**82**	**656**	**–**	
	3,638	**5,308**	**1,174**	**10,120**
Other businesses				**289**
Management sales				**10,409**
Less: equity accounted investments sales				**(738)**
Income statement – sales				**9,671**
2016 – restated*				
Subsidiaries	3,352	4,109	1,032	
Equity accounted investments	71	505	–	
	3,423	4,614	1,032	9,069
Other businesses				345
Management sales				9,414
Less: equity accounted investments sales				(592)
Income statement – sales				8,822

Subsidiary sales comprise £9,016 million (2016: £8,281 million) from the manufacture of product and £655 million (2016: £541 million) from the sale of services.

*As previously announced, following disposal of its Stromag business on 30 December 2016 the Group changed its segments to remove Land Systems for reporting in 2017. The two businesses remaining in the Group that were part of Land Systems have been reported as follows: Wheels & Structures in Other Businesses, and Driveshafts and Aftermarket Services, now renamed Off-Highway Powertrain, in Driveline. For the purpose of comparative information in 2016, Stromag has been included in Other Businesses. There is no change to Aerospace or Powder Metallurgy segmental reporting.

(b) Trading profit

	Aerospace £m	Automotive Driveline £m	Automotive Powder Metallurgy £m	Total £m
2017				
Trading profit before depreciation and amortisation	**330**	**445**	**176**	
Depreciation of property, plant and equipment	**(92)**	**(151)**	**(49)**	
Amortisation of operating intangible assets	**(61)**	**(13)**	**(2)**	
Trading profit – subsidiaries	**177**	**281**	**125**	
Trading (loss)/profit – equity accounted investments	**(2)**	**96**	**–**	
	175	**377**	**125**	**677**
Other businesses				**16**
Corporate and unallocated costs				**(31)**
Management trading profit				**662**
Less: equity accounted investments trading profit				**(94)**
Income statement – trading profit				**568**

During the year, the Group has recorded net charges in the trading profit of Aerospace amounting to £119 million which are set out below.

The results of the overall North American Balance Sheet Review (£108 million) and the initial inventory and other asset write-downs at the Alabama plant (£15 million) total £123 million. This combined charge contains inventory write-downs of £79 million, charges for onerous contracts of £18 million, re-assessment of customer recoveries and claims of £19 million and corrections to fixed asset carrying values of £7 million.

Additionally, the Aerospace trading profit has absorbed the impact of costs of £28 million associated with performance-related claims arising from a risk and revenue sharing partnership within the Engine Systems business. In the year, credits amounting to £32 million arose from programme pricing adjustments; £19 million in the North American Aerostructures business and £13 million in the Engine Systems business.

As highlighted in our Trading Update in November 2017, the Driveline trading profit has borne estimated product warranty charges amounting to £10 million.

Professional fees associated with the North American Balance Sheet Review, £4 million, are charged in corporate and unallocated costs.

	Aerospace £m	Automotive Driveline £m	Automotive Powder Metallurgy £m	Total £m
2016 – restated*				
Trading profit before depreciation and amortisation	464	388	164	
Depreciation of property, plant and equipment	(78)	(128)	(44)	
Amortisation of operating intangible assets	(51)	(12)	(2)	
Trading profit – subsidiaries	335	248	118	
Trading profit – equity accounted investments	4	82	–	
	339	330	118	787
Other businesses				7
Corporate and unallocated costs				(21)
Management trading profit				773
Less: equity accounted investments trading profit				(89)
Income statement – trading profit				684

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

During the year ended 31 December 2016, the Group recorded a charge of £39 million in trading profit in respect of a Group-wide restructuring programme. The charge arose in: Aerospace £10 million, Driveline £22 million, Powder Metallurgy £3 million, Other Businesses £2 million and Corporate costs £2 million.

*Restated for the change noted in the segmental information, see note 2(a).

2 Segmental analysis continued

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

		Automotive		
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	Total £m
2017				
Property, plant and equipment and operating intangible assets	**1,264**	**1,472**	**491**	**3,227**
Working capital	**275**	**93**	**123**	**491**
Net operating assets	**1,539**	**1,565**	**614**	
Goodwill and non-operating intangible assets	**689**	**278**	**48**	
Net investment	**2,228**	**1,843**	**662**	
2016 – restated*				
Property, plant and equipment and operating intangible assets	1,373	1,406	475	3,254
Working capital	319	68	131	518
Net operating assets	1,692	1,474	606	
Goodwill and non-operating intangible assets	868	309	39	
Net investment	2,560	1,783	645	

*Restated for the change noted in the segmental information, see note 2(a).

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

		Automotive			
	GKN Aerospace £m	GKN Driveline £m	GKN Powder Metallurgy £m	Other £m	Total £m
2017					
Fixed asset additions					
– property, plant and equipment	**126**	**245**	**74**	**17**	**462**
– intangible assets	**53**	**25**	**1**	**–**	**79**
Equity accounted investments	**21**	**224**	**–**	**4**	**249**
Other non-cash items					
– share-based payments	**1**	**1**	**1**	**1**	**4**
– impairment charges	**131**	**–**	**–**	**–**	**131**
– amortisation of non-operating intangible assets arising on business combinations	**85**	**13**	**2**	**–**	**100**
2016 – restated*					
Fixed asset additions					
– property, plant and equipment	126	214	63	15	418
– intangible assets	56	31	2	–	89
Equity accounted investments	21	208	–	4	233
Other non-cash items					
– share-based payments	1	1	1	2	5
– impairment charges	47	–	–	5	52
– amortisation of non-operating intangible assets arising on business combinations	81	13	–	9	103

*Restated for the change noted in the segmental information, see note 2(a).

(e) Country analysis

	UK £m	USA £m	Germany £m	Other countries £m	Total non-UK £m	Total £m
2017						
Management sales by origin	**1,076**	**3,015**	**1,036**	**5,282**	**9,333**	**10,409**
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	**429**	**1,011**	**371**	**2,786**	**4,168**	**4,597**
2016						
Management sales by origin	1,047	2,840	984	4,543	8,367	9,414
Goodwill, other intangible assets, property, plant and equipment and equity accounted investments	447	1,193	369	2,802	4,364	4,811

(f) Other sales information

Subsidiary segmental sales gross of inter segment sales are: GKN Aerospace £3,557 million (2016: £3,352 million), GKN Driveline* £4,684 million (2016: £4,140 million) and GKN Powder Metallurgy £1,180 million (2016: £1,036 million). Inter segment transactions take place on an arm's-length basis using normal terms of business.

In 2017 and 2016, no customer accounted for 10% or more of subsidiary sales or management sales.

Management sales by product line are: GKN Aerospace – aerostructures 49% (2016: 50%), engine components and sub-systems 37% (2016: 36%), wiring and special products 9% (2016: 9%) and services 5% (2016: 5%). GKN Driveline* – CVJ systems 60% (2016: 56%), all-wheel drive and eDrive systems 32% (2016: 35%) and other goods 8% (2016: 9%). GKN Powder Metallurgy – sintered components 83% (2016: 85%) and metal powders 17% (2016: 15%).

*Restated for the change noted in the segmental information, see note 2(a).

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

	2017 £m	2016 restated* £m
Segmental analysis – property, plant and equipment and operating intangible assets	**3,227**	3,254
Segmental analysis – goodwill and non-operating intangible assets	**1,015**	1,216
Goodwill	**(492)**	(588)
Other businesses	**98**	99
Corporate assets	**8**	9
Balance sheet – property, plant and equipment and other intangible assets	**3,856**	3,990

*Restated for the change noted in the segmental information, see note 2(a).

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

	2017 £m	2016 restated* £m
Segmental analysis – working capital	**491**	518
Other businesses	**15**	13
Corporate items	**(16)**	(22)
Accrued interest	**(31)**	(25)
Restructuring provisions	**(3)**	(10)
Equity accounted investment funding	**(8)**	(10)
Deferred and contingent consideration	**(4)**	(6)
Government refundable advances	**(84)**	(96)
Balance sheet – inventories, trade and other receivables, trade and other payables and provisions	**360**	362

*Restated for the change noted in the segmental information, see note 2(a).

3 Adjusted performance measures

(a) Reconciliation of reported and management performance measures

	2017			
	As reported £m	Equity accounted investments £m	Adjusting and non-trading items £m	Management basis £m
Sales	**9,671**	**738**	**–**	**10,409**
Trading profit	**568**	**94**	**–**	**662**
Change in value of derivative and other financial instruments	**364**	**–**	**(364)**	**–**
Amortisation of non-operating intangible assets arising on business combinations	**(100)**	**–**	**100**	**–**
Gains and losses on changes in Group structure	**(2)**	**–**	**2**	**–**
Acquisition-related restructuring charges	**–**	**–**	**–**	**–**
Impairment charges	**(131)**	**–**	**131**	**–**
Operating profit	**699**	**94**	**(131)**	**662**
Share of post-tax earnings of equity accounted investments	**80**	**(94)**	**–**	**(14)**
Interest payable	**(86)**	**–**	**–**	**(86)**
Interest receivable	**10**	**–**	**–**	**10**
Other net financing charges	**(45)**	**–**	**45**	**–**
Net financing costs	**(121)**	**–**	**45**	**(76)**
Profit before taxation	**658**	**–**	**(86)**	**572**
Taxation	**(149)**	**–**	**39**	**(110)**
Profit after tax for the year	**509**	**–**	**(47)**	**462**
Profit attributable to non-controlling interests	**(6)**	**–**	**–**	**(6)**
Profit attributable to owners of the parent	**503**	**–**	**(47)**	**456**
Earnings per share – pence	**29.3**	**–**	**(2.7)**	**26.6**

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

Basic and management earnings per share use a weighted average number of shares of 1,714.7 million (2016: 1,712.1 million). Also see note 7.

(b) Summary of management performance measures by segment

	2017			2016 – restated*		
	Sales £m	**Trading profit £m**	**Margin**	Sales £m	Trading profit £m	Margin
GKN Aerospace	**3,638**	**175**	**4.8%**	3,423	339	9.9%
GKN Driveline	**5,308**	**377**	**7.1%**	4,614	330	7.2%
GKN Powder Metallurgy	**1,174**	**125**	**10.6%**	1,032	118	11.4%
Other businesses	**289**	**16**		345	7	
Corporate and unallocated costs	**–**	**(31)**		–	(21)	
	10,409	**662**	**6.4%**	9,414	773	8.2%

*Restated for the change noted in the segmental information, see note 2.

4 Operating profit

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

(a) Trading profit

	2017 £m	2016 £m
Sales by subsidiaries	**9,671**	8,822
Operating costs		
Change in stocks of finished goods and work in progress	**33**	68
Raw materials and consumables	**(4,398)**	(3,850)
Inventories recognised as an expense	**(4,365)**	(3,782)
Staff costs (note 9)	**(2,457)**	(2,309)
Redundancy and other employee-related amounts	**(1)**	(43)
Depreciation of property, plant and equipment	**(302)**	(263)
Amortisation of operating intangible assets	**(78)**	(67)
Operating lease rentals payable	**(75)**	(68)
Impairment of trade receivables	**(6)**	(5)
Amortisation of government capital grants	**2**	2
Net exchange differences on foreign currency transactions	**(50)**	(25)
Other costs	**(1,771)**	(1,578)
	(9,103)	(8,138)
Trading profit	**568**	684

(i) EBITDA is subsidiary trading profit before depreciation and amortisation charges included in trading profit. EBITDA was £948 million (2016: £1,014 million).
(ii) Research and development expenditure in subsidiaries was £201 million (2016: £186 million), net of customer and grant funding of £61 million (2016: £59 million).

4 Operating profit continued

(a) Trading profit continued

Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	2017 £m	2016 £m
Fees payable to the Group's auditors for the audit of the parent company	**(0.4)**	(0.4)
Fees payable to the Group's auditors and their associates for other services to the Group:		
– Audit of the financial statements of subsidiaries	**(6.9)**	(4.5)
Total audit fees payable to the Group's auditors	**(7.3)**	(4.9)
– Audit-related assurance services	**(0.8)**	(0.2)
Total fees for other services	**(0.8)**	(0.2)
Total fees payable to the Group's auditors and their associates	**(8.1)**	(5.1)

All fees payable to the Group's auditors include amounts in respect of expenses. All fees payable to the Group's auditors have been charged to the income statement.

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

	2017 £m	2016 £m
Forward currency contracts (not hedge accounted)	**364**	(135)
Embedded derivatives	**(6)**	4
	358	(131)
Net gains and losses on intra-group funding		
Arising in year	**6**	(23)
	364	(154)

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

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

	2017 £m	2016 £m
Marketing-related	**(3)**	(4)
Customer-related	**(71)**	(67)
Technology-based	**(26)**	(32)
	(100)	(103)

(d) Gains and losses on changes in Group structure

	2017 £m	2016 £m
Business disposed	**2**	9
Business closures	**(4)**	(18)
	(2)	(9)

On 29 December 2017, the Group sold its GKN Applied Composites AB business for a cash consideration of £7 million before professional fees. The profit on sale of £3 million comprises profit on disposal of net assets including £2 million cash, with no impact from reclassification of previous currency variations from other reserves.

On 14 August 2017, the Group sold its GKN Aerospace Bandy Machining, Inc. business for a cash consideration of £1 million before professional fees. The loss on sale of £1 million comprises £5 million loss on disposal of net assets and £3 million gain from reclassification of previous currency from other reserves.

On 30 December 2016, the Group sold its Stromag business (part of the Land Systems division) to Altra Industrial Motion Corp. for cash consideration of £159 million excluding an overdraft disposed of £7 million and before professional and completion fees (£1 million). The profit on sale of £9 million comprises an £11 million profit on disposal of net assets and £2 million loss from reclassification of previous currency variations from other reserves.

On 17 November 2016, the Group confirmed the closure of its Aerospace business in Yeovil. The company previously had a contract to make airframes for the Royal Navy AW159 Wild Cat helicopters, but its main customer which assembles the helicopters announced that it was taking this contract in-house. The site closure has resulted in a further charge in 2017 of £4 million comprising: transition costs of £2 million and other associated costs of £2 million. In 2016, a reorganisation charge of £12 million was recorded, comprising: redundancy of £4 million; impairment of property, plant and equipment of £4 million; write down of inventories of £2 million; and other associated costs of £2 million. Cash flows in 2017 amounted to £7 million. There was a further decision in 2016 to curtail operations of a Driveline business with an associated reorganisation charge of £6 million comprising redundancy of £4 million and impairment of goodwill of £2 million. Redundancy cash flows in 2017 amounted to £4 million.

(e) Acquisition-related restructuring charges

	2017 £m	2016 £m
Redundancy and other employee-related amounts	**–**	(27)
Integration and other expenses	**–**	(4)
Restructuring charges	**–**	(31)

In 2016, restructuring charges, separately identified, relate to the acquisition of Fokker Technologies Group B.V. business within Aerospace in 2015. The cash flows related to this totalled £13 million in 2017.

(f) Impairment charges

	2017 £m	2016 £m
Goodwill (note 11a)	**(72)**	(38)
Other intangible assets (note 11b)	**(2)**	–
Property, plant and equipment (note 12)	**(57)**	(14)
	(131)	(52)

5 Net financing costs

	2017 £m	2016 £m
(a) Interest payable and fee expense		
Short-term bank and other borrowings	**(13)**	(12)
Interest on debt repayable within five years	**(61)**	(41)
Interest on debt repayable after five years	**(6)**	(27)
Government refundable advances	**(6)**	(6)
	(86)	(86)
Interest receivable		
Short-term investments, loans and deposits	**4**	7
Tax case interest recoveries (see note 6)	**6**	–
	10	7
Net interest payable and receivable	**(76)**	(79)

Short-term bank and other borrowings includes a finance cost of £7 million (2016: £5 million) for factoring and customer supply chain finance programmes detailed in note 19(g).

	2017 £m	2016 £m
(b) Other net financing charges		
Interest charge on net defined benefit plans	**(47)**	(53)
Fair value changes on cross currency interest rate swaps	**4**	18
Unwind of discounts	**(2)**	(2)
	(45)	(37)

6 Taxation

(a) Tax expense

Analysis of charge in year	2017 £m	2016 £m
Current tax (charge)/credit		
Current year charge	**(113)**	(67)
Utilisation of previously unrecognised tax losses and other assets	**–**	1
Net movement on provisions for uncertain tax positions	**30**	9
Adjustments in respect of prior years	**–**	9
	(83)	(48)
Deferred tax (charge)/credit		
Origination and reversal of temporary differences	**52**	–
Tax on change in value of derivative financial instruments	**(79)**	14
Other changes in unrecognised deferred tax assets	**(51)**	(3)
Adjustments in respect of prior years	**12**	(11)
	(66)	–
Total tax charge for the year	**(149)**	(48)

Analysed as:

	2017 £m	2016 £m
Tax in respect of management profit		
Current tax	**(72)**	(40)
Deferred tax	**(38)**	(104)
	(110)	(144)
Tax in respect of items excluded from management profit		
Current tax	**(11)**	(8)
Deferred tax	**(28)**	104
	(39)	96
Total for tax charge for the year	**(149)**	(48)

Book tax rate

The net movement on provisions for uncertain tax positions of £30 million principally follows successful resolution of disputes in Italy and a release of the provision created in 2015 against the use of previously unrecognised tax losses, partially offset by an increase in provisions for issues currently being audited by the tax authorities.

Management tax rate

The tax charge arising on management profit before tax less the share of post tax earnings of EAI of £492 million (2016: £605 million) was £110 million (2016: £144 million) giving an effective tax rate of 22% (2016: 24%).

Judgements and estimates

The Group operates in many jurisdictions and is subject to tax audits which are often complex and can take several years to conclude. Therefore, the accrual for current tax includes provisions for uncertain tax positions of £121 million which require estimates for each matter and the exercise of judgement in respect of the interpretation of tax laws and the likelihood of challenge to historical tax positions. Management uses in-house tax experts, professional advisers and previous experience when assessing tax risks. Where appropriate, estimates of interest and penalties are included in these provisions. As amounts provided for in any year could differ from eventual tax liabilities, subsequent adjustments which have a material impact on the Group's tax rate and/or cash tax payments may arise. Tax payments comprise payments on account and payments on the final resolution of open items and, as a result, there can be substantial differences between the charge in the income statement and cash tax payments. Where companies utilise brought forward tax losses such that little or no tax is paid, this also results in differences between the tax charge and cash tax payments. With regard to deferred tax, judgement is required for the recognition of deferred tax assets, which is based on expectations of future financial performance in particular legal entities or tax groups.

	2017		2016	
Tax reconciliation	£m	%	£m	%
Profit before taxation	**658**		292	
Less share of post-tax earnings of equity accounted investments	**(80)**		(73)	
Profit before taxation excluding equity accounted investments	**578**		219	
Tax charge calculated at 19.25% (2016: 20%) standard UK corporate tax rate	**(111)**	**(19)**	(44)	(20)
Differences between UK and overseas corporate tax rates	**(16)**	**(3)**	(30)	(13)
Non-deductible and non-taxable items	**(16)**	**(3)**	36	16
Recognition of previously unrecognised tax losses	**–**	**–**	–	–
Utilisation of previously unrecognised tax losses and other assets	**1**	**–**	1	–
Changes in tax rates	**6**	**1**	(17)	(8)
Other changes in deferred tax assets	**(55)**	**(9)**	(1)	–
Tax charge before prior year and adjustment and movement in uncertain tax positions	**(191)**	**(33)**	(55)	(25)
Net movement on provision for uncertain tax positions	**30**	**5**	9	4
Adjustments in respect of prior years	**12**	**2**	(2)	(1)
Total tax charge for the year	**(149)**	**(26)**	(48)	(22)

6 Taxation continued

Judgements and estimates continued

Non-deductible and non-taxable items include foreign exchange movements that are not deductible (£14 million charge), impairment of assets which are not deductible for tax purposes (£33 million), partially offset by the benefit of tax incentives in a number of jurisdictions (£25 million). Other changes in deferred tax assets relate to an increase in unrecognised tax losses where it is not considered probable the losses will expire before they are utilised. The rate change primarily relates to the change of rate in the US discussed below.

(b) Tax included in other comprehensive income

Analysis of (charge)/credit in year	2017 £m	2016 £m
Deferred tax on post-employment obligations	**(89)**	60
Deferred tax on hedged foreign currency gains and losses	**(12)**	39
Deferred tax on other foreign currency gains and losses on intra-group funding	**–**	(3)
Current tax on post-employment obligations	**25**	3
Current tax on foreign currency gains and losses on intra-group funding	**15**	(50)
	(61)	49

(c) Current tax

	2017 £m	2016 £m
Assets	**68**	7
Liabilities	**(132)**	(142)
	(64)	(135)

(d) Recognised deferred tax

	2017 £m	2016 £m
Assets	**374**	557
Liabilities	**(184)**	(227)
	190	330

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

	Assets			Liabilities		
	Post-employment obligations £m	Tax losses £m	Other £m	Fixed assets £m	Other £m	Total £m
At 1 January 2017	**325**	**177**	**229**	**(391)**	**(10)**	**330**
Businesses disposed	**–**	**–**	**–**	**–**	**–**	**–**
Included in the income statement	**1**	**(60)**	**(75)**	**63**	**5**	**(66)**
Included in other comprehensive income	**(89)**	**–**	**(12)**	**–**	**–**	**(101)**
Currency variations	**3**	**7**	**(6)**	**23**	**–**	**27**
At 31 December 2017	**240**	**124**	**136**	**(305)**	**(5)**	**190**
At 1 January 2016	245	176	157	(339)	(8)	231
Businesses disposed	(1)	1	(1)	15	–	14
Included in the income statement	(2)	(19)	18	5	(2)	–
Included in other comprehensive income	60	–	36	–	–	96
Currency variations	23	19	19	(72)	–	(11)
At 31 December 2016	325	177	229	(391)	(10)	330

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

'Other' deferred tax arises mainly in relation to items that are taxable or tax deductible in a different period than the income or expense is accrued in the financial statements. Other deferred tax assets include £46 million relating to derivatives (2016: £139 million).

(e) Unrecognised deferred tax assets

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

	2017			2016		
	Tax value £m	**Gross £m**	**Expiry period**	Tax value £m	Gross £m	Expiry period
Tax losses – with expiry: national	**146**	**584**	**2018-2027**	120	474	2017-2026
Tax losses – with expiry: local	**10**	**341**	**2018-2037**	8	277	2017-2036
Tax losses – without expiry	**53**	**262**		50	258	
Total tax losses	**209**	**1,187**		178	1,009	
Other temporary differences	**7**	**28**		15	46	
Unrecognised deferred tax assets	**216**	**1,215**		193	1,055	

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries except where the distribution of such profits is planned. If these earnings were remitted in full, tax of £49 million (2016: £41 million) would be payable.

(f) Changes in UK tax rate

The effective tax rate for the year was 19.25% following a reduction to the rate on 1 April 2017. A further reduction to 17% from 1 April 2020 has been substantively enacted. UK temporary differences are measured at the rate at which they are expected to reverse.

New legislation became effective in April 2017 which will restrict the use of brought forward losses in the UK. This legislation was substantively enacted on 16 November 2017. It is anticipated this will not affect the ability to use recognised deferred tax assets but may affect the period over which the losses can be utilised.

(g) Changes in US tax rate

On 22 December 2017, US tax legislation (Tax Cuts and Jobs Act) was passed into law and was therefore substantively enacted for IFRS purposes. The law is wide ranging and includes a number of significant changes. The immediate impact for the Group is the reduction in the main rate of corporate tax from 35% to 21% with effect from 1 January 2018. This has resulted in a reduction in the overall deferred tax assets and liabilities in the US, resulting in a charge to other comprehensive income in respect of pension-related deferred tax assets and derivative financial instruments and a credit to income statement in relation to other deferred tax liabilities.

(h) Franked investment income – litigation

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

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

GKN has previously received payments from HMRC in respect of the case, principally interest, which have been recognised as received. In 2017, the Group agreed a settlement of £4 million with HMRC, which resulted in a gross interest receipt of £4 million and £2 million of restitutional and other charges.

7 Earnings per share

	2017			2016		
	Earnings £m	**Weighted average number of shares million**	**Earnings per share pence**	Earnings £m	Weighted average number of shares million	Earnings per share pence
Basic	**503**	**1,714.7**	**29.3**	242	1,712.1	14.1
Dilutive securities	**–**	**13.5**	**(0.2)**	–	13.9	(0.1)
Diluted	**503**	**1,728.2**	**29.1**	242	1,726.0	14.0

Management basis earnings per share of 26.6p (2016: 31.0p) is presented in note 3 and uses the weighted average number of shares consistent with basic earnings per share calculations. The diluted management basis earnings per share is 26.4p (2016: 30.7p).

8 Dividends

	Paid or proposed in respect of		Recognised		
	2017 pence	2016 pence	2018 £m	**2017 £m**	2016 £m
2015 final dividend paid	**–**	–	–	**–**	99
2016 interim dividend paid	**–**	2.95	–	**–**	51
2016 final dividend paid	**–**	5.9	–	**101**	–
2017 interim dividend paid	**3.1**	–	–	**53**	–
2017 final dividend proposed	**6.2**	–	106	**–**	–
	9.3	8.85	106	**154**	150

The 2017 final proposed dividend will be paid on 14 May 2018 to shareholders who are on the register of members at close of business on 6 April 2018.

9 Employees including Directors

Employee benefit expense	**2017 £m**	2016 £m
Wages and salaries	**(1,961)**	(1,849)
Social security costs	**(370)**	(350)
Post-employment costs	**(122)**	(105)
Share-based payments	**(4)**	(5)
	(2,457)	(2,309)

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

Average monthly number of subsidiary employees (including Executive Directors)	**2017 Number**	2016 restated* Number
By business		
GKN Aerospace	**16,230**	16,729
GKN Driveline	**25,346**	24,183
GKN Powder Metallurgy	**7,121**	6,739
Other businesses	**2,717**	3,510
Corporate	**232**	220
Total	**51,646**	51,381

*Restated for the change noted in the segmental information, see note 2.

Key management

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

Key management compensation	**2017 £m**	2016 £m
Salaries and short-term employee benefits	**5.9**	7.7
Post-employment benefits	**1.0**	1.1
Termination benefits	**1.1**	–
Share-based and medium-term incentives and benefits	**0.2**	0.6
	8.2	9.4

The amount outstanding at 31 December 2017 in respect of annual short-term variable remuneration payable in cash was £0.5 million (2016: £2.2 million). Key management participates in certain incentive arrangements where the key performance metric is management earnings per share using the cash tax rate which is discussed in the Strategic Report. Management EPS using the cash tax rate is 29.4p (2016: 33.8p). A total of £276,705 in dividends was received by key management in 2017 (2016: £250,493).

10 Share-based payments

The total charge for the year relating to share-based payment plans was £4 million (2016: £5 million) all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £4 million (2016: £5 million). The current year's charge relates to amounts in respect of the Share Incentive and Retention Plan established in 2015 and awards made in 2017 under the Sustainable Earnings Plan and 2017 Sharesave Plan.

The Group has granted options over shares to employees for a number of years under different schemes. Where grants were made after 7 November 2002, they have been accounted for as required by IFRS 2 'Share-based payment'. Details of awards made in the year that impact the 2017 accounting charge relate to the Sustainable Earnings Plan (SEP):

Sustainable Earnings Plan (SEP)

Awards were made to Directors and certain senior employees in August 2012, March 2013, March 2014, March 2015, March 2016 and March 2017. Awards granted up to 2016 comprised Core and Sustainability Awards subject to performance targets. Core Awards are subject to achievement of EPS growth targets over an initial three-year performance period, and Sustainability Awards subject to the highest level of EPS attained in any year during the core performance period being achieved or exceeded in years four and five. Sustainability Awards will be reduced to the extent that the target in the core performance period has not been met. Sustainability Awards are measured independently in years four and five. 50% of Core Awards will be released at the end of year three; the balance of Core Awards and any Sustainability Awards will be released at the end of year five. Awards granted in 2017 comprise a single award subject to a three-year performance period and any vested shares for Directors are subject to a two-year holding period prior to release. There is no provision for retesting performance for any SEP awards. On vesting, dividends are treated as having accrued on the shares from the date of grant to the date of release with the value delivered in either shares or cash.

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

	Shares granted during year	Weighted average fair value at measurement date
2017 SEP awards	7,690,011	£3.51

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

Sharesave Plan (Sharesave)

All UK resident employees (including Directors) were invited to join the Sharesave. The first awards were granted in August 2017 with an option price of 257.79p per share being the average share price for the three days immediately before the date of grant. Participants can save between £10 and £250 per month for three years and have the option to buy GKN shares at the end of that period at the option price. Sharesave awards are not subject to any performance conditions.

	Shares granted during year	Weighted average fair value at measurement date
2017 Sharesave awards	6,933,410	£0.81

10 Share-based payments continued

Executive Share Option Scheme (ESOS)

The only outstanding share options are under the ESOS and movements over the year to 31 December 2017 are shown below:

	2017		2016	
	Number 000s	Weighted average exercise price pence	Number 000s	Weighted average exercise price pence
Outstanding at 1 January	**1,987**	**140.63**	2,419	140.99
Forfeited	**–**	**–**	(10)	134.60
Exercised	**(379)**	**132.74**	(422)	142.84
Outstanding at 31 December	**1,608**	**142.48**	1,987	140.63
Exercisable at 31 December	**1,608**	**142.48**	1,987	140.63

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

	2017		2016	
Range of exercise price	Number of shares 000s	Contractual weighted average remaining life years	Number of shares 000s	Contractual weighted average remaining life years
110p to 145p	**1,259**	**2.11**	1,588	3.08
195p to 220p	**349**	**3.25**	399	4.25

The weighted average share price during the year for options exercised over the year was 336.8p (2016: 295.1p).

Liabilities in respect of share-based payments were not material at either 31 December 2017 or 31 December 2016. There were no vested rights to cash or other assets at either 31 December 2017 or 31 December 2016.

11 Goodwill and other intangible assets

(a) Goodwill

	2017 £m	2016 £m
Cost		
At 1 January	**924**	840
Businesses acquired	**5**	4
Businesses disposed	**(1)**	(74)
Currency variations	**(52)**	154
At 31 December	**876**	924
Accumulated impairment		
At 1 January	**336**	249
Charge for the year	**72**	40
Currency variations	**(24)**	47
At 31 December	**384**	336
Net book amount at 31 December	**492**	588

The carrying value of goodwill at 31 December comprised:

Reportable segment	Business		2017 £m	2016 £m
GKN Aerospace	Aerostructures	North America	**37**	41
	Engine Systems	North America and Europe	**45**	50
	Engine Products – West	North America	**–**	79
	Fokker	Europe	**126**	121
GKN Driveline	Driveline – CVJ	Global	**73**	78
	Driveline – AWD eDrive	Global	**123**	130
GKN Powder Metallurgy	Hoeganaes	North America	**26**	28
			430	527
Other businesses not individually significant to the carrying value of goodwill			**62**	61
			492	588

During 2017, a decision was taken to amend the cash generating unit (CGU) structure within Driveline from being considered on a regional basis to product streams. This reflects the change in management structure following reorganisation within the division in 2016. Following testing on both bases, no impairment was required.

Impairment charges of £72 million (2016: £38 million) have been recorded in the Income Statement as an adjusting and non-trading item within the line 'impairment charges', see note 11c for further details. In 2016, a further £2 million impairment charge was recorded following the decision to curtail operations of a business in GKN Driveline, which was recorded as an adjusting and therefore non-trading item within the line 'gains and losses on changes in group structure', see note 4(d) for further details.

11 Goodwill and other intangible assets continued

(b) Other intangible assets

	2017						
				Assets arising on business combinations			
	Development costs £m	Participation fees £m	Computer software £m	Marketing-related £m	Customer-related £m	Technology-based £m	Total £m
Cost							
At 1 January 2017	**685**	**201**	**127**	**72**	**729**	**335**	**2,149**
Businesses acquired	**–**	**–**	**–**	**1**	**8**	**–**	**9**
Additions	**67**	**4**	**8**	**–**	**–**	**–**	**79**
Disposals	**(31)**	**–**	**(5)**	**–**	**–**	**–**	**(36)**
Currency variations	**(21)**	**(17)**	**(3)**	**2**	**(26)**	**(22)**	**(87)**
At 31 December 2017	**700**	**188**	**127**	**75**	**711**	**313**	**2,114**
Accumulated amortisation							
At 1 January 2017	**180**	**44**	**102**	**12**	**370**	**121**	**829**
Charge for the year							
Charged to trading profit	**58**	**10**	**10**	**–**	**–**	**–**	**78**
Non-operating intangible assets	**–**	**–**	**–**	**3**	**71**	**26**	**100**
Impairment	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Disposals	**(28)**	**–**	**(5)**	**–**	**–**	**–**	**(33)**
Currency variations	**(3)**	**(4)**	**(4)**	**–**	**(22)**	**(8)**	**(41)**
At 31 December 2017	**207**	**52**	**103**	**15**	**419**	**139**	**935**
Net book amount at 31 December 2017	**493**	**136**	**24**	**60**	**292**	**174**	**1,179**
	2016						
Cost							
At 1 January 2016	562	158	105	66	673	303	1,867
Additions	68	11	10	–	–	–	89
Disposals	(4)	–	(2)	–	–	–	(6)
Businesses disposed	–	–	(1)	(5)	(50)	(23)	(79)
Currency variations	59	32	15	11	106	55	278
At 31 December 2016	685	201	127	72	729	335	2,149
Accumulated amortisation							
At 1 January 2016	124	27	82	8	276	85	602
Charge for the year							
Charged to trading profit	46	10	11	–	–	–	67
Non-operating intangible assets	–	–	–	4	67	32	103
Disposals	–	–	(2)	–	–	–	(2)
Businesses disposed	–	–	(1)	(1)	(18)	(12)	(32)
Currency variations	10	7	12	1	45	16	91
At 31 December 2016	180	44	102	12	370	121	829
Net book amount at 31 December 2016	505	157	25	60	359	214	1,320

Impairment charges of £2 million have been recorded in the Income Statement as an adjusting and therefore non-trading item within the line 'impairment charges' see note 11(c) for details.

Development costs of £135 million (2016: £148 million), £10 million (2016: £12 million) and £10 million (2016: £12 million) in respect of three aerospace programmes are being amortised on a units of production basis. There are other intangible assets of £253 million (2016: £296 million) in respect of four programmes with a remaining amortisation period of up to 20 years (2016: 21 years).

(c) Impairment testing

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

Consistent with previous years, all goodwill, together with CGUs where there were indicators of impairment, was tested for impairment. An impairment charge of £131 million (2016: £52 million) has been recorded in the Income Statement as an adjusting and therefore non-trading item within the line 'impairment charges' in respect of seven CGUs all within the Aerospace division.

CGU	Impairment charge	Rationale	Remaining recoverable amount	Pre-tax discount rate	Sensitivity
Engine Products – West, North America	£88 million – Goodwill (£72 million) – Property, plant and equipment (£14 million) – Intangible assets (£2 million)	Performance in the year behind previously agreed forecasts	£32 million	10% (2016: 13%)	Most sensitive to a 5% reduction in operating cash flows, which would have increased the impairment charge by £3 million
St. Louis, North America	£24 million – Property, plant and equipment (£24 million)	Loss of key business in the year and lower than expected margins on certain contracts	£7 million	10% (2016: 13%)	Most sensitive to a 5% reduction in operating cash flows, which would have increased the impairment charge by £4 million
Cincinnati, North America	£5 million – Property, plant and equipment (£5 million)	Conclusion of key programmes in 2017 and 2018, which have not been replaced, coinciding with operational issues	£0 million	10% (2016: 13%)	–
Astech, North America	£9 million – Property, plant and equipment (£9 million)	Loss of key business in the year and operational issues	£0 million	10% (2016: 13%)	–

There were further impairment charges in three other Aerospace businesses totalling £5 million, comprising only property, plant and equipment.

Significant judgements, assumptions and estimates

All CGUs' recoverable amounts were measured using value in use. Detailed forecasts for the next five years in Automotive CGUs, and ten years in the majority of Aerospace CGUs have been used which are based on approved annual budgets and strategic projections representing the best estimate of future performance. During the year, the number of years used in detailed forecasts when projecting operating cash flows in two Aerospace businesses was reduced to five. The reduction to five years from ten years reflected change in programme mix which reduced the Group's ability to forecast accurately beyond five years. The impact of not changing this judgement would have reduced the impairment charge by £28 million, due to the removal of cash flows which management is forecasting to be in excess of the long-term growth rate in the period 2023-2027. Operating cash flow projections covering the next ten years continue to be used in the majority of Aerospace CGUs as they incorporate the anticipated timing of volumes on current programmes. Management considers forecasting over varying periods more appropriately reflect the length of business cycle of those CGUs' programmes.

Key estimates

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

Operating cash flows

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

11 Goodwill and other intangible assets continued

(c) Impairment testing continued

Pre-tax risk adjusted discount rates

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

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

Aerospace: UK 9% (2016: 9%), Europe 9% (2016: 9%) and North America 10% (2016: 13%).

Driveline: North and South America 12%-24% (2016: 16%-26%), Europe 9%-13% (2016: 10%-13%) and Japan and Asia Pacific region countries 10%-21% (2016: 12%-21%). In 2017, the rate used in CVJ was 14% and in AWD eDrive 12%.

Powder Metallurgy: Europe 11% (2016: 11%), North America 12% (2016: 16%) and South America 24% (2016: 26%).

Long-term growth rates

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

Aerospace: UK 3% (2016: 3%), Europe 3% (2016: 3%) and North America 3% (2016: 3%).

Driveline: North and South America 3%-5% (2016: 3%-5%), Europe 2%-4% (2016: 2%-4%) and Japan and Asia Pacific region countries 2%-9% (2016: 2%-9%). In 2017, the rate used in CVJ was 4% and in AWD eDrive 3%.

Powder Metallurgy: Europe 3% (2016: 3%) and North America 3% (2016: 3%).

Sensitivity of results to changes in estimations

The impairment review performed showed significant headroom on CGUs that were not impaired, therefore it is not considered that any reasonably possible changes would have generated an impairment charge. However, the CGU listed below has the potential to be impacted by reasonably possible changes in key assumptions which, when changed in isolation, would eliminate headroom in the model and when changed in combination could result in a material impairment within the next year. Sensitivity analysis has been undertaken to determine the movement required on these key assumptions which would lead to an impairment charge.

		Growth in operating profit^		Discount rates		Long-term growth rates	
CGU	Headroom	Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
Driveline – AWD eDrive	£227m	15%	6%	11.6%	14.9%	3.0%	(1.9)%

^This represents the compound annual growth rate between 2018 and 2022. Operating profit in 2018 assumes one-off items and launch costs incurred in 2017 do not reoccur.

12 Property, plant and equipment

	2017				
	Land and buildings £m	**Plant and machinery £m**	**Other tangible assets £m**	**Capital work in progress £m**	**Total £m**
Cost					
At 1 January 2017	**993**	**5,110**	**184**	**307**	**6,594**
Businesses acquired	**2**	**5**	**–**	**–**	**7**
Additions	**22**	**186**	**7**	**247**	**462**
Disposals	**(2)**	**(77)**	**(5)**	**–**	**(84)**
Businesses disposed	**(1)**	**(8)**	**–**	**–**	**(9)**
Transfers	**4**	**212**	**7**	**(223)**	**–**
Currency variations	**(32)**	**(161)**	**(7)**	**(12)**	**(212)**
At 31 December 2017	**986**	**5,267**	**186**	**319**	**6,758**
Accumulated depreciation and impairment					
At 1 January 2017	**356**	**3,434**	**134**	**–**	**3,924**
Charge for the year					
Depreciation charged to trading profit	**31**	**260**	**11**	**–**	**302**
Impairment charges	**12**	**44**	**1**	**–**	**57**
Disposals	**(1)**	**(76)**	**(3)**	**–**	**(80)**
Businesses disposed	**(1)**	**(7)**	**(1)**	**–**	**(9)**
Currency variations	**(14)**	**(94)**	**(5)**	**–**	**(113)**
At 31 December 2017	**383**	**3,561**	**137**	**–**	**4,081**
Net book amount at 31 December 2017	**603**	**1,706**	**49**	**319**	**2,677**

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

12 Property, plant and equipment continued

Included within other tangible assets at net book amount are fixtures, fittings and computers £46 million (2016: £47 million) and commercial vehicles and cars £3 million (2016: £3 million). The net book amount of assets under finance leases is £4 million (2016: £3 million) comprising £3 million related to land and buildings and £1 million related to plant and machinery.

Impairment charges of £57 million (2016: £18 million) have been recorded in the Income Statement as an adjusting and therefore non-trading item within the line 'impairment charges' see note 11(c) for further details.

13 Equity accounted investments

Group share of results

	2017 £m	2016 £m
Sales	**738**	592
Operating costs	**(644)**	(503)
Trading profit	**94**	89
Net financing costs	**2**	(1)
Profit before taxation	**96**	88
Taxation	**(16)**	(15)
Share of post-tax earnings	**80**	73

Group share of net book amount

	2017 £m	2016 £m
At 1 January	**233**	195
Share of post-tax earnings	**80**	73
Dividends paid to the Group	**(60)**	(57)
Currency variations	**(4)**	22
At 31 December	**249**	233

	2017 £m	2016 £m
Non-current assets	**166**	171
Current assets	**376**	326
Current liabilities	**(283)**	(259)
Non-current liabilities	**(10)**	(5)
	249	233

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

The Group has one significant joint venture within Driveline, Shanghai GKN HUAYU Driveline Systems Co Limited (SDS), with 100% of sales of £1,159 million (2016: £870 million), trading profit of £181 million (2016: £153 million), an interest charge of £1 million (2016: £1 million) and a tax charge of £29 million (2016: £26 million) leaving retained profit of £153 million (2016: £126 million). Net assets of £348 million (2016: £341 million) comprise non-current assets of £224 million (2016: £236 million), current assets of £445 million (2016: £384 million), current liabilities of £321 million (2016: £279 million) and non-current liabilities of nil (2016: nil). During 2017, SDS paid a dividend to the Group of £59 million (2016: £54 million). Further information about SDS can be found in note 5 to the GKN plc company financial statements.

14 Other receivables and investments

	2017 £m	2016 £m
Investments	**8**	7
Amounts recoverable under employee benefit plans and indirect taxes	**16**	18
Other receivables	**129**	24
	153	49

In 2016, the Group acquired a 19.8% share in Nanjing FAYN Piston Ring Co. Ltd., a business based in China, for £5 million.

15 Inventories

	2017 £m	2016 £m
Raw materials	**538**	535
Work in progress	**523**	566
Finished goods	**370**	330
	1,431	1,431

Inventories of £149 million (2016: £58 million) are carried at fair value less costs of disposal. The amount of any write-down of inventory recognised as an expense in the year was £79 million (2016: £2 million).

16 Trade and other receivables

	2017 £m	2016 £m
Trade receivables	**1,399**	1,360
Amounts owed by equity accounted investments	**18**	11
Other receivables	**232**	187
Prepayments	**47**	36
Indirect taxes recoverable	**52**	54
	1,748	1,648
Provisions for doubtful debts against trade receivables		
At 1 January	**(11)**	(11)
Charge for the year		
Additions	**(6)**	(5)
Unused amounts reversed	**4**	5
Amounts used	**1**	2
Currency variations	**–**	(2)
At 31 December	**(12)**	(11)
Trade receivables subject to provisions for doubtful debts	**13**	13
Ageing analysis of trade receivables and amounts owed by equity accounted investments past due but not impaired		
Up to 30 days overdue	**78**	80
31 to 60 days overdue	**26**	16
61 to 90 days overdue	**7**	7
More than 90 days overdue	**24**	19

There is no provision against other receivable categories.

17 Trade and other payables

	2017		2016	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Amounts owed to suppliers and customers	**(1,755)**	**(105)**	(1,586)	(38)
Amounts owed to equity accounted investments	**(11)**	**–**	(13)	–
Accrued interest	**(31)**	**–**	(25)	–
Government refundable advances	**(11)**	**(73)**	(13)	(83)
Deferred and contingent consideration	**(4)**	**–**	(6)	–
Payroll taxes, indirect taxes and audit fees	**(120)**	**–**	(113)	–
Amounts due to employees and employee benefit plans	**(236)**	**(47)**	(274)	(57)
Government grants	**(4)**	**(12)**	(2)	(14)
Customer advances and deferred income	**(161)**	**(248)**	(154)	(235)
	(2,333)	**(485)**	(2,186)	(427)

Non-current amounts owed to suppliers and customers fall due within two years. Government refundable advances are forecast to fall due for repayment between 2018 and 2055. The movement in government refundable advances is attributable to principal repayments (£8 million), interest payments (£6 million), currency impact (£4 million) and increased by interest charges (£6 million).

During 2017, £2 million of deferred and contingent consideration was paid in relation to milestone payments following the acquisition of Sheets Manufacturing Inc during 2015 (£1 million) and Hoeganaes Bazhou in 2016 (£1 million).

Customer advances and deferred income comprises cash receipts from customers in advance of the Group completing its performance obligations. Non-current amounts in respect of customer advances and deferred income fall due as follows: one to two years £52 million (2016: £76 million), two to five years £90 million (2016: £83 million) and over five years £106 million (2016: £76 million).

18 Net borrowings

(a) Analysis of net borrowings

	Notes	Current: Within one year £m	Non-current: One to two years £m	Non-current: Two to five years £m	Non-current: More than five years £m	Non-current: Total £m	Total £m
2017							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	i	**–**	**–**	**(447)**	**–**	**(447)**	**(447)**
£350 million 6¾% 2019 unsecured bond	i	**–**	**(349)**	**–**	**–**	**(349)**	**(349)**
£300 million 3⅜% 2032 unsecured bond	i	**–**	**–**	**–**	**(296)**	**(296)**	**(296)**
Unsecured committed bank borrowings							
European Investment Bank	i	**(16)**	**(16)**	**–**	**–**	**(16)**	**(32)**
2019 Committed Revolving Credit Facility		**–**	**–**	**–**	**–**	**–**	**–**
Other (net of unamortised issue costs)		**(2)**	**(2)**	**(6)**	**(2)**	**(10)**	**(12)**
Finance lease obligations	iii	**(1)**	**(1)**	**(3)**	**(4)**	**(8)**	**(9)**
Bank overdrafts		**(9)**	**–**	**–**	**–**	**–**	**(9)**
Other short-term bank borrowings		**(10)**	**–**	**–**	**–**	**–**	**(10)**
Borrowings		**(38)**	**(368)**	**(456)**	**(302)**	**(1,126)**	**(1,164)**
Bank balances and cash		**257**	**–**	**–**	**–**	**–**	**257**
Short-term bank deposits	ii	**164**	**–**	**–**	**–**	**–**	**164**
Cash and cash equivalents	iv	**421**	**–**	**–**	**–**	**–**	**421**
Other financial assets – bank deposits		**5**	**–**	**–**	**–**	**–**	**5**
Net borrowings (excluding cross currency interest rate swaps)		**388**	**(368)**	**(456)**	**(302)**	**(1,126)**	**(738)**
Cross currency interest rate swaps		**–**	**(76)**	**(75)**	**–**	**(151)**	**(151)**
Net debt		**388**	**(444)**	**(531)**	**(302)**	**(1,277)**	**(889)**
2016							
Unsecured capital market borrowings							
£450 million 5⅜% 2022 unsecured bond	i	–	–	–	(446)	(446)	(446)
£350 million 6¾% 2019 unsecured bond	i	–	–	(349)	–	(349)	(349)
Unsecured committed bank borrowings							
European Investment Bank	i	(16)	(16)	(16)	–	(32)	(48)
2019 Committed Revolving Credit Facility		–	–	–	–	–	–
Other (net of unamortised issue costs)		–	(2)	(7)	(4)	(13)	(13)
Finance lease obligations	iii	(1)	–	–	(2)	(2)	(3)
Bank overdrafts		(26)	–	–	–	–	(26)
Other short-term bank borrowings		(21)	–	–	–	–	(21)
Borrowings		(64)	(18)	(372)	(452)	(842)	(906)
Bank balances and cash		236	–	–	–	–	236
Short-term bank deposits	ii	175	–	–	–	–	175
Cash and cash equivalents	iv	411	–	–	–	–	411
Other financial assets – bank deposits		5	–	–	–	–	5
Net borrowings (excluding cross currency interest rate swaps)		352	(18)	(372)	(452)	(842)	(490)
Cross currency interest rate swaps		–	–	(122)	(92)	(214)	(214)
Net debt		352	(18)	(494)	(544)	(1,056)	(704)

18 Net borrowings continued

(a) Analysis of net borrowings continued

Unsecured capital market borrowings include: an unsecured £350 million (2016: £350 million) 6¾% bond maturing in 2019 less unamortised issue costs of £1 million (2016: £1 million) and an unsecured £450 million (2016: £450 million) 5⅜% bond maturing in 2022 less unamortised issue costs of £3 million (2016: £4 million) and a new unsecured £300 million 3⅜% bond maturing in 2032 less unamortised issue costs of £4 million.

Unsecured committed bank borrowings include £32 million (2016: £48 million) drawn under the Group's European Investment Bank (EIB) unsecured facility which attracts a fixed interest rate of 4.1% per annum payable annually in arrears and a borrowing of £12 million (2016: £15 million) drawn against a KfW amortising unsecured facility which attracts a fixed interest rate of 1.65%. On 22 June 2017, the Group repaid the third of five annual instalments of £16 million on the EIB facility. There were no drawings (2016: nil) at the year end against the Group's 2019 Committed Revolving Credit Facilities of £800 million (2016: £800 million). Unamortised issue costs on the 2019 Committed Revolving Credit Facilities were £2 million (2016: £3 million).

Notes

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

(ii) The average interest rate on short-term bank deposits was 0.2% (2016: 0.2%). Deposits at both 31 December 2017 and 31 December 2016 had a maturity date of less than one month.

(iii) Finance lease obligations gross of finance charges fall due as follows: £2 million within one year (2016: £1 million), £6 million in one to five years (2016: £1 million) and £7 million in more than five years (2016: £5 million).

(iv) £10 million (2016: £13 million) of the Group's cash and cash equivalents and bank deposits are held by the Group's captive insurance company to maintain solvency requirements and as collateral for Letters of Credit issued to the Group's principal external insurance providers. These funds cannot be circulated within the Group on demand.

(b) Fair values

	2017		2016	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings, other financial assets and cash and cash equivalents				
Other borrowings	**(1,136)**	**(1,232)**	(856)	(970)
Finance lease obligations	**(9)**	**(9)**	(3)	(3)
Bank overdrafts and other short-term bank borrowings	**(19)**	**(19)**	(47)	(47)
Bank balances and cash	**257**	**257**	236	236
Short-term bank deposits and other financial assets	**169**	**169**	180	180
	(738)	**(834)**	(490)	(604)
Trade and other payables				
Government refundable advances	**(84)**	**(100)**	(96)	(122)
Deferred and contingent consideration	**(4)**	**(4)**	(6)	(6)
	(88)	**(104)**	(102)	(128)

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

Unsecured bank overdrafts, other short-term bank borrowings, bank balances and cash, short-term bank deposits and other financial assets approximate to book value due to their short maturities. For other amounts, the repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at 31 December 2017. Bonds included within other borrowings have been valued using quoted closing market values.

19 Financial risk management

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

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

(a) Foreign currency risk

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

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

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

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

	Trading profit		
	Payables and receivables £m	Derivative financial instruments £m	Intra-group funding £m
Euro	1	6	1
US dollar	(1)	(22)	1

The derivative sensitivity analysis has been prepared by reperforming the calculations used to determine the balance sheet values adjusted for the changes in the individual currency rates indicated with all other cross currency rates remaining constant. The sensitivity is a fair value change relating to derivatives for which the underlying transaction has not occurred at 31 December 2017. The Group intends to hold all such derivatives to maturity. The calculation for other items has been prepared based on an analysis of a currency balance sheet.

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

	2017			2016		
	Borrowings £m	**Cash and bank deposits £m**	**Total £m**	Borrowings £m	Cash and bank deposits £m	Total £m
Sterling	**(1,123)**	**179**	**(944)**	(841)	190	(651)
US dollar	**(6)**	**57**	**51**	(4)	63	59
Euro	**(16)**	**31**	**15**	(26)	21	(5)
Others	**(19)**	**159**	**140**	(35)	142	107
	(1,164)	**426**	**(738)**	(906)	416	(490)

(b) Interest rate risk

The Group is exposed to fair value interest rate risk on fixed rate borrowings and cash flow interest rate risk on variable rate net borrowings/funds. The Group's policy is to optimise the interest cost in reported earnings and reduce volatility in the debt-related element of the Group's cost of capital. This policy is achieved by maintaining a target range of fixed and floating rate debt for discrete annual periods, over a defined time horizon. The Group's normal policy is to require interest rates to be fixed for 50% to 80% of the level of underlying borrowings forecast to arise over a 12-month horizon. At 31 December 2017, 98% (2016: 96%) of the Group's gross borrowings were subject to fixed interest rates.

As at 31 December 2017, £164 million (2016: £175 million) was in bank deposits and £5 million was on deposit with banks on the Isle of Man (2016: £5 million).

19 Financial risk management continued

(c) Credit risk

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

Operational

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

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

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

	2017 %	2016 restated* %
GKN Aerospace	**68**	65
GKN Driveline	**59**	59
GKN Powder Metallurgy	**21**	28

*Restated for the change noted in the segmental information, see note 2.

The amount of trade receivables outstanding at the year end does not represent the maximum exposure to operational credit risk due to the normal patterns of supply and payment over the course of a year. Based on management information collected as at month ends, the maximum level of trade receivables at any one point during the year was £1,547 million (2016: £1,557 million).

Financial

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

The maximum exposure with a single bank for deposits is £30 million (2016: £53 million), however, the Group is not exposed to mark-to-market risk for forward foreign currency contracts at 31 December 2017 as all counterparties were in a liability position (2016: nil).

(d) Capital risk management

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

The Group's two external banking covenants require an EBITDA of subsidiaries to net interest payable and receivable ratio of 3.5 times or more and net debt to EBITDA of subsidiaries ratio of 3 times or less measured at 30 June and 31 December. For the purpose of testing net debt to EBITDA, there is also a requirement to recalculate reported net debt using the Group's average exchange rates, as quoted in the Business Review, over the relevant financial year. The ratios at 31 December 2017 and 2016 were as follows:

	2017 £m	2016 £m
EBITDA	**948**	1,014
Net interest payable and receivable	**(76)**	(79)
EBITDA to net interest payable and receivable ratio	**12.5 times**	12.8 times

	2017 £m	2016 £m
Net debt	**889**	704
EBITDA	**948**	1,014
Net debt to EBITDA ratio	**0.9 times**	0.7 times

Net debt for the year ended 31 December 2017 using average exchange rates was £914 million (2016: £626 million) which results in a net debt to EBITDA ratio of 1.0 times (2016: 0.6 times).

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

(e) Liquidity risk

The Group is exposed to liquidity risk as part of its normal financing and trading cycle at times when peak borrowings are required. Borrowings normally peak in May and September following dividend and bond coupon payments. The Group's policies are to ensure that sufficient liquidity is available to meet obligations when they fall due and to maintain sufficient flexibility in order to fund investment and acquisition objectives. Liquidity needs are assessed through short- and long-term forecasts, and committed bank facilities under a revolving credit facility total £800 million which expires in 2019. There were no drawings on these facilities at 31 December 2017. In addition, the Group's European Investment Bank unsecured facility (£32 million) is repayable in two remaining equal annual instalments of £16 million in June 2018 and June 2019. Committed facilities are provided through 14 banks.

The Group also maintains £75 million of uncommitted facilities, provided by three banks. There were no drawings against these facilities at 31 December 2017.

Maturity analysis of borrowings, derivatives and other financial liabilities

	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
2017					
Borrowings (note 18)	**(38)**	**(368)**	**(456)**	**(302)**	**(1,164)**
Contractual interest payments and finance lease charges	**(60)**	**(59)**	**(104)**	**(104)**	**(327)**
Government refundable advances	**(9)**	**(7)**	**(28)**	**(105)**	**(149)**
Deferred and contingent consideration	**(4)**	**–**	**–**	**–**	**(4)**
Derivative financial instruments liabilities – receipts	**1,158**	**1,006**	**1,232**	**58**	**3,454**
Derivative financial instruments liabilities – payments	**(1,212)**	**(1,144)**	**(1,390)**	**(63)**	**(3,809)**
2016					
Borrowings (note 18)	(64)	(18)	(372)	(452)	(906)
Contractual interest payments and finance lease charges	(50)	(49)	(97)	(27)	(223)
Government refundable advances	(13)	(11)	(28)	(125)	(177)
Deferred and contingent consideration	(6)	–	–	–	(6)
Derivative financial instruments liabilities – receipts	1,333	719	1,409	634	4,095
Derivative financial instruments liabilities – payments	(1,538)	(866)	(1,779)	(765)	(4,948)

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

19 Financial risk management continued

(f) Categories of financial assets and financial liabilities

	Loans and receivables £m	Amortised cost £m	Derivative financial assets £m	Derivative financial liabilities £m	Total £m
2017					
Other receivables	**129**	**–**	**–**	**–**	**129**
Trade and other receivables	**1,649**	**–**	**–**	**–**	**1,649**
Derivative financial instruments	**–**	**–**	**65**	**(326)**	**(261)**
Cash and cash equivalents	**421**	**–**	**–**	**–**	**421**
Other financial assets – bank deposits	**5**	**–**	**–**	**–**	**5**
Borrowings	**–**	**(1,164)**	**–**	**–**	**(1,164)**
Trade and other payables	**–**	**(1,990)**	**–**	**–**	**(1,990)**
Provisions	**–**	**(20)**	**–**	**–**	**(20)**
	2,204	**(3,174)**	**65**	**(326)**	**(1,231)**
2016					
Other receivables	24	–	–	–	24
Trade and other receivables	1,558	–	–	–	1,558
Derivative financial instruments	–	–	44	(727)	(683)
Cash and cash equivalents	411	–	–	–	411
Other financial assets – bank deposits	5	–	–	–	5
Borrowings	–	(906)	–	–	(906)
Trade and other payables	–	(1,764)	–	–	(1,764)
Provisions	–	(26)	–	–	(26)
	1,998	(2,696)	44	(727)	(1,381)

Included within financial assets and financial liabilities above are items classified as held for trading. These totalled £65 million (2016: £44 million) within financial assets and £175 million (2016: £513 million) as financial liabilities. The remaining balances relate to derivatives that are designated and effective as hedging instruments carried at fair value.

IFRS 13

The financial instruments that are measured subsequent to initial recognition at fair value are forward currency contracts, cross currency interest rate swaps and embedded derivatives. All of these financial instruments are classified as Level 2 fair value measurements, as defined by IFRS 13, being those derived from inputs other than quoted prices that are observable.

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

> Forward foreign currency contracts, cross currency interest rate swaps and embedded derivatives, see note 20.

> Unsecured bank overdrafts, other short-term bank borrowings, bank balances and cash, short-term bank deposits and other financial assets, see note 18.

> Bonds included within other borrowings, see note 18.

> Fair values of trade and other receivables and payables, short-term investments and cash and cash equivalents are assumed to approximate to cost due to the short-term maturity of the instruments and as the impact of discounting is not significant.

There is no discounted contingent element of deferred and contingent consideration as at 31 December 2017 (2016: £1 million). Therefore, all financial assets and liabilities together with calculations for fair value less costs of disposal were categorised as Level 2.

(g) Working Capital Management

A limited number of Group trade receivables are subject to non-recourse factoring and customer supply chain finance arrangements, from seven banks. As at 31 December 2017, the facilities totalled £248 million (2016: £258 million), with drawings of £189 million (2016: £209 million).

The Group also has a limited supply chain finance programme for its suppliers from five banks. As at December 2017, total facilities were £150 million (2016: £101 million), with drawings of £94 million (2016: £73 million). These amounts are included within amounts owed to suppliers and customers in note 17.

20 Derivative financial instruments

(a) The balances at 31 December comprise:

	2017					2016				
	Assets		**Liabilities**			Assets		Liabilities		
	Non-current £m	**Current £m**	**Non-current £m**	**Current £m**	**Total £m**	Non-current £m	Current £m	Non-current £m	Current £m	Total £m
Forward currency contracts										
Not hedge accounted	**23**	**25**	**(89)**	**(76)**	**(117)**	2	11	(293)	(202)	(482)
Embedded derivatives	**14**	**3**	**(8)**	**(2)**	**7**	23	8	(14)	(4)	13
Cross currency interest rate swaps	**–**	**–**	**(151)**	**–**	**(151)**	–	–	(214)	–	(214)
	37	**28**	**(248)**	**(78)**	**(261)**	25	19	(521)	(206)	(683)

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

	Forward currency contracts £m	**Embedded derivatives £m**	**Cross currency interest rate swaps £m**	**Total £m**
At 1 January 2017	**(482)**	**13**	**(214)**	**(683)**
Credit/(charge) to 'change in value of derivative and other financial instruments'	**364**	**(6)**	**–**	**358**
Credit to 'other net financing charges'	**–**	**–**	**4**	**4**
Cash paid	**–**	**–**	**9**	**9**
Charge to 'interest payable'	**–**	**–**	**(8)**	**(8)**
Credit to equity	**1**	**–**	**58**	**59**
At 31 December 2017	**(117)**	**7**	**(151)**	**(261)**

Net investment hedging

In addition to the £58 million credit (2016: £160 million charge) from a spot rate foreign exchange movement on cross currency interest rate swaps, designated as a net investment hedge, there is a further £3 million charge (2016: £17 million charge) from foreign exchange movements on loans designated as net investment hedges which includes a £1 million credit relates to forward currency contract instruments. This £55 million credit (2016: £177 million charge) is recorded in other comprehensive income.

21 Provisions

	Contract provisions £m	Warranty £m	Claims and litigation £m	Employee obligations £m	Other £m	Total £m
At 1 January 2017	**(26)**	**(68)**	**(25)**	**(13)**	**(21)**	**(153)**
Net (charge)/credit for the year:						
Additions	**(20)**	**(28)**	**(9)**	**(4)**	**(32)**	**(93)**
Unused amounts reversed	**4**	**17**	**4**	**1**	**4**	**30**
Unwind of discounts	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Amounts used	**1**	**29**	**5**	**4**	**20**	**59**
Currency variations	**1**	**1**	**1**	**–**	**1**	**4**
At 31 December 2017	**(41)**	**(49)**	**(24)**	**(12)**	**(28)**	**(154)**
Due within one year	**(8)**	**(28)**	**(15)**	**(2)**	**(27)**	**(80)**
Due in more than one year	**(33)**	**(21)**	**(9)**	**(10)**	**(1)**	**(74)**
	(41)	**(49)**	**(24)**	**(12)**	**(28)**	**(154)**

Contract provisions
The Group has a small number of onerous contracts and a non-beneficial lease arrangement, primarily arising on business combinations and contractual dispute matters. Onerous contracts relate to customer programmes where the unavoidable costs of delivering product are in excess of contracted sales prices. The primary reason for the increase in 2017 arises from items identified in the North American Balance Sheet Review, as detailed in note 2(b).

Utilisation of the contract provision due in more than one year is estimated as £13 million in 2019 and £20 million from 2020.

Warranty
Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations attaching to the supply of goods or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. In the event of a claim, settlement will be negotiated with the customer based on supply of replacement products and compensation for the customer's associated costs. 2017 additions include the £10 million Driveline warranty charges referred to in note 2(b). Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer.

Utilisation of the provision due in more than one year is estimated as £9 million in 2019 and £12 million from 2020.

Claims and litigation
Claims provisions are held in the Group's captive insurance company and amount to £10 million (2016: £11 million). Claims provisions and charges are established in accordance with external insurance and actuarial advice.

Legal provisions amounting to £9 million (2016: £6 million) relate to management estimates of amounts required to settle or remove litigation actions that have arisen in the normal course of business or taken on as a result of a business combination. Further details of legal matters are not provided to avoid the potential of seriously prejudicing the Group's stance in law. Amounts unused and reversed only arise when the matter is formally settled or when a material change in the litigation action occurs where legal advice confirms lower amounts need to be retained to cover the exposure.

As a consequence of primarily legacy activities, a small number of sites in the Group are subject to environmental remediation actions, which in all cases are either agreed formally with relevant local and national authorities and agencies or represent management's view of the likely outcome having taken appropriate expert advice and following consultation with appropriate authorities and agencies. Amounts of £5 million (2016: £8 million) are provided.

Utilisation of the claims and litigations provision due in more than one year is estimated as £4 million in 2019 and £5 million from 2020.

Employee obligations
Long service non-pension and other employee-related obligations arising primarily in the Group's continental European subsidiaries amount to £12 million (2016: £13 million).

Utilisation of the provision due in more than one year is estimated as £4 million in 2019 and £6 million from 2020.

Other
Other provisions include amounts set aside in respect of the performance-related claims from a revenue and risk sharing partnership as referred to in note 2(b). £22 million of the closing balance relates to this claim. In addition, provisions amounting to £3 million (2016: £10 million) relate to the costs of the 2016 closures noted in 2(d).

Utilisation of the provision due in more than one year is estimated as £nil million 2019 and £1 million from 2020.

22 Share capital

	Issued and Fully Paid	
	2017 £m	2016 £m
Ordinary shares of 10p each	**173**	173

	2017 Number 000s	2016 Number 000s
Ordinary shares of 10p each		
At 1 January	**1,726,104**	1,726,104
At 31 December	**1,726,104**	1,726,104

At 31 December 2017, there were 8,625,886 ordinary shares of 10p each, with a total nominal value of £1 million, held as treasury shares (2016: 11,629,654 ordinary shares of 10p each, with a total nominal value of £1 million). A total of 3,003,768 (2016: 539,274) shares were transferred out of treasury during 2017 to satisfy the exercise of awards by participants under the Company's share incentive schemes. The remaining treasury shares, which represented 0.5% (2016: 0.7%) of the called up share capital at the end of the year, have not been cancelled but are held as treasury shares and represent a deduction from shareholders' equity.

At 31 December 2017, the GKN Employee Share Ownership Plan Trust ('the Trust') held 3,624,368 ordinary shares (2016: 2,013,467). 1,759,996 shares were purchased by the Trust during 2017 (2016: no shares were purchased) at a cash cost of £6 million (2016: nil). During the year, a total of 149,095 (2016: 505,157) shares were transferred out of the Trust to satisfy the vesting and exercise of awards of ordinary shares made under the Company's share incentive schemes. The remaining Trust shares will be used to satisfy future awards. A dividend waiver operates in respect of shares held by the Trust.

During the year, shares issued from treasury under share incentive schemes generated a cash inflow of £1 million (2016: £1 million).

23 Cash flow reconciliations

Cash generated from operations	2017 £m	2016 £m
Operating profit	**699**	335
Adjustments for:		
Depreciation, impairment and amortisation of fixed assets		
Charged to trading profit		
Depreciation	**302**	263
Amortisation	**78**	67
Amortisation of non-operating intangible assets arising on business combinations	**100**	103
Impairment charges	**131**	52
Change in value of derivative and other financial instruments	**(364)**	154
Gains and losses on changes in Group structure	**2**	9
Amortisation of government capital grants	**(2)**	(2)
Net profits on sale and realisation of fixed assets	**(2)**	(3)
Charge for share-based payments	**4**	5
Movement in post-employment obligations	**(300)**	(75)
Change in inventories	**(57)**	(78)
Change in receivables	**(258)**	(151)
Change in payables and provisions	**267**	99
	600	778
Movement in net debt		
Movement in cash and cash equivalents	**40**	41
Net movement in other borrowings and deposits	**(268)**	141
Movement on finance leases	**(6)**	–
Movement on cross currency interest rate swaps	**63**	(145)
Movement on other net investment hedges	**1**	(17)
Amortisation of debt issue costs	**(2)**	(2)
Currency variations	**(13)**	47
Movement in year	**(185)**	65
Net debt at beginning of year	**(704)**	(769)
Net debt at end of year	**(889)**	(704)
Reconciliation of cash and cash equivalents		
Cash and cash equivalents per balance sheet	**421**	411
Bank overdrafts included within 'current liabilities – borrowings'	**(9)**	(26)
Cash and cash equivalents per cash flow	**412**	385

			Non-cash movements				
	At 1 January 2017	Cash flows	Acquisition and disposals	Currency movements	Fair value changes	Lease movements	**At 31 December 2017**
Long-term borrowings	**(840)**	(278)	–	–	–	–	**(1,118)**
Short-term borrowings	**(63)**	29	(3)	–	–	–	**(37)**
Lease liabilities	**(3)**	–	–	–	–	(6)	**(9)**
Cross currency interest rate swaps	**(214)**	–	–	–	63	–	**(151)**
Total liabilities from financing activities	**(1,120)**	(249)	(3)	–	63	(6)	**(1,315)**
Cash and cash equivalents	**411**	21	2	(13)	–	–	**421**
Other financial assets – bank deposits	**5**	–	–	–	–	–	**5**
Net debt	**(704)**	(228)	(1)	(13)	63	(6)	**(889)**

24 Post-employment obligations

Post-employment obligations as at the year end comprise:		2017 £m	2016 £m
Pensions	– funded	**(743)**	(1,285)
	– unfunded	**(675)**	(662)
Medical	– funded	**(39)**	(37)
	– unfunded	**(47)**	(49)
		(1,504)	(2,033)

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

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

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

Independent actuarial valuations of all major defined benefit scheme assets and liabilities were carried out at 31 December 2017. The present value of the defined benefit obligation and the related service cost elements were measured using the projected unit credit method.

(a) Defined benefit schemes – assumptions and estimates

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

Key assumptions and estimates:

	UK				
	GKN2 %	GKN3 %	Americas %	Europe %	ROW %
2017					
Rate of increase in pensionable salaries (past service)	**n/a**	**n/a**	**n/a**	**2.50**	**–**
Rate of increase in payment and deferred pensions	**3.00**	**3.00**	**n/a**	**1.75**	**n/a**
Discount rate (past service)	**2.60**	**2.40**	**3.60**	**1.70**	**0.50**
Inflation assumption (past service)	**3.20**	**3.15**	**n/a**	**1.75**	**n/a**
Rate of increase in medical costs:					
Initial/long-term	**5.4/5.4**		**6.5/5.0**	**n/a**	**n/a**
2016					
Rate of increase in pensionable salaries (past/future service)	4.30/4.25	n/a	n/a	2.50	–
Rate of increase in payment and deferred pensions	3.20	3.30	n/a	1.75	n/a
Discount rate (past/future service)	2.60/2.70	2.45	4.10	1.60	0.50
Inflation assumption (past/future service)	3.30/3.25	3.35	n/a	1.75	n/a
Rate of increase in medical costs:					
Initial/long-term	5.4/5.4		6.75/5.0	n/a	n/a

In prior years, there were separate assumptions for past and future service in relation to the UK pension scheme. However, following the closure of GKN2 to future accrual from 1 July 2017, this is no longer relevant.

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

24 Post-employment obligations continued

(a) Defined benefit schemes – assumptions and estimates continued

Key assumptions and estimates continued

During the year, the Group has taken the decision to change the model used in deriving the discount rates used in post-employment obligation valuations. Previously, gilt yields were used to extrapolate AA rated corporate bond yields to durations where no deep market in corporate bonds existed.

The current year approach looks at a number of different factors to set discount rates and is intended to remove the distortions inherent in the gilt yield curve resulting from high demand from institutional investors. This change increased the discount rate by 0.1% and remains consistent with the requirements of IAS 19.

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

UK

The key current year mortality assumptions for both GKN2 and GKN3 use S2PA year of birth mortality tables (adjusted for GKN experience) with CMI 2016 improvements and a 1.25% per annum long-term improvement trend. These assumptions give the following expectations for each scheme: for GKN3 a male aged 65 lives for a further 22.0 years and a female aged 65 lives for a further 24.6 years, while a male aged 40 is expected to live a further 24.8 years from age 65 and a female aged 40 is expected to live a further 26.5 years from age 65. For GKN2 a male aged 65 lives for a further 22.3 years and a female aged 65 lives for a further 25.1 years, while a male aged 40 is expected to live a further 24.2 years from age 65 and a female aged 40 is expected to live a further 27.0 years from age 65.

Overseas

In the US, RP-2014 tables have been used, while in Germany the RT2005-G tables have been used. In the US, the longevity assumption for a male aged 65 is that he lives a further 20.7 years (female 22.7 years), while in Germany a male aged 65 lives for a further 19.1 years (female 23.2 years). The longevity assumption for a US male currently aged 45 is that he also lives for a further 22.3 years once attaining 65 years (female 24.2 years), with the German equivalent assumption for a male being 21.8 years (female 25.7 years). These assumptions are based on the prescribed tables, rather than GKN experience.

Assumption sensitivity analysis

The impact of a one percentage point movement in the primary assumptions (longevity: 1 year) on the defined benefit obligations as at 31 December 2017 is set out below:

	UK	Americas	Europe	ROW
	Liabilities £m	Liabilities £m	Liabilities £m	Liabilities £m
Discount rate +1%	478	39	102	2
Discount rate -1%	(622)	(48)	(132)	(1)
Rate of inflation +1%	(525)	(1)	(89)	–
Rate of inflation -1%	407	–	74	–
Life expectancy +1 year	(122)	(10)	(25)	–
Life expectancy -1 year	124	10	23	–
Health cost trend +1%	(2)	(2)	–	–
Health cost trend -1%	2	1	–	–

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

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

Key estimates

It has been determined that the key estimates within the calculation of the defined benefit plans are discount rates, the rates of inflation and life expectancies. It is reasonably probable that a change in these could occur within the next year that could materially change the value of the defined benefit plans. Sensitivity analysis has been undertaken in the above table to illustrate the impact of a 1% or one-year increase and decrease in these metrics.

Pension partnership interest

During the year, the Group has paid £30 million (2016: £30 million) to the UK pension schemes through its pension partnership arrangement and this is included within the amount of contributions/benefits paid.

Funding update and closure of GKN2 to future accrual

During the year, the Group's two UK defined benefit pension schemes completed their triennial funding valuations as at 5 April 2016 for GKN2 and 31 December 2016 for GKN3.

The outcome of these discussions resulted in a lump sum contribution of £250 million paid in October 2017 to GKN2, and annual contributions of £6 million until 2022 to GKN3. These contributions along with investment outperformance is expected to close the deficits on the Trustee's funding basis by April 2022 for GKN3 and June 2031 for GKN2.

During the year, a decision was also taken to close GKN2 to future accrual and following a consultation process with the scheme members, the closure took place effective 30 June 2017. UK pension benefits are now provided on a defined contribution basis.

(b) Defined benefit schemes – reporting

The amounts included in operating profit are:

	2017 £m	2016 £m
Current service cost and administrative expenses	**(43)**	(51)
Settlements/curtailments	**–**	5
	(43)	(46)

The amounts recognised in the balance sheet are:

	2017					
	UK £m	Americas £m	Europe £m	ROW £m	Total £m	2016 £m
Present value of unfunded obligations	**(16)**	**(40)**	**(662)**	**(4)**	**(722)**	(711)
Present value of funded obligations	**(3,293)**	**(321)**	**(38)**	**(31)**	**(3,683)**	(3,902)
Fair value of plan assets	**2,618**	**224**	**34**	**25**	**2,901**	2,580
Net obligations recognised in the balance sheet	**(691)**	**(137)**	**(666)**	**(10)**	**(1,504)**	(2,033)

The triennial funding valuations for the UK defined benefit pension schemes were completed during the year. Following the completion of these valuations, in order to fund the deficits, the Company agreed to make a lump sum contribution of £250 million to GKN2 and annual contributions of £6 million to GKN3 until 2022 in addition to the distributions from the UK pension partnership.

The contribution for deficit funding expected to be paid by the Group during 2018 to the UK schemes is £6 million. In addition, a distribution of £30 million is expected to be made from the UK pension partnership to GKN2 in the first half of 2018, which brings the total expected UK cash requirement for 2018 to £36 million. The expected 2018 contribution to overseas schemes is £35 million.

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

	2017 £m	2016 £m
At 1 January	**(1,469)**	(1,073)
Remeasurement of defined benefit plans	**291**	(396)
At 31 December	**(1,178)**	(1,469)

24 Post-employment obligations continued

(b) Defined benefit schemes – reporting continued

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

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2017	**(3,514)**	**(375)**	**(688)**	**(36)**	**(4,613)**
Current service cost	**(24)**	**(1)**	**(11)**	**(2)**	**(38)**
Employee contributions	**–**	**(1)**	**–**	**–**	**(1)**
Administrative expenses	**(4)**	**(1)**	**–**	**–**	**(5)**
Interest	**(89)**	**(15)**	**(11)**	**–**	**(115)**
Remeasurement of defined benefit plans	**174**	**(22)**	**13**	**–**	**165**
Benefits and administrative expenses paid	**148**	**21**	**27**	**2**	**198**
Currency variations	**–**	**33**	**(30)**	**1**	**4**
At 31 December 2017	**(3,309)**	**(361)**	**(700)**	**(35)**	**(4,405)**
At 1 January 2016	(3,234)	(319)	(531)	(34)	(4,118)
Current service cost	(35)	(1)	(9)	(3)	(48)
Businesses disposed	–	–	12	–	12
Settlements and curtailments	268	–	2	–	270
Administrative expenses	(3)	–	–	–	(3)
Interest	(119)	(15)	(13)	–	(147)
Remeasurement of defined benefit plans	(540)	5	(82)	5	(612)
Benefits and administrative expenses paid	149	17	22	3	191
Currency variations	–	(62)	(89)	(7)	(158)
At 31 December 2016	(3,514)	(375)	(688)	(36)	(4,613)

Movement in schemes' assets during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2017	**2,293**	**227**	**37**	**23**	**2,580**
Interest	**58**	**9**	**1**	**–**	**68**
Employee contributions	**–**	**1**	**–**	**–**	**1**
Remeasurement of defined benefit plans	**102**	**21**	**–**	**3**	**126**
Contributions by Group	**308**	**7**	**–**	**2**	**317**
Benefits paid	**(143)**	**(21)**	**(5)**	**(2)**	**(171)**
Currency variations	**–**	**(20)**	**1**	**(1)**	**(20)**
At 31 December 2017	**2,618**	**224**	**34**	**25**	**2,901**
At 1 January 2016	2,322	186	33	19	2,560
Interest	85	8	1	–	94
Settlements and curtailments	(263)	–	(2)	–	(265)
Businesses disposed	–	–	(1)	–	(1)
Remeasurement of defined benefit plans	207	7	2	–	216
Contributions by Group	87	6	1	2	96
Benefits paid	(145)	(17)	(2)	(2)	(166)
Currency variations	–	37	5	4	46
At 31 December 2016	2,293	227	37	23	2,580

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

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
2017					
Experience gains and losses	**10**	**(3)**	**4**	**–**	**11**
Changes in financial assumptions	**64**	**(20)**	**9**	**–**	**53**
Change in demographic assumptions	**100**	**1**	**–**	**–**	**101**
	174	**(22)**	**13**	**–**	**165**
2016					
Experience gains and losses	210	6	1	–	217
Changes in financial assumptions	(715)	(8)	(83)	5	(801)
Change in demographic assumptions	(35)	7	–	–	(28)
	(540)	5	(82)	5	(612)

The fair values of the assets in the schemes were:

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 31 December 2017					
Equities (including hedge funds)	**507**	**106**	**–**	**14**	**627**
Diversified growth funds	**824**	**–**	**–**	**–**	**824**
Bonds – government	**464**	**50**	**–**	**–**	**514**
Bonds – corporate	**315**	**62**	**–**	**8**	**385**
Property	**127**	**–**	**–**	**–**	**127**
Cash, derivatives and net current assets	**214**	**6**	**–**	**–**	**220**
Other assets	**167**	**–**	**34**	**3**	**204**
	2,618	**224**	**34**	**25**	**2,901**
At 31 December 2016					
Equities (including hedge funds)	607	107	–	12	726
Diversified growth funds	558	–	–	–	558
Bonds – government	540	53	–	9	602
Bonds – corporate	245	63	–	–	308
Property	138	–	–	–	138
Cash, derivatives and net current assets	23	4	–	–	27
Other assets	182	–	37	2	221
	2,293	227	37	23	2,580

As at 31 December 2017, the equities in the UK asset portfolio were split 26% domestic (2016: 27%); 74% foreign (2016: 73%), while bond holdings were 100% domestic (2016: 97%) and 0% foreign (2016: 3%). The equivalent proportions for the US plans were: equities 40%/60% (2016: 41%/59%); bonds 87%/13% (2016: 89%/11%).

24 Post-employment obligations continued

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

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

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

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

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

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

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

		2017 years	2016 years
UK	GKN2	**19**	19
	GKN3	**11**	11
US		**12**	12
Germany		**17**	18

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

		Active			Deferred			Pensioner		
		Age	Number	Value £m	Age	Number	Value £m	Age	Number	Value £m
UK	GKN2	–	–	–	53	10,070	1,583	72	7,843	1,161
	GKN3	–	–	–	56	2,913	58	80	9,490	490
US		54	2,367	111	57	1,216	43	75	4,413	206
Germany		55	2,386	293	57	843	53	72	3,068	280

Within the UK, there are two pension schemes referred to as GKN2 and GKN3. GKN3 is a mature scheme, comprised primarily of pensioner members, which is already at peak annual cash outflow (benefit payments); while GKN2 is less mature, with a larger deferred population. Benefit payments from GKN2 are forecast to continue to rise until the mid 2030s, when they will peak, before beginning to decline.

(e) Defined contribution schemes
The Group operates a number of defined contribution schemes. The charge to the income statement in the year was £84 million (2016: £62 million).

25 Contingent assets and liabilities

Aside from an unrecognised contingent asset, referred to in note 6 in respect of Franked Investment Income, related to advance corporate tax payments and corporate tax paid on certain foreign dividends, there were no other material contingent assets at 31 December 2017 or 31 December 2016.

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

There is a known risk that future delivery schedule commitments, negotiated as part of the performance related claims settlement noted in note 2(b), may not be met and as such further penalties be levied on the risk and revenue sharing partnership. The Group's programme share of these potential penalties is not reliably quantifiable.

26 Operating lease commitments – minimum lease payments

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

	2017		2016	
	Property £m	**Vehicles, plant and equipment £m**	Property £m	Vehicles, plant and equipment £m
Payments under non-cancellable operating leases:				
Within one year	**54**	**21**	46	21
Later than one year and less than five years	**159**	**41**	154	37
After five years	**207**	**19**	218	8
	420	**81**	418	66

27 Capital expenditure

Contracts placed against capital expenditure sanctioned at 31 December 2017 which are not provided by subsidiaries amounted to £227 million property, plant and equipment, £31 million intangible assets (2016: £195 million property, plant and equipment, £24 million intangible assets), and the Group's share not provided by equity accounted investments amounted to £3 million property, plant and equipment, nil intangible assets (2016: £8 million property, plant and equipment, nil intangible assets).

28 Related party transactions

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and equity accounted investment companies priced on an arm's-length basis. Sales by subsidiaries to equity accounted investments in 2017 totalled £43 million (2016: £44 million). The amount due at the year end in respect of such sales was £18 million (2016: £11 million). Purchases by subsidiaries from equity accounted investments in 2017 totalled £16 million (2016: £10 million). The amount due at the year end in respect of such purchases was £3 million (2016: £3 million).

At 31 December 2017, a Group subsidiary had £8 million payable to equity accounted investments companies in respect of unsecured financing facilities bearing interest at one month LIBOR plus ⅛% (2016: £10 million).

29 Subsidiaries and other undertakings

The subsidiary and other undertakings of the GKN Group at 31 December 2017 are shown in note 5 of the GKN plc company financial statements. Subsidiaries were included in the consolidation and are held indirectly by GKN plc through intermediate holding companies. The undertakings located overseas operate principally in the country of incorporation. The equity share capital of these undertakings is wholly owned by the GKN Group, unless where indicated otherwise.

30 Business combinations

On 31 May 2017, the Group purchased the entire equity shareholding of Tozmetal Ticaret ve Sanayi Anonim Şirketi (Tozmetal), a Turkey-based sintering business, to broaden the division's manufacturing footprint. The acquired company has since been renamed GKN Sinter Istanbul Metal Sanayi Ve Ticaret Anonim Şirketi. The consideration of £26 million comprised a cash payment only. The fair value of net assets acquired comprised: property, plant and equipment of £7 million, inventory of £2 million, receivables of £6 million, cash of £1 million, payables of £4 million, intangible assets of £9 million and goodwill of £5 million. This has been included in Powder Metallurgy for segmental reporting.

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

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

During 2016, the Group also paid £2 million to purchase a non-controlling interest from the other investor in Lianyungang GKN Hua Ding Wheels Co Ltd. The Group now owns 100% of the share capital in this company.

BALANCE SHEET OF GKN PLC

Company number: 04191106
At 31 December 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Investment in subsidiaries	3	**3,611**	3,607
Current assets			
Amounts owed by subsidiaries		**18**	17
Total assets		**3,629**	3,624
Current liabilities			
Amounts owed to subsidiaries		**(1,431)**	(2,148)
Net assets		**2,198**	1,476
Capital and reserves			
Share capital	4	**173**	173
Capital redemption reserve		**298**	298
Share premium account		**330**	330
At 1 January		**675**	813
Profit and total comprehensive income for the year attributable to the owners		**871**	6
Other changes in retained earnings		**(149)**	(144)
Retained earnings		**1,397**	675
Total equity		**2,198**	1,476

The financial statements on pages 163 to 171 were approved by the Board of Directors and authorised for issue on 26 February 2018.
They were signed on its behalf by:

Anne Stevens, Jos Sclater
Directors

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital £m	Capital redemption reserve £m	Share premium account £m	Retained earnings £m	Total equity £m
At 1 January 2017	**173**	**298**	**330**	**675**	**1,476**
Profit for the year	**–**	**–**	**–**	**871**	**871**
Share-based payments	**–**	**–**	**–**	**4**	**4**
Dividends paid to equity shareholders	**–**	**–**	**–**	**(154)**	**(154)**
Proceeds from exercise of share options	**–**	**–**	**–**	**1**	**1**
At 31 December 2017	**173**	**298**	**330**	**1,397**	**2,198**
At 1 January 2016	173	298	330	813	1,614
Profit for the year	–	–	–	6	6
Share-based payments	–	–	–	5	5
Dividends paid to equity shareholders	–	–	–	(150)	(150)
Proceeds from exercise of share options	–	–	–	1	1
At 31 December 2016	173	298	330	675	1,476

NOTES TO THE FINANCIAL STATEMENTS OF GKN PLC

1 Significant accounting policies and basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. GKN plc is a public company limited by shares, incorporated and domiciled in the UK, and registered in England and Wales with the registration number 04191106. Its registered office is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL. They have been prepared on a going concern basis under the historical cost convention except where other measurement bases are required to be applied and in accordance with IFRS under Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In accordance with FRS 101, the Company has taken advantage of the following exemptions:

> IAS 7, 'Statement of Cash Flows'.

> IFRS 7, 'Financial Instruments Disclosures'.

> Requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of the group.

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

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

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

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

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

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

2 Income statement

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own Income Statement for the year.

Profit after taxation for the year was £871 million (2016: £6 million) including dividend income received of £877 million (2016: nil).

Auditors' remuneration for audit services to the Company was £0.4 million (2016: £0.4 million).

3 Fixed asset investments

Cost and net book amount	£m
At 1 January 2017	**3,607**
Additions – share-based payments	4
At 31 December 2017	**3,611**

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

4 Share capital

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

5 Subsidiaries and other undertakings

Details of the Group's subsidiaries, joint ventures and associated undertakings as at 31 December 2017 are given below. With the exception of GKN Holdings plc, all undertakings are held indirectly through intermediate companies. All undertakings are wholly owned by the Group unless stated otherwise.

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

Name	Class of shares held/interest	Registered office
Transmisiones Homocineticas Argentinas SA (49%)	Ordinary B[1]	Avenida Del Libertador 602, 4' Piso, Buenos Aires, Argentina
Unidrive Pty Ltd (60%)	Ordinary	45-49 McNaughton Road, Clayton Victoria 3168, Australia
GKN Service Austria GmbH	Ordinary	Slamastrasse 32, Postfach 36, 1230 Wien, Austria
Société Anonyme Belge de Constructions Aéronautiques (43.57%)	Ordinary	Chaussée de Haecht 1470, B – 1130 Brussels, Belgium
GKN Aerospace Transparency Systems do Brasil Ltda	Quota capital	Av. Alfredo Ignácio Noqueira Penido, 335 – Sala 1103 – Edifício Madison Power, São José dos Campos, SP, 12246-000, Brazil
GKN do Brasil Limitada	Quota capital	Rua Joaquim Silveira 557, Parque Sao Sebastiao, 91060-320 Porto Alegre, RS, Brazil
GKN Sinter Metals Ltda	Quota capital	Av. da Emancipacao no. 4.500, CEP 13.184-542, Bairro Santa Esmeralda, Hortolandia, Sao Paulo, Brazil
GKN Brasil Equipamentos Ltda	Quota capital	Av. Sargento Geraldo Santana, 154, 04674-225, Sao Paulo, SP, Brazil
Fokker Elmo Canada Inc	Common stock	1635 rue Blueberry Forest, Saint-Lazare Québec, J7T2J9, Canada
GKN Sinter Metals St Thomas Ltd	Common stock	199 Bay Street, Suite 2800, Commerce Court West, Toronto ON M5L1A9, Canada
Fokker Elmo (Langfang) Electrical Systems Co. Ltd	Registered investment	No 71 Xiangyuan Road, Langfang Economic & Technical Development Zone, Langfang, China
GKN (Bazhou) Metal Powder Company Limited (60%)	Registered investment	On the north of 1500 meters, Wuping Dong Road, Shengfang Town, Bazhou City, Hebei Province, China
GKN China Holding Co Ltd	Registered investment	Suite 1105-1110 LJZ Plaza, 1600 Century Avenue, Pudong, Shanghai, 200122, China
GKN Danyang Industries Company Limited	Registered investment	18 North Shitan Road, North Industrial Park, Development Zone, Danyang, Jiangsu, China
GKN HUAYU Driveline Systems (Chongqing) Co. Ltd (9%)	Registered investment[2]	No. 1 Cuigu, Northern New Zone, Chongqing, 401122, China
GKN (Lianyungang) Company Limited	Registered investment	928 JingDu Road, Donghai Economic Development Zone, Jiangsu, 222300, China
GKN Power Solutions (Liuzhou) Company Limited	Registered investment	No. 7 Liutai Road, Liuzhou, Guangxi, 545007, China
GKN Sinter Metals Yizheng Co Ltd	Registered investment	Room 101, Xiwu Building, Yangzhou (Yizheng) Automotive Industrial Park, Jiangsu, China
GKN (Taicang) Co Ltd	Registered investment	188 East Guangzhou Road, Taicang Economic Development Area, Jiangsu Province, China
GKN Zhongyuan Cylinder Liner Company Limited (59%)	Registered investment	Xiguo Industrial Zone, Mengzhou City, Henan Province, 454750, China
Nanjing FAYN Piston Ring Company Limited (19.79%)	Registered investment	17 Zhongshan Road, Yong Yang County, Lishui District, Nanjing, China
Shanghai GKN Driveline Sales Co Ltd (49%)	Registered investment	898 Kangshen Road, Pudong, Shanghai, China
Shanghai GKN HUAYU Driveline Systems Company Limited (50%)	Registered investment	950 KangQiao Road, Pudong New Area, Shanghai, China
Transejes Transmisiones Homocineticas de Colombia SA (49%)	Ordinary	Calle 32 No. 15 – 23 Barrio Rincon de Girón, Girón Santander, Colombia
GKN Walterscheid Service & Distribution A/S	Ordinary	Baldershøj 11, 2635 Ishøj, Denmark
GKN Wheels Nagbol A/S	Ordinary	Nagbølvej 31, 6640 Lunderskov, Denmark
Automotive Group Services SARL	Ordinary	20 rue Lavoisier, 95300 Pontoise, France
GKN Automotive SAS	Ordinary	100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy, France
GKN Driveline Ribemont SARL	Ordinary	7 rue de la Briqueterie, 02240 Ribemont, France
GKN Driveline SA (99.99%)	Ordinary	100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy, France
GKN Freight Services EURL	Ordinary	100 Avenue Vanderbilt, 78955 Carrieres-sous-Poissy, France

Name	Class of shares held/interest	Registered office
GKN Service France SAS	Ordinary	8 rue Panhard et Levassor, Ecoparc des Cettons, 78570, Chanteloup-les- Vignes, France
NHIndustries SAS (5.5%)	Ordinary	765 rue Albert Einstein, CS 70402, 13591 Aix-en-Provence Cedex 3, France
GKN Aerospace Deutschland GmbH	Ordinary	Brunhamstr. 21, 81249, Munich, Germany
GKN Driveline Deutschland GmbH	Ordinary	Carl-Legien-Strasse 10, 63073 Offenbach am Main, Germany
GKN Driveline International GmbH	Ordinary	Hauptstrasse 130, 53797 Lohmar, Germany
GKN Driveline Trier GmbH	Ordinary	Hafenstrasse 41, 54293 Trier, Germany
GKN Freight Services GmbH	Ordinary	Heinrich-Krumm Strasse 1-3, 63073 Offenbach am Main, Germany
GKN Gelenkwellenwerk Kaiserslautern GmbH	Ordinary	Opelkreisel 1-9, 67663 Kaiserslautern, Germany
GKN Powder Metallurgy Holding GmbH	Ordinary	Krebsoege 10, 42477 Radevormwald, Germany
GKN Service International GmbH	Ordinary	Nussbaumweg 19-21, 51503 Roesrath, Germany
GKN Sinter Metals Components GmbH	Ordinary	Pennefeldsweg 11-15, 53177, Bonn, Germany
GKN Sinter Metals Engineering GmbH	Ordinary	Krebsoege 10, 42477 Radevormwald, Germany
GKN Sinter Metals Filters GmbH Radevormwald	Ordinary	Dahlienstrasse 43, 42477 Radevormwald, Germany
GKN Sinter Metals GmbH, Bad Bruckenau	Ordinary	Industriestr. 1, 97769 Bad Brückenau, Germany
GKN Sinter Metals GmbH, Bad Langensalza	Ordinary	Am Fliegerhorst 9, 99947 Bad Langensalza, Germany
GKN Walterscheid Getriebe GmbH	Ordinary	Alte Bautzener Strasse 1-3, 02689 Sohland/Spree, Germany
GKN Walterscheid GmbH	Ordinary	Hauptstrasse 150, 53797 Lohmar, Germany
Hoeganaes Corporation Europe GmbH	Ordinary	Peterstrasse 69, 42499 Hueckeswagen, Germany
Drivetech Accessories Limited	Ordinary	E-249, Rama Market, Munirka, New Delhi, 110 067, India
Fokker Elmo SASMOS Interconnection Systems Limited (49%)	Ordinary	Block 2A No. 311, NPR Complex. Survey No 197, Hoody Village, K R Puram Hobli, Whitefield Road, Bangalore – 560048, Karnataka, India[3]
GKN Driveline (India) Limited (97.03%)	Ordinary	270, Sector-24, Faridabad 121 005, Haryana, India
GKN Sinter Metals Private Limited	Ordinary	146 Mumbai Pune Road, Pimpri, Pune 411 018, India
GKN Driveline Beshel Private Joint Stock Company (59.99%)	Ordinary	N° 9, Yas Alley Fath St, Sadr Express Way, 1939753151 Tehran, Islamic Republic of Iran
Ipsley Insurance Limited	Ordinary	Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man
GKN Driveline Brunico SpA	Ordinary	Via dei Campi della Rienza 8, 39031 Brunico, BZ, Italy
GKN Driveline Firenze SpA	Ordinary	Via Fratelli Cervi 1, 50013 Campi Bisenzio, FI, Italy
GKN Italia SpA	Ordinary	Via dei Campi della Rienza 8, 39031 Brunico, BZ, Italy
GKN Service Italia SpA	Ordinary	Via Giosuè Carducci 133, Cologno Monzese 20093, MI, Italy
GKN Sinter Metals SpA	Ordinary	Via Delle Fabbriche 5, 39031 Brunico, BZ, Italy
GKN Wheels Carpenedolo SpA	Ordinary	Viale Santa Maria 76, 25013 Carpenedolo, BS, Italy
GKN Driveline Japan Ltd	Ordinary	2388 Ohmiya-cho, Tochigi City, 328-8502 Tochigi, Japan
GKN Driveline Tochigi Holdings KK	Ordinary	2388 Ohmiya-cho, Tochigi City, 328-8502 Tochigi, Japan
Matsui-Walterscheid Ltd (40%)	Common stock	21-15 Azusawa 2-chome, Itabashi-ku, Tokyo 174, Japan[4]
GKN Finance Limited	Ordinary	13 Castle Street, St Helier, JE4 5UT, Jersey
GKN Driveline Korea Limited	Common stock	Foreign Investors Industrial Park, 2 Ro, 3 Kongdan, Subuk- gu, Choongnam-do, 330-220, Republic of Korea
GKN Driveline Malaysia Sdn Bhd (68.42%)	Ordinary	2445 Lorong Perusahaan Enam B, Kawasan Perindustrian Prai 13600 Prai, Penang, Malaysia
FAE Aerostructures SA de CV	Ordinary	Tabalaopa #8301, Parque Industrial, Chihuahua, Mexico
GKN Aerospace San Luis Potosi S. de R.L. de C.V.	Fixed equity	Av. CFE No. 709, Parque Industrial Millennium, San Luis Potosi S.L.P 78395, Mexico
GKN Driveline Celaya SA de CV (99.85%)	Ordinary	Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110, Mexico
GKN Driveline Mexico Services SA de CV (98%)	Ordinary	Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110, Mexico
GKN Driveline Mexico Trading SA de CV (98%)	Ordinary	Carretera Panamericana km 284, Celaya, Guanajuato, C.P. 38110, Mexico
GKN Driveline Villagran SA de CV (98%)	Ordinary	Carretera Alterna Celaya Villagrán Km 11, Col. El Pintor, Villagrán, Guanajuato, C.P. 38260, Mexico
Business Park Aviolanda B.V. (20%)	Ordinary	Aviolandalaan 37, 4631 RP, Hoogerheide, Netherlands
Cooperative Delivery of Retrokits (CDR) V.O.F. (50%)	Registered investment	A General Partnership with a registered office of Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fabriek Slobbengors Beheer B.V. (49%)	Ordinary	Markt 22, 3351 PB, Papendrecht, Netherlands
Fabriek Slobbengors C.V. (49%)	Registered investment	Markt 22, 3351 PB, Papendrecht, Netherlands
Fokker Aerospace B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Aerostructures B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands

5 Subsidiaries and other undertakings continued

Name	Class of shares held/interest	Registered office
Fokker Aircraft Services B.V.	Ordinary	Aviolandalaan 31, 4631 RP, Hoogerheide, Netherlands
Fokker (CDR) B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Elmo B.V.	Ordinary	Aviolandalaan 33, Hoogerheide, 4631 RP, Netherlands
Fokker Engineers & Contractors B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Landing Gear B.V.	Ordinary	Grasbeemd 28, 5705 DG, Helmond, Netherlands
Fokker Procurement Combination B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Services B.V.	Ordinary	Hoeksteen 40, 2132 MS, Hoofddorp, Netherlands
Fokker Techniek BV	Ordinary	Aviolandalaan 31, 4631 RP, Hoogerheide, Netherlands
Fokker Technologies Group B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Technologies Holding B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
Fokker Technology B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
GKN Aerospace Netherlands B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
GKN Service Benelux BV	Ordinary	Haarlemmerstraatweg 153-157, 1165 MK Halfweg, Netherlands
GKN UK Holdings BV	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Hoofdkantoor Slobbengors Beheer B.V. (49%)	Ordinary	Markt 22, 3351 PB, Papendrecht, Netherlands
Kantoor Industrieweg C.V. (49%)	Registered investment	Markt 22, 3351 PB, Papendrecht, Netherlands
Structural Laminates Industries B.V.	Ordinary	Industrieweg 4, 3351 LB, Papendrecht, Netherlands
GKN Aerospace Norway AS	Ordinary	Kirkegårdsveien 45, 3616 Kongsberg, Norway
Kongsberg Technology Training Centre AS (50%)	Ordinary	Kirkegårdsveien 45, 3616 Kongsberg, Norway
Kongsberg Terotech AS (33.33%)	Ordinary	Kirkegårdsveien 45, 3616 Kongsberg, Norway
GKN Driveline Polska Sp z o o	Ordinary	Ul. B. Krzywoustego 31 G, 56-400 Oleśnica, Poland
GKN Service Polska Sp. z o.o	Ordinary	Al. Katowicka 33, 05-830, Nadarzyn, Poland
FOAR S.R.L. (49%)	Ordinary	Str. Condorilor 9, 600302, Bacau, Romania
Fokker Engineering Romania S.R.L.	Ordinary	Pipera Boulevard, No. 1/VII, Nord City Tower, Etaj 4, Voluntari Ilfov, Romania
Hoeganaes Corporation Europe SA	Ordinary	33 Urziceni Street, Buzau, 120226, Romania
GKN Driveline Togliatti LLC	Ordinary	Sovetskaya Street, 1a, Office 3, Podstepki Village, 445143, Stavropol Region, Samara Oblast, Russian Federation
GKN Engineering (RUS) LLC	Ordinary	Office 21K, Building 19, Leninskaya Sloboda Street, 115280, Moscow, Russian Federation
Fokker Services Asia Pte Ltd	Ordinary	1800 West Camp Road, Seletar Aerospace Park, Singapore
GKN Driveline Singapore Pte Ltd	Ordinary	10 Eunos Road 8, #13-06, Singapore Post Centre, 408600, Singapore
GKN Driveline Slovenija d o o	Ordinary	Rudniska cesta 20, Zrece 3214, Slovenia
GKN Sinter Metals Cape Town (Pty) Limited	Ordinary	3 Dorbyl Road, Sacks Circle, Bellville, Western Cape, 7530, South Africa
GKN Ayra Servicio, SA	Ordinary	Pol. Ind. Can Salvatella, Avenida Arrahona 54-56, 08210 Barbera del Valles, Barcelona, Spain
GKN Driveline Vigo, SA	Ordinary	Avenida de Citroen s/n, 36210 Vigo, Spain
GKN Driveline Zumaia, SA	Ordinary	Sagarbidea 2, 20750 Zumaia, Spain
Stork Prints Iberia SA	Ordinary	Polígono Industrial s/n, Maçanet de la Selva, 17412 Girona, Spain
GKN Aerospace Sweden AB	Ordinary	SE- 461 81, Trollhättan, Sweden
GKN Driveline Köping AB	Ordinary	SE – 731 36, Köping, Sweden
GKN Driveline Service Scandinavia AB	Ordinary	Alfred Nobels allé 110, 14621, Tullinge, Sweden
GKN Shafts and Services AB	Ordinary	Alfred Nobels allé 110, 14621, Tullinge, Sweden
GKN Sweden Holdings AB	Ordinary	SE- 461 81, Trollhättan, Sweden
Industrigruppen JAS AB (20%)	Ordinary	581 88 Linköping, Sweden
Taiway Limited (36.25%)	Common stock	14 Kwang Fu Road, Hsin-Chu Industrial Park, Hukou, Hsin Chu 30351, Taiwan
GKN Aerospace Transparency Systems (Thailand) Limited	Ordinary	9/21 Moo 5, Phaholyothin Road Klong 1, Klong Luang, Patumthanee, 12120, Thailand
GKN Driveline (Thailand) Limited	Ordinary	Eastern Seaboard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng, Rayong 21140, Thailand
GKN Driveline Manufacturing Ltd	Ordinary	Eastern Seaboard Industrial Estate, 64/9 Moo 4, Tambon Pluakdaeng, Amphur Pluakdaeng, Rayong 21140, Thailand
Fokker Elmo Havacilik Sanayi Ve Ticaret Limited Şirketi	Ordinary	Ege Serbest Bölgesi, SADI Sok. No:10, 35410 Gaziemir, Izmir, Turkey

Name	Class of shares held/interest	Registered office
GKN Eskisehir Automotive Products Manufacture and Sales A.S.	Ordinary	Organize Sanayi Bolgesi 20, Cadde No: 17, 26110, Eskisehir, Turkey
GKN Sinter Istanbul Metal Sanayi Ve Ticaret Anonim Şirketi	Ordinary	Yakuplu Mah. Haramidere Sanayi Sitesi, J Blok, No. 106-107-108, Beylikdüzü, Istanbul, Turkey
Alder Miles Druce Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
A. P. Newall & Company Limited	Ordinary	15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA, United Kingdom
Ball Components Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Birfield Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
British Hovercraft Corporation Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Chassis Systems Limited (50%)	Ordinary	Hadley Castle Works, Telford, Shropshire, TF1 6AA, England
F.P.T. Industries Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
FAD (UK) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Firth Cleveland Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Aerospace Services Limited	Ordinary	Ferry Road, East Cowes, Isle of Wight, PO32 6RA, England
GKN Aerospace Transparency Systems (Kings Norton) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Aerospace Transparency Systems (Luton) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Automotive Limited	Ordinary and preference	PO Box 4128, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0WR, England
GKN AutoStructures Limited	Ordinary	Hadley Castle Works, Telford, Shropshire, TF1 6AA, England
GKN Birfield Extrusions Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Bound Brook Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Building Services Europe Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN CEDU Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Composites Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Computer Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Countertrade Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Defence Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Defence Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Driveline Birmingham Limited	Ordinary	Chester Road, Erdington, Birmingham, B24 0RB, England
GKN Driveline UK Limited	Ordinary	PO Box 4128, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0WR, England
GKN Driveline Mexico (UK) Limited	Ordinary	PO Box 4128, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0WR, England
GKN Driveline Service Limited	Ordinary	Unit 5, Kingsbury Business Park, Kingsbury Road, Minworth, Sutton Coldfield, B76 9DL, England
GKN Enterprise Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Euro Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN EVO eDrive Systems Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Export Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Fasteners Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Finance (UK) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Firth Cleveland Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Freight Services Limited	Ordinary and cumulative preference	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Group Pension Trustee (No.2) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Group Pension Trustee Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Group Services Limited	Ordinary and redeemable preference	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Hardy Spicer Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Holdings plc (held directly by GKN plc)	Ordinary and deferred	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Hybrid Power Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Industries Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
G.K.N. International Trading (Holdings) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England

5 Subsidiaries and other undertakings continued

Name	Class of shares held/interest	Registered office
GKN Investments LP	Ordinary	Registered office and principal place of business is 15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA, United Kingdom. The partnership is controlled by and its results are consolidated by the Group, as such advantage has been taken of the exemption set out in regulation 7 of the Partnerships (Accounts) Regulations 2008
GKN Marks Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN OffHighway Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Overseas Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Pistons Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
G.K.N. Powder Met. Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Quest Trustee Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sankey Finance Limited	Ordinary and deferred	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sankey Limited	Ordinary	Hadley Castle Works, Telford, Shropshire, TF1 6AA, England
GKN SEK Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Service UK Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sheepbridge Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sheepbridge Stokes Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sinter Metals Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Sinter Metals Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Technology Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Thompson Chassis Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Trading Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN UK Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN U.S. Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN USD Investments Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Ventures Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Aerospace (Avonmouth) Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Aerospace Advanced Materials Limited	Ordinary and convertible preference	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Aerospace Aviation Support Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Aerospace Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Design Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Overseas Holdings Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Westland Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Wheels Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Guest, Keen and Nettlefolds, Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Laycock Engineering Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
P.F.D. Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Raingear Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Rigby Metal Components Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Rzeppa Limited	Ordinary and redeemable preference	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Sheepbridge Stokes Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Westland Group plc	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Westland Group Services Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Westland System Assessment Limited	Ordinary	PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
Aerotron AirPower Inc	Common stock	456 Aerotron Parkway, LaGrange, 30240 GA, USA
Fokker Aerostructures Inc	Common stock	GTH Corporate Services LLC, 1201 Pacific Ave Ste 2100, Tacoma WA 98401, USA
Fokker Elmo Inc	Common stock	CT Corporation Systems, 1201 Peachtree St NE, Atlanta GA 30361, USA

Name	Class of shares held/interest	Registered office
GENIL, Inc	Ordinary	CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
GKN Aerospace Aerostructures, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Camarillo, Inc	Ordinary	CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
GKN Aerospace Chem-tronics Inc	Ordinary	CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
GKN Aerospace Cincinnati, Inc	Ordinary	CSC-Lawyers Incorporating Service, 50 West Broad Street, Suite 1300, Columbus OH 43215, USA
GKN Aerospace Florida, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Monitor, Inc	Ordinary	Corporation Service Company, 80 State Street, Albany NY 12207, USA
GKN Aerospace Muncie, Inc	Ordinary	Corporation Service Company, 251 East Ohio Street, Suite 500, Indianapolis IN 46204, USA
GKN Aerospace New England, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Newington LLC	Membership interest (no share capital)	Principal place of business is 179 Louis Street, Newington CT 06111, USA
GKN Aerospace North America, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Precision Machining, Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Services Structures Corporation	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace South Carolina, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Aerospace Transparency Systems Inc	Common stock	CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150 N, Sacramento CA 95833, USA
GKN Aerospace US Holdings LLC	Membership interest (no share capital)	Principal place of business is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL, England
GKN Aerospace, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN America Corp	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Armstrong Wheels, Inc	Ordinary	Corporation Service Company, 505 5th Avenue, Suite 729, Des Moines IA 50309, USA
GKN Driveline Bowling Green, Inc	Common stock	CSC – Lawyers Incorporating Service, 50 West Broad Street, Suite 1300, Columbus OH 43215, USA
GKN Driveline Newton LLC	Membership interest (no share capital)	Principal place of business is 1848 GKN Way, Newton NC 28658, USA
GKN Driveline North America, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Freight Services, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN North America Investments Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN North America Services, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Ohio Inc	Common stock	CSC – Lawyers Incorporating Service, 50 West Broad Street, Suite 1300, Columbus OH 43215, USA
GKN Rockford Inc	Ordinary	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
GKN Sinter Metals, LLC	Membership interest (no share capital)	Principal place of business is 2200 North Opdyke Road, Auburn Hills MI 48326, USA
GKN Walterscheid, Inc	Ordinary	Illinois Corporation Service Company, 801 Adlai Stevenson Drive, Springfield IL 62703, USA
GKN Westland Aerospace, Inc	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
Hoeganaes Corporation	Common stock	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
Hoeganaes Specialty Metal Powders LLC (70%)	Membership interest (no share capital)	Principal place of business is 1001 Taylors Lane, Cinnaminson NJ 08077, USA
XIK LLC	Membership interest (no share capital)	Principal place of business is 2715 Davey Road, Suite 300, Woodridge, Illinois, 60517-5064, USA
GKN Driveline Uruguay SA	Ordinary	Arq. Baldomiro, 2408, Montevideo, Uruguay
Hadfields Holdings Limited (37.5%)	Ordinary	30 Millbank, London, SW1P 4WY

1 The Group owns 100% of the Ordinary Class B shares with a total ownership of 49% in the company.
2 The Group owns 9% directly with a total effective ownership of 34.5%
3 The company's last financial year ended 31 March 2017
4 The company's last financial year ended 31 March 2017

GROUP FINANCIAL RECORD

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Consolidated income statements					
Sales	**9,671**	**8,822**	**7,231**	**6,982**	**7,136**
Trading profit	**568**	**684**	**609**	**612**	**597**
Change in value of derivative and other financial instruments	**364**	**(154)**	**(122)**	**(209)**	**26**
Amortisation of non-operating intangible assets arising on business combinations	**(100)**	**(103)**	**(80)**	**(69)**	**(75)**
Gains and losses on changes in Group structure	**(2)**	**(9)**	**(1)**	**24**	**12**
Reversal of inventory fair value adjustment arising on business combinations	**–**	**–**	**(12)**	**–**	**–**
Impairment charges	**(131)**	**(52)**	**(71)**	**(69)**	**–**
Restructuring charges	**–**	**(31)**	**–**	**–**	**–**
Operating profit	**699**	**335**	**323**	**289**	**560**
Share of post-tax earnings of continuing joint ventures	**80**	**73**	**59**	**61**	**52**
Net financing costs	**(121)**	**(116)**	**(137)**	**(129)**	**(128)**
Profit before taxation from continuing operations	**658**	**292**	**245**	**221**	**484**
Taxation	**(149)**	**(48)**	**(43)**	**(47)**	**(77)**
Profit for the year	**509**	**244**	**202**	**174**	**407**
Profit attributable to non-controlling interests	**(6)**	**(2)**	**(5)**	**(5)**	**(12)**
Profit attributable to equity shareholders	**503**	**242**	**197**	**169**	**395**
Earnings per share – pence	**29.3**	**14.1**	**11.8**	**10.3**	**24.2**
Dividend per share – pence	**9.3**	**8.85**	**8.7**	**8.4**	**7.9**
Management performance measures[1]					
Sales	**10,409**	**9,414**	**7,689**	**7,456**	**7,594**
Trading profit	**662**	**773**	**679**	**687**	**661**
Profit before taxation	**572**	**678**	**603**	**601**	**578**
Earnings per share – pence	**26.6**	**31.0**	**27.8**	**29.0**	**28.7**

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Consolidated balance sheets					
Non-current assets					
Intangible assets (including goodwill)	**1,671**	1,908	1,856	1,442	1,476
Property, plant and equipment	**2,677**	2,670	2,200	2,060	1,945
Equity accounted investments	**249**	233	195	174	179
Deferred tax assets	**374**	557	388	407	225
Other non-current assets	**190**	74	63	60	104
	5,161	5,442	4,702	4,143	3,929
Current assets					
Inventories	**1,431**	1,431	1,170	971	931
Trade and other receivables	**1,748**	1,648	1,311	1,226	1,142
Cash and cash equivalents and other financial assets	**426**	416	304	322	184
Other (including assets held for sale)	**96**	26	22	18	53
	3,701	3,521	2,807	2,537	2,310
Current liabilities					
Borrowings	**(38)**	(64)	(137)	(43)	(27)
Trade and other payables	**(2,333)**	(2,186)	(1,757)	(1,611)	(1,485)
Current income tax liabilities	**(132)**	(142)	(121)	(125)	(135)
Other current liabilities (including liabilities associated with assets held for sale)	**(158)**	(277)	(229)	(127)	(66)
	(2,661)	(2,669)	(2,244)	(1,906)	(1,713)
Non-current liabilities					
Borrowings	**(1,126)**	(842)	(867)	(877)	(889)
Deferred tax liabilities	**(184)**	(227)	(157)	(223)	(178)
Other non-current liabilities	**(733)**	(948)	(719)	(350)	(274)
Provisions	**(74)**	(82)	(78)	(112)	(119)
Post-employment obligations	**(1,504)**	(2,033)	(1,558)	(1,711)	(1,271)
	(3,621)	(4,132)	(3,379)	(3,273)	(2,731)
Net assets	**2,580**	2,162	1,886	1,501	1,795
Net debt	**(889)**	(704)	(769)	(624)	(732)

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