# BOARD OF DIRECTORS

**Mike Turner CBE** N
*Chairman*

**Appointed** to the Board in September 2009 and became Chairman in May 2012.

**Experience** Has extensive experience of the aerospace industry having worked for BAE Systems plc for over 40 years, including as its Chief Executive from 2002 to 2008. Former President of the Aerospace & Defence Industries Association of Europe and former non-executive director of Lazard Ltd. Fellow of the Royal Aeronautical Society.

**External appointments** Chairman of Babcock International Group PLC and non-executive director of Barclays PLC and Barclays Bank PLC. Member of the UK Government's Apprenticeship Ambassadors Network.

**Anne Stevens** E
*Chief Executive*

**Appointed** to the Board as an Independent non-executive Director in July 2016 and became Chief Executive in January 2018.

**Experience** Has extensive experience across both the automotive and aerospace industries. Former non-executive director of Lockheed Martin Corporation and former Chairman, Chief Executive Officer and President of Carpenter Technology Corp. Prior to this, Anne undertook a number of roles during a 16-year career at Ford Motor Company where she was latterly Chief Operating Officer for the Americas. Her early career was spent at Exxon Corporation where she held roles in engineering, product development and sales and marketing.

**External appointments** Non-executive director of Anglo American plc and XL Group plc.

**Angus Cockburn** A R N
*Independent non-executive Director*

**Appointed** to the Board in January 2013 and as Senior Independent Director in February 2018.

**Experience** Currently Chief Financial Officer of Serco Group plc. He joined Serco in October 2014 from Aggreko plc where he held the role of Chief Financial Officer for 14 years and was latterly Interim Chief Executive. Prior to this, he was Managing Director of Pringle Scotland, a division of Dawson International plc. Previously held a number of roles at PepsiCo Inc and was latterly Regional Finance Director for Central Europe. Former non-executive director of Howden Joinery Group plc and former chairman of the Group of Scottish Finance Directors. He is also an Honorary Professor at the University of Edinburgh.

**Tufan Erginbilgic** A R N
*Independent non-executive Director*

**Appointed** to the Board in May 2011.

**Experience** Currently Chief Executive, Downstream for BP plc with specific responsibility for the Fuels, Lubricants and Petrochemicals businesses. He joined BP in 1997 and has held a number of senior marketing and operational roles, including Chief of Staff to the Group Chief Executive, Chief Operating Officer of the Fuels business and Chief Executive of the Castrol Lubricants business. His early career was spent at Mobil Oil.

**External appointments** Director of the Turkish-British Chamber of Commerce and Industry and member of the Strategic Advisory Board of the University of Surrey.

**Shonaid Jemmett-Page** A R N
*Independent non-executive Director*

**Appointed** to the Board in June 2010.

**Experience** Former Chief Operating Officer of CDC Group plc, the UK Government's development finance institution. Joined CDC from Unilever, where for eight years she was Senior Vice-President Finance and Information, Home and Personal Care, originally in Asia and later for the group as a whole. Her early career was spent at KPMG, latterly as a partner. Former non-executive chairman of Origo Partners plc. Former non-executive director of Havelock Europa, Close Brothers Group plc and APR Energy plc.

**External appointments** Independent non-executive director of Greencoat UK Wind plc and Caledonia Investments plc. Non-executive chairman of MS Amlin plc and senior independent director of Clearbank Limited.

**Richard Parry-Jones CBE** A R N
*Independent non-executive Director*

**Appointed** to the Board in March 2008.

**Experience** Has extensive experience of the automotive industry, having previously worked for the Ford Motor Company for 38 years, latterly as Group Vice-President Global Product Development and Group Chief Technical Officer. He was GKN's Senior Independent Director from May 2012 until February 2018. Fellow of the Royal Academy of Engineering, the Institution of Mechanical Engineers and the Royal Society of Statistical Science. Former non-executive chairman of Network Rail Ltd, Kelda Eurobond Co Ltd and Yorkshire Water Services Ltd. Former chairman of the Welsh Assembly Government Ministerial Advisory Group and the UK's Automotive Council.

**Jos Sclater** E
*Group Finance Director*

**Appointed** to the Board in November 2017.

**Experience** Joined GKN in 2011 and was appointed to the GKN Executive Committee in June 2014. He has held a number of senior roles at GKN including Head of Strategy and General Counsel. His early career was spent at AkzoNobel and ICI.

**Phil Swash** E
*Chief Executive GKN Automotive*

**Appointed** to the Board in January 2016.

**Experience** Joined GKN in 2007 as Chief Executive Officer GKN Aerospace Europe. Appointed Chief Executive of GKN Land Systems in January 2014 and became Chief Executive GKN Driveline in September 2015. In November 2017, he assumed responsibility for GKN's Wheels & Structures and Off-Highway Powertrain businesses. Has held a number of operational roles at BAE Systems and Airbus where, prior to joining GKN, he was responsible for the wing production of all Airbus aircraft.

**External appointments** Vice-President of CLEPA (the European Association of Automotive Suppliers), Fellow of the Institution of Engineering and Technology, and Honorary Fellow of Liverpool John Moores University.

**Kerry Watson**
*Company Secretary*

**Appointed** Company Secretary in May 2016.

**Experience** Joined GKN in 2004 and was appointed Deputy Company Secretary and Head of Secretariat in 2012. A member of the Institute of Chartered Secretaries and Administrators.

**A** Member of Audit & Risk Committee

**R** Member of Remuneration Committee

**N** Member of Nominations Committee

**E** Member of Executive Committee

# CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

**Mike Turner CBE**
*Chairman*

**Leadership**

As a Board, we are responsible for the stewardship of the Company and for protecting and growing the long-term value of GKN for the benefit of its shareholders. We are accountable to the Company's shareholders for the decisions that we make.

Our governance framework helps to protect our shareholders' investment by ensuring that processes are in place for decisions to be made by the right people, with the right information and within the right environment.

**Culture**

As a Board, we are responsible for setting and demonstrating the values and behaviours that we expect from our employees. As I mentioned on page 4, in light of the balance sheet issues in Aerospace North America, we took immediate actions to address the culture in this part of the Group. We are undertaking a Group-wide cultural review to identify any further actions we can take to ensure that we have an appropriate culture of transparency, accountability and delivery.

**Effectiveness**

Maintaining a skilled, balanced and effective Board is crucial for the long-term success of the Group.

I am confident that the composition of our Board, which comprises skilled and experienced Directors, provides the appropriate balance of challenge and support to ensure that it operates effectively and makes the best possible decisions.

During the year, Nigel Stein indicated his desire to retire from the Board as Chief Executive and the Nominations Committee began the process of planning for his succession. More information is set out in the Nominations Committee report on pages 64 and 65. Nigel led the Group as Chief Executive over a period of five years and was a Board member for a total of 16 years, and we are extremely grateful to him for his dedication and contribution to GKN over this time. We wish him well in his retirement.

Despite the set-back of Kevin Cummings' departure subsequent to his appointment as Chief Executive Designate, we are delighted that Anne Stevens has taken on the role of Chief Executive, with the support of Jos Sclater, who was appointed as Group Finance Director to replace Adam Walker in November 2017. Together with Phil Swash leading GKN Driveline and their collective depth and breadth of experience across GKN's core businesses, we anticipate that their leadership of the executive team will result in substantial progress on the objectives of Project Boost during 2018.

**Accountability**

The Board is ultimately responsible for setting the risk appetite of the Group and for maintaining appropriate risk management systems. Following the North American Balance Sheet Review (summarised on page 26) improvement plans have been put in place to strengthen our risk management processes.

The details of how we have complied with the principles and provisions of the UK Corporate Governance Code 2016 (the Code) are described more fully throughout this report.

**Mike Turner CBE**
*Chairman*
26 February 2018

# Leadership

## The role of the Board

We are responsible for the stewardship and long-term success of GKN. Our overarching aim is to create sustainable value for the benefit of our shareholders. Principally, we achieve this through:

- setting the strategic objectives of the Group and ensuring it has the executive leadership and necessary resources to meet those aims
- approving key strategic projects and the Group and divisional budgets
- ensuring that the Group has an effective risk management framework
- setting and maintaining the values and standards of the Group
- reviewing management performance.

Our governance framework establishes a clear division of responsibilities that have been approved by the Board and are summarised below. Further details can be found on our website at www.gkn.com together with a full description of our role as a Board and the specific responsibilities reserved to us.

**Shareholders**

**Board**
Accountable to shareholders and responsible for the long-term success of the Company

| | | |
|---|---|---|
| **Chairman**<br>Leads the Board and is responsible for its effectiveness | **Board committees**<br>Support the Board in the fulfilment of its duties | **Chief Executive**<br>Leads the business and is responsible for executing the strategy |
| **Senior Independent Director**<br>Acts as a sounding board for the Chairman and intermediary for other Directors where necessary | **Non-executive Directors**<br>Constructively challenge and help develop the Group's strategy | **Executive Directors**<br>Responsible for the day-to-day operation of the business |

**Company Secretary**
Provides independent advice to the Board, ensures good information flow and maintains good shareholder relations

### Board meetings

We meet formally for scheduled meetings approximately eight times a year. To increase our visibility of the Group's operations and provide further opportunities to meet senior management, at least one Board meeting is combined with a visit to the Group's business locations. In October 2017, we visited GKN Driveline's facility in Zumaia, Spain, where we toured the facility, reviewed business performance and met employees.

In addition to regular Board reviews of strategic projects, we hold an annual two-day Board meeting which is devoted to reviewing progress made against Group strategy and discussing longer-term strategic options. During this meeting, we receive detailed updates on markets and technology trends from external experts and we discuss and approve the strategy for each division and the Group. We also hold a number of informal meetings during the year to build and maintain strong relations between Directors. Additionally, I meet from time to time with the non-executive Directors without the executive Directors being present so that we can discuss their priorities and concerns.

I have set out below the areas on which we focused in 2017.

### Board focus areas in 2017

| | |
|---|---|
| **Strategy** | > Reviewed overall Group strategy.<br>> Reviewed and approved the Group's strategic plans and annual budget.<br>> Reviewed a number of potential acquisitions. |
| **Risk** | > Assessed the risks to the achievement of the Group strategy and calibrated the Group's risk appetite.<br>> Considered and debated the principal risks and uncertainties which could impact the Group.<br>> Agreed severe but plausible scenarios to model and test the viability of the Group.<br>> Reviewed the impact of Brexit and agreed actions to be taken to further understand the risks. |
| **Capabilities** | > Considered succession planning for the Board, the Executive Committee and senior executive positions within the Group.<br>> Evaluated the effectiveness of the Board and agreed appropriate actions. |
| **Performance** | > Considered Group financial performance against budget and forecast.<br>> Considered health and safety performance throughout the Group.<br>> Reviewed the half-year and annual results and approved the annual report and interim financial statements.<br>> Reviewed Group and divisional key pPerformance indicators. |
| **Control** | > Assessed, with the support of the Audit & Risk Committee, the effectiveness of internal control and audit processes. |
| **People** | > Reviewed progress against the Group's diversity targets.<br>> Approved the decision to cease future accrual in the Company's UK defined benefit pension scheme.<br>> Adopted the SAYE and SIP plan approved by shareholders at the 2017 AGM. |
| **Stakeholder engagement** | > Received a presentation on feedback from the Group's employee engagement survey.<br>> Received papers on investor relations activity, key investor comments and shareholder feedback. |

In addition, the Board devoted a significant amount of attention during the final quarter of the financial year to the issues arising out of the North American Balance Sheet Review (see page 26), the culture of the organisation and the revision of the Group's strategy including the development of Project Boost.

## Board committees

In line with the Code we delegate certain responsibilities to our Board committees, which assist the Board in carrying out its functions and ensure that there is independent oversight of internal control and risk management, executive remuneration and new Board appointments.

Reports on the activities of our principal committees can be found on the following pages and their terms of reference are available on our website. All Board committees are supported by the Company Secretariat.

Only the committee chairman and members are entitled to be present at committee meetings, although additional attendees may be invited should their input be required. In order that the Board remains fully updated on their work, the committee chairmen report on committee activities at the subsequent Board meeting.

**GKN plc Board**

| | Audit & Risk Committee | Remuneration Committee | Nominations Committee | Executive Committee | Disclosure Committee |
|---|---|---|---|---|---|
| **Chairman** | **Shonaid Jemmett-Page** | **Richard Parry-Jones** | **Mike Turner** | **Nigel Stein** (until 31 December 2017)<br>**Anne Stevens** (from 1 January 2018) | **Nigel Stein** (until 31 December 2017)<br>**Anne Stevens** (from 1 January 2018) |
| **Composition** | All independent non-executive Directors | All independent non-executive Directors | All non-executive Directors | Chief Executive, Group Finance Director, divisional chief executives, Group HR Director, General Counsel (until 10 November 2017) and the Head of Strategy and Communications (from 1 February 2018) | Chief Executive, Group Finance Director and the Company Secretary |
| **Role** | > Monitors the integrity of the financial reporting process.<br>> Reviews management's responsiveness to the external auditors' findings.<br>> Reviews the Group's internal control and risk management systems.<br>> Reviews the effectiveness of the external and internal audit process. | > Agrees remuneration of the executive Directors and the Company Secretary within the terms of the agreed policy.<br>> Reviews and approves proposed short- and long-term incentive payments to executive Directors to ensure such payments are justified.<br>> Monitors the level and structure of remuneration of the most senior executives below Board level. | > Leads the process for identifying and appointing Directors with skills and experience to deliver the continued success of the Company.<br>> Keeps under review the succession planning and leadership needs of the Group.<br>> Keeps under review the structure, size and composition of the Board and its committees, recommending any changes to the Board. | > Leads, oversees and directs the activities of the Group.<br>> Executes the Group's strategic plan.<br>> Approves and leads the consistent implementation of business and operational processes.<br>> Identifies, evaluates and monitors the risks facing the Group and decides how they are to be managed. | > Ensures adequate procedures, systems and controls are maintained to enable the Company to comply with its obligations regarding identification and disclosure of inside information.<br>> Ensures that all significant regulatory announcements, the annual report and accounts and other documents issued by the Company comply with applicable requirements. |

## Executive sub-committees

The Executive Committee's execution of the Group's strategy is supported by three sub-committees as shown below.

**Executive Committee**

**Lean Enterprise Sub-Committee**
Drives operational best practice through the application of Lean business processes

**Governance and Risk Sub-Committee**
Monitors and reviews matters relating to governance, compliance and risk management

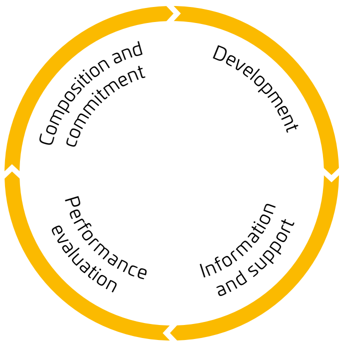
**Group Technology Strategy Board**
Develops the Group's technology plan

In addition, the Chief Executive's Council assists in shaping the Group's strategy and operations. Chaired by the Chief Executive, the Council's membership comprises members of the Executive Committee and 16 senior executives from divisional leadership teams involved in the day-to-day running of the businesses.

# Effectiveness

- Diversity of skills, experience, knowledge and personalities
- Commitment to fostering an open and constructively challenging Board dynamic
- Sufficient time commitment

- Individual and Board performance evaluations to provide feedback and identify opportunities for improvement




- Induction
- Ongoing development

- Accurate and clear information in advance of meetings
- Access to the Company Secretary and independent advice when needed

**Composition and commitment**

### Appointments and Board diversity

The composition of our Board is kept under review by the Nominations Committee to ensure that it retains an appropriate balance of skills, experience, independence, diversity and knowledge of the Group to enable it to meet the needs of the business. Collectively we have many years of experience gained across a variety of areas and industries, including finance, engineering and manufacturing. Many Directors on the Board have strong international backgrounds having held executive positions in Asia and the Americas.

Board appointments are subject to the Group Diversity and Inclusion Policy. The objective of the policy is to ensure that we attract and retain the best possible people for any given role irrespective of their personal attributes. The Policy is clear: all appointments must be based on ability, qualifications, merit and suitability for work irrespective of where the candidate is from, and his or her sexual orientation, gender, religion, age or nationality. Pursuant to the Policy, all recruitment consultants must be instructed to provide a long list of candidates that reflects an inclusive demographic so that a reasonable number of diverse candidates are given consideration.

Recommendations for appointment to the Board are made by the Nominations Committee. The Committee follows Board-approved procedures (available on our website) that incorporate the requirements of the Group Diversity and Inclusion Policy and provide a framework for different types of Board appointments. The procedures require Board appointments to be based on merit against objective criteria with due regard to diversity on the Board. The Committee agrees a broad role specification for non-executive roles and appoints head hunters to produce a long list of diverse candidates for the Committee's consideration. The Chief Executive determines the role specification and capabilities required for executive positions, and if the position is not to be filled internally, leads the external search to produce a short list of candidates for the Committee's review.

We understand the importance of diversity and our aim is for the Board to consist of people with diverse experience who can add real value to Board debates and support the achievement of our strategic objectives. This includes diversity of industry skills, knowledge and professional background in addition to gender, age, education and ethnicity. As at 31 December 2017, just under 25% of the Board were women, and from 1 January 2018, 25% of the Board were women.

Following his appointment to the Board during the year, Jos Sclater will retire and offer himself for election at the 2018 annual general meeting. All other Directors in post at the date of this annual report will retire and seek re-election at the AGM in accordance with the provisions of the Code. Biographical details of all Directors seeking election or re-election are given on pages 52 and 53.

The Board has considered the relationships and circumstances that may affect, or appear to affect, the independence of the non-executive Directors. In particular, it considered the length of service of Richard Parry-Jones who has been a non-executive Director since 1 March 2008 and Senior Independent Director from May 2012 to February 2018. Richard's effectiveness as an independent non-executive Director was reviewed last year and his term was renewed for a further period of three years. His independence was again reviewed carefully as part of the Board effectiveness evaluation (see page 60 for further details). Based on feedback received from the other Directors, the evaluation concluded that Richard continues to play a fully independent role on the Board.

The Board is not aware of any matter that would be likely to affect the judgement of any Director. After careful deliberation and taking into account the output of the Board effectiveness review, the Board considers all the non-executive Directors, excluding the Chairman, to be independent.

During the year the Board comprised four executive Directors (reduced to three by the end of the year) and six non-executive Directors including the Chairman (reduced to five by the end of the year).

Accordingly, at least half of the Board, excluding the Chairman, was composed of independent non-executive Directors during the year.

All Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively. The time commitment expected of each non-executive Director is set out in his or her letter of appointment and non-executive appointees must demonstrate that they have sufficient time to devote to the role.

Recognising the benefits that experience on other boards can bring to the Company, executive Directors may accept one external non-executive directorship, excluding the chairmanship of a FTSE 100 company. Any proposed appointment is subject to review and takes into account the Director's duty to avoid a conflict of interest.

During the year, Nigel Stein and Adam Walker continued in their respective roles as non-executive directors of FTSE companies.

If the takeover bid mentioned in the Chairman's statement (see page 4) lapses or is withdrawn, Anne Stevens will step down from one of her current two non-executive directorships.

The time commitment of each Director was reviewed in the Board's individual performance evaluations and I can confirm that each Director continues to devote sufficient time to his or her respective role.

## Board and committee attendance

Attendance at scheduled meetings of the Board and of the Audit & Risk, Remuneration and Nominations Committees held during 2017, with the number of meetings that the Director was eligible to attend shown in brackets where relevant, is shown below. In addition, a number of ad hoc Board and Committee meetings took place during the year.

| Director | Board (8 meetings) | Audit & Risk Committee (5 meetings) | Remuneration Committee (5 meetings) | Nominations Committee (5 meetings) |
|---|---|---|---|---|
| **Chairman** | | | | |
| Mike Turner | 8 | – | – | 5 |
| **Executive Directors** | | | | |
| Nigel Stein | 8 | – | – | – |
| Kevin Cummings[1] | 7 (7) | – | – | – |
| Jos Sclater[2] | 1 (1) | – | – | – |
| Phil Swash | 8 | – | – | – |
| Adam Walker[2] | 7 (7) | – | – | – |
| **Non-executive Directors** | | | | |
| Angus Cockburn | 8 | 5 | 5 | 5 |
| Tufan Erginbilgic[3] | 6 | 2 | 4 | 4 |
| Shonaid Jemmett-Page | 8 | 5 | 5 | 5 |
| Richard Parry-Jones | 8 | 5 | 5 | 5 |
| Anne Stevens | 8 | 5 | 5 | 5 |

1 Kevin Cummings stepped down from the Board on 16 November 2017.
2 Adam Walker stepped down from the Board and Jos Sclater was appointed to the Board on 10 November 2017.
3 Tufan Erginbilgic was unable to attend certain meetings due to prior business commitments.

## Development

### Induction

On joining the Board, a Director receives a tailored induction to suit the individual's background and experience. This includes:

- a comprehensive induction pack with background information about GKN, details of Board meeting procedures, and Directors' duties and responsibilities in addition to a number of other governance-related issues
- a briefing with the Company Secretary who is responsible for facilitating the induction of new Directors both into the Group and as to their roles and responsibilities as Directors
- meetings with the Chief Executive and with relevant senior executives to be briefed on the Group strategy and each individual business portfolio
- plant visits
- external training where appropriate, particularly on matters relating to the role of a Director and the role and responsibilities of Board committees.

In relation to the appointment of Jos Sclater during the year, a formal induction programme was not necessary as he was already fully familiar with the Group's structure, business and people, and as former company secretary to the Company, he is experienced in governance matters and the role of a director.

### Ongoing development

Directors are continually updated on the Group's businesses, the markets in which they operate and changes to the competitive and regulatory environment through briefings to the Board and meetings with senior executives. Non-executive Directors are encouraged to visit Group operations in addition to formal Board visits to increase their exposure to the business.

I discuss training and development needs with each Director as part of our annual individual performance evaluation process. The Company Secretary keeps under review the suitability of external courses so that any needs identified either through the evaluation process or on an ad hoc basis can be addressed.

During the year, Directors received training and formal updates in the following areas:

| | |
|---|---|
| **Governance** | > Corporate governance reform proposals<br>> General Data Protection Regulation<br>> Modern Slavery Act statements<br>> New annual report disclosure requirements<br>> Gender pay gap reporting requirements |
| **Strategy** | > Long-term market and technological trends<br>> Technology and innovation<br>> Industry 4.0 |
| **Risk** | > The impact of Brexit<br>> Cybersecurity<br>> Insurance |
| **Finance** | > Tax strategy |
| **Capabilities** | > Succession planning |

## Information and support

As Chairman, I am responsible for ensuring that Directors receive accurate, timely and clear information. I set Board agendas following consultation with the Chief Executive and with the assistance of the Company Secretary. An annual programme of items for discussion is kept under review by the Company Secretary to ensure that all matters reserved to us and other key issues are considered at the appropriate time.

To ensure that adequate time is available for Board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors one week prior to scheduled Board meetings. All Directors have direct access to the advice and services of the Company Secretary who ensures that the Board is fully briefed on legislative, regulatory and corporate governance developments.

Briefing papers are also circulated to committee members in advance of committee meetings and, in respect of the Audit & Risk Committee, are made available to all other Directors. The Company Secretary supports the committee chairmen by ensuring that agendas are appropriate and address all matters for which the committee has specific responsibility. In addition to the above, Directors may take independent professional advice at the Company's expense in the furtherance of their duties.

## Performance evaluation

### Board evaluation

Each year a performance evaluation of the Board is undertaken. In accordance with the Code, an external evaluation is carried out every three years. Following the external evaluation conducted in 2016, we undertook an internal evaluation in 2017. The evaluation process is described below.

**Performance evaluation process**

Together with the Company Secretary, I agree areas of focus believed to be critical to the Board's effectiveness. For 2017, the areas of focus included:

- strategy and process
- culture
- decision making and quality of debate
- succession planning
- Board composition
- risk management, governance and compliance.

**Extensive one-to-one interviews conducted by the Company Secretary with each Director**

**Summary of results presented to the Board for discussion**

**Key actions agreed by the Board**

Progress against our key actions for 2017 and the 2018 key actions agreed by the Board following discussion of the evaluation results are set out below.

| | **2017 key actions** | | **2018 key actions** |
|---|---|---|---|
| **Area of focus** | **Key action** | **Progress** | **Key action** |
| **Strategy** | Conduct a deep dive on the bid process to enhance consistency of approach across the divisions. | > The Audit & Risk Committee received presentations on programme management risk which set out the bid processes for GKN Driveline and GKN Aerospace. | > In light of the Group's lower trading margins, further reviews will be undertaken in this area during 2018. |
| **Risk** | Continue the programme of deep dive reviews to assess the robustness and consistency of key risk management programmes across the divisions. | > The Audit & Risk Committee received deep dive reviews from divisions on areas within the principal risks. It continued to focus on quality and programme management. | > Deep dive reviews will continue in 2018 taking into account the root causes and improvement plans identified as part of the North American Balance Sheet Review. |
| **Succession planning** | Hold a Board discussion around the Board skills matrix. | > The skills needed on the Board were considered as part of the Nominations Committee process to identify successors to the Chief Executive and Group Finance Director. | > Given the changes to Board composition, this will be considered further in 2018. |
| **Board papers** | Review the format of the Board pack to ensure it is standardised. | > The format and content of Board papers was reviewed during the year and standardised papers were developed for key areas. | > Work will continue to standardise and streamline the Board pack in 2018. |

### Director evaluation

The individual performance of the Directors was evaluated during the Board evaluation process described opposite. I provided feedback on the performance of individual Board members during one-to-one meetings. Following the evaluation, I can confirm that each Director continues to make a valuable contribution to the Board and demonstrates commitment to their role. Feedback on my performance was provided by the Senior Independent Director who took into account the results of the Board evaluation and the views of the other Directors.

### Committee evaluation

Committee evaluations were carried out as part of the Board evaluation process; details of these evaluations can be found in the relevant Committee report.

# Accountability

### Financial and business reporting

When reporting externally, the Board aims to present a fair, balanced and understandable assessment of the Group's position and prospects. During the year, the Board satisfied itself that appropriate assurance processes are in place to enable it to state that this annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

A statement of this responsibility, together with additional responsibilities of the Directors in respect of the preparation of the annual report, is set out on page 96. The auditors' report on pages 97 to 107 includes a statement by Deloitte LLP about their reporting responsibilities. As set out on page 29, the Directors are of the opinion that GKN's business is a going concern. An explanation of how the Board has assessed the prospects of the Company, taking into account its current position and principal risks, can be found on the same page.

### Risk management and internal control

GKN's enterprise risk management (ERM) programme facilitates a Group-wide approach to the identification and assessment of risk. Each year all Group businesses are required formally to review their business risks and to report on whether there has been any material breakdown in their internal controls. This formal review is supplemented by an interim review conducted at the half year. A description of the ERM programme can be found on page 30.

Our risk management and internal control systems and procedures are designed to identify, manage and where practicable, reduce and mitigate the effects of the risks that could adversely affect our business objectives. They are not designed to eliminate such risk, recognising that any risk management system can only provide reasonable and not absolute assurance against material misstatement or loss.

**Risk management**

| | | | |
|---|---|---|---|
| Policies and procedures | **Fourth line of defence** | **Oversight**<br>The Board<br>The Executive Committee<br>The Audit & Risk Committee | Assurance |
| Risk appetite | **Third line of defence** | **Independent assurance**<br>Internal audit<br>External statutory audit<br>External assurance providers | Metrics and KPIs |
| Culture and values<br>Business strategy | **Second line of defence** | **Monitoring and compliance**<br>Self assessments<br>Group functional reviews | Risk reporting |
| Delegated authorities | **First line of defence** | **Risk ownership and control**<br>Policies<br>Organisation<br>Risk assessments<br>Procedures<br>Training | Incident reporting |

Our four lines of defence approach to risk management helps us to delegate and coordinate risk management responsibilities and provides assurance that internal control systems and procedures are implemented and operating effectively across the Group.

## **First line of defence** Risk ownership and control

Our first line of defence comprises the day-to-day risk management controls that are implemented and monitored by our businesses. They ensure that appropriate risk management systems are in place to identify, evaluate and mitigate our business risks.

Key elements of our first line of defence include:

- the GKN Code, which clearly defines the behaviours we expect from our employees
- our Group and supporting divisional policies, which set out the minimum standards to be incorporated into our risk management and internal control systems
- our delegated authority levels, which set out the procedures and approval limits for matters requiring authorisation by the Board and its committees
- our enterprise risk management programme, which facilitates a Group-wide approach to the identification and assessment of risk
- the development and dissemination of training programmes to educate employees on relevant topics and reinforce the behaviours expected of them
- the use of key performance indicators to evaluate and respond effectively to trends and key indicators of risk
- an independent disclosure hotline, which employees can use to report any instances of suspected wrongdoing.

## **Second line of defence** Monitoring and compliance

Our second line of defence encompasses central monitoring of the control systems and processes implemented by the businesses to ensure that they comply with the standards imposed by the Board and Executive Committee.

Our self-certification processes provide guidance to the businesses on the application of our policies and enable them to assess their compliance with defined policy requirements and address any issues that are identified. Areas in which the businesses are asked to certify their compliance include:

- non-financial controls such as quality certifications, ethical standards and applicable laws and regulations
- internal financial controls, accounting judgements and representations of divisional financial results
- key HR controls and procedures
- mandated IT controls.

To ensure that the values in the GKN Code are embedded throughout the Group, all managers are required to certify annually that they are aware of and understand the behaviours expected of them.

The output from these self-certifications is reviewed by the Executive Sub-Committee on Governance and Risk (ESCGR) with matters of non-compliance reported to the Executive Committee.

Our second line of defence also includes ongoing reviews by our health and safety audit team, Group IT, Group Risk and financial control function to check compliance with key requirements in their respective fields. Representatives from these functions report their findings to the ESCGR or directly to the Executive Committee with serious incidents and material non-compliance being reported to the Board.

## **Third line of defence** Independent assurance

Our internal audit function provides independent assurance in relation to the Group's financial risk and the risk management and internal control systems relating to some of the Group's principal risks. The function is supported by PricewaterhouseCoopers LLP, Ernst & Young LLP and BDO UK LLP who provide co-sourced assistance where appropriate.

Deloitte, as our statutory auditors, provide independent assurance to the Audit & Risk Committee that the financial statements are free from material misstatement. Assurance is also provided through other external sources, including customer, regulator and industry certification audits.

## **Fourth line of defence** Oversight

The Board is responsible for setting the risk appetite of the Group. We also retain responsibility for maintaining sound risk management and internal control systems and for undertaking an annual review of the effectiveness of these systems.

As described in the governance framework on page 57, certain elements of this responsibility are overseen on our behalf by the Executive Committee and the Audit & Risk Committee.

Our risk management and internal control processes are regularly reviewed and revised to ensure that they remain relevant to changes in the Group's internal and external risk profiles.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A description of these risks, together with the details of how they are managed or mitigated, is set out on pages 32 to 39.

We also have specific controls in place to manage risk in respect of financial reporting and the preparation of consolidated accounts. These include:

> the implementation of Group accounting policies and procedures, supported by regular bulletins from the central and divisional finance teams on the application of accounting standards and reporting protocols

> Group and divisional policies governing the maintenance of accounting records, transaction reporting and key financial control procedures

> a proprietary internal control monitoring system, GKN Reporting and Integrity Procedures (GRiP), to assess compliance with key financial controls on monthly, quarterly and annual cycles

> monthly operational review meetings which include, as necessary, reviews of internal financial reporting issues and financial control monitoring

> divisional certifications in relation to internal financial controls, accounting judgements and representations of divisional financial results

> ongoing training and development of financial reporting personnel.

The North American Balance Sheet Review improvement plan will consider additional/modified controls to be put in place during 2018.

## Process for review of effectiveness

The Audit & Risk Committee is responsible for reviewing the ongoing control processes. The actions undertaken by the Committee to discharge this responsibility are described in the Audit & Risk Committee's report on pages 66 to 72.

The Board receives an annual report from the Audit & Risk Committee concerning the operation of the key systems of internal control and risk management. This report is considered by the Board in forming its own view on the effectiveness of the systems.

The Board has reviewed the effectiveness of the Group's systems of internal control and risk management during the period covered by this annual report. It confirms that the processes described in this report, which accord with the FRC guidance on risk management, internal control and related financial and business reporting, have been in place throughout that period in relation to businesses outside of Aerospace North America and up to the date of approval of the annual report. Apart from the matters set out in the improvement plans relating to the North American Balance Sheet Review, the Board also confirms that no significant failings or weaknesses were identified in relation to the review.

## Relations with investors

The Board maintains a dialogue with investors with the aim of ensuring a mutual understanding of objectives.

### Major shareholders

Communication with major institutional shareholders is undertaken as part of GKN's investor relations programme, in which non-executive Directors are encouraged to participate.

The Chief Executive and Group Finance Director have regular meetings with the Group's major shareholders and feedback from these meetings is reported to the Board.

**Discussion**

The Chief Executive, Group Finance Director and Director of Investor Relations meet regularly with major shareholders to discuss strategy, financial and operating performance.

**Feedback**

Feedback is sought by the Company's brokers to ensure that the Group's strategy and performance is being communicated effectively and to develop a better understanding of shareholders' views.

**Report**

This feedback is included in a twice-yearly report to the Board, which also provides an update on investor relations activity, highlights changes in holdings of substantial shareholders and reports on share price movements.

I am responsible for ensuring that all Directors are aware of major shareholders' views. With support from the Company Secretary, I meet with institutional shareholders and investor representatives to discuss matters relating to governance and strategy, and feed back their views to the Board. The Senior Independent Director is also available to discuss issues with shareholders where concerns cannot be addressed through normal channels of communication.

Richard Parry-Jones, in his capacity as Remuneration Committee Chairman, also engages in discussion with shareholders on significant matters relating to executive remuneration.

GKN hosted a number of events for institutional investors in 2017, which included site visits and presentations. A recording of the presentations and slide material shown is available on our website.

### Annual general meeting

Information regarding the 2018 AGM is given on page 174. Shareholders who attend the AGM are invited to ask questions during the meeting and to meet with Directors after the formal AGM business has been completed. Resolutions for consideration at the AGM are voted on by way of a poll rather than by show of hands to allow the votes of all shareholders to be counted, including those cast by proxy. The results of the poll vote are announced to the London Stock Exchange and published on our website after the meeting.

## Compliance statement

This corporate governance statement, together with the Nominations Committee report on pages 64 and 65, the Audit & Risk Committee report on pages 66 to 72 and the Directors' remuneration report on pages 73 to 92, provide a description of how the main principles of the 2016 edition of the UK Corporate Governance Code (the Code) have been applied within GKN during 2017. The Code is published by the Financial Reporting Council and is available on its website at www.frc.org.uk.

It is the Board's view that, throughout the financial year ended 31 December 2017, GKN was in compliance with the relevant provisions set out in the Code.

This statement complies with sub-sections 2.1, 2.2(1), 2.3(1), 2.5, 2.7 and 2.10 of Rule 7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown on pages 93 to 95.

# NOMINATIONS COMMITTEE REPORT

**Dear Shareholder**

The appointment and retention of strong candidates is key to the success of the Company. The Nominations Committee plays a vital role in ensuring the selection and recommendation of appropriate candidates for appointment to the Board.

We keep under review the balance of skills, knowledge and experience on the Board and the composition of Board committees, with any changes recommended to the Board for its consideration. We also review succession planning, both to the Board and to the senior management grade immediately below Board.

**2017 activities**

During 2017 we:

> considered succession planning for the Chief Executive's position and made recommendations to the Board as to the appointment of Kevin Cummings as Chief Executive Designate and Anne Stevens as interim Chief Executive (subsequently confirmed as a permanent role in January 2018)

> recommended the appointment of Jos Sclater as Group Finance Director

> recommended to the Board a three-year extension to Tufan Erginbilgic's term of appointment.

**Board and committee composition**

We keep the composition of the Board under constant review to ensure that it is appropriately balanced and diverse in terms of skills, experience and industry knowledge. To supplement this diversity, we also aim to have at least 25% female representation on the Board and we achieved this aim by 1 January 2018. However, our overriding policy in recommending any new appointment is to select the best candidate on merit against objective criteria; all Directors need to be able to add real value to Board debates and support the achievement of our strategic objectives. As a Committee, we also need to fulfil our role in safeguarding the continued success of the Company.

In February 2018, Richard Parry-Jones indicated that he wished to stand down as Senior Independent Director. The Committee recommended to the Board the appointment of Angus Cockburn to the role taking into account the investor relations experience gained from his finance director positions.

**Chief Executive**

In considering succession planning for a new Chief Executive to take over from Nigel Stein, the Committee followed Board-approved procedures. It engaged Spencer Stuart, an external search consultancy, to conduct assessments of internal candidates and identify appropriate external candidates. Spencer Stuart has no other connection with the Company. Following consideration of both internal and external candidates, and taking into account the results of the assessments, Kevin Cummings was appointed Chief Executive Designate.
In November 2017, on further consideration, the Board determined that the next stage of GKN's development would be best delivered under alternative leadership and as a result Kevin Cummings left the Company. Given her extensive experience across automotive and aerospace industries, the Nominations Committee (excluding Anne Stevens) concluded that it would be appropriate to request that Anne Stevens take on the role of Chief Executive on an interim basis, pending a search for an external candidate.

In the period during which Anne acted as interim Chief Executive, the Board was impressed with the contribution she made in setting out plans for a significant improvement to the Group's performance. Subsequently, on 12 January 2018, Anne Stevens was appointed as the new Chief Executive. The Committee considered Anne's track record in previous roles and her capability to transform GKN. The Committee considered that she had the experience and operational and strategic skills that were ideally suited to the challenges facing the Group, including executing Project Boost. The Board accepted the Committee's recommendation to appoint Anne as Chief Executive on a permanent basis.

| Committee membership | Role |
| --- | --- |
| **Mike Turner** (Chairman)<br>**Angus Cockburn**<br>**Tufan Erginbilgic**<br>**Shonaid Jemmett-Page**<br>**Richard Parry-Jones**<br><br>All members are non-executive Directors.<br><br>The Secretary to the Committee is Kerry Watson, Company Secretary | The role of the Nominations Committee is to lead the process for identifying, and making recommendations to the Board on, candidates for appointment as Directors and as Company Secretary, giving full consideration to succession planning and the leadership needs of the Group. It also:<br>> makes recommendations to the Board on the composition of the Nominations Committee and the composition and chairmanship of the Audit & Risk and Remuneration Committees<br>> keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge, experience, ethnicity and gender and the independence of the non-executive Directors<br>> makes recommendations to the Board with regard to any changes.<br><br>The Committee follows Board-approved procedures in making its recommendations. These procedures, together with written terms of reference that outline the Committee's authority and responsibilities are available on our website at www.gkn.com.<br><br>The Committee held five scheduled meetings in 2017. Our attendance at these meetings is set out in the table on page 59. Additional meetings were held on an ad hoc basis as required. |

## Group Finance Director

In considering a replacement for Adam Walker as Group Finance Director, the Committee considered the internal candidates available for this role. Jos Sclater joined GKN in late 2011 as General Counsel. He has undertaken a number of additional roles since that time including acting as Company Secretary from 2014 to 2016 and as Director of Strategy and M&A from 2016. Earlier in 2017 he also assumed responsibility for GKN's additive manufacturing activities. With his strategic and commercial experience, Jos was considered to be ideally suited to the requirements of the role and the Board accepted the Committee's recommendation that he be appointed as Group Finance Director.

## Performance evaluation

The Committee's annual evaluation was carried out as part of the Board review process described on page 60. No changes were considered necessary to the Committee's terms of reference as a result, and the Committee was considered to be effective in fulfilling its role throughout 2017.

On behalf of the Committee

**Mike Turner CBE**
*Chairman of the Nominations Committee*
26 February 2018

# AUDIT & RISK COMMITTEE REPORT

**Dear Shareholder**

I am pleased to present the Audit & Risk Committee report for 2017. The Committee provides independent oversight and plays a fundamental role in protecting shareholders' interests by monitoring management and auditor conduct, reviewing the effectiveness of the Group's internal controls and risk management systems and ensuring the integrity of the Group's financial statements.

In October and November 2017, the Board announced a detailed review of certain aspects of our operations in Aerospace North America and further details are set out on page 26.

During the year, in addition to the North American Balance Sheet Review and its routine business, the Committee continued to focus on risk management. We:

> received reports on the quality risk management systems operated by the divisions

> discussed the programme management processes used by the divisions

> reviewed the methodology and approach to the creation of a total risk assurance map to further improve the Group's risk management processes

> considered IT risk management across the Group

> received an update on the financial governance structure in the Automotive division

> continued to be updated on the assessment of the impact of IFRS 15 on the Group's financial reporting, to be implemented in the next financial year

> monitored the transition of the Group Finance Director role from Adam Walker to Jos Sclater and received a report on the induction activities that took place.

Looking ahead to 2018, we will focus on the improvement plan to address matters arising out of the North American Balance Sheet Review, particularly in relation to internal controls and risk management, and obtaining regular updates during the year. We will also consider the governance and assurance requirements arising out of Project Boost.

Further details of our activities during the year and up to the date of this report are set out on the following pages.

## Activities

Our activities during the year and up to the date of this report have principally related to financial reporting, the external audit and internal control and risk management.

## Financial reporting

We have:

- considered information presented by management on significant accounting judgements and policies adopted in respect of the Group's half-year and annual financial statements and agreed their appropriateness
- considered accounting matters relating to key areas including the adjustments arising out of the North American Balance Sheet Review, impairment testing, the clarity and completeness of reporting and preparation for the requirements of IFRS 15 from the 2018 financial year
- examined key points of disclosure and presentation to ensure the adequacy, clarity and completeness of the financial statements
- discussed audit reports with the external auditors which highlighted key accounting matters and significant judgements in respect of each set of financial statements
- reviewed documentation prepared to support the going concern judgement and the viability statement given on page 29.

## Committee membership

**Shonaid Jemmett-Page** (Chairman)
**Angus Cockburn**
**Tufan Erginbilgic**
**Richard Parry-Jones**

The Committee comprises independent non-executive Directors with a wide range of skills, experiences, professional qualifications and knowledge. In the Board's view, the Committee has competence relevant to GKN's sectors and operations; Richard Parry-Jones and Anne Stevens have extensive engineering and automotive experience and Tufan Erginbilgic has a significant amount of international experience in a multinational corporation. Additionally, and as required by the UK Corporate Governance Code, both Angus Cockburn and I have recent and relevant financial experience.

Anne Stevens stepped down from the Committee with effect from 1 January 2018 following her appointment as interim Chief Executive and subsequent appointment as new Chief Executive on 12 January 2018.

The Secretary to the Committee is Kerry Watson, Company Secretary.

In order to maintain effective communication, we invite the Chairman, Chief Executive, Group Finance Director, Head of Corporate Audit, the external audit engagement partner and other members of senior management to attend Committee meetings as necessary.

Members of the Committee meet separately at the start of each meeting to discuss matters in the absence of any invitees. At the conclusion of meetings, the Head of Corporate Audit and the external audit engagement partner are each given the opportunity to discuss matters without executive management being present. Both the Head of Corporate Audit and the external auditors have direct access to me should they wish to raise any concerns outside formal Committee meetings.

## Role

The primary role of the Committee is to ensure the integrity of the financial reporting and audit processes and the maintenance of sound internal control and risk management systems in order to safeguard shareholder interests.

This includes responsibility for monitoring and reviewing:

- the integrity of the Group's financial statements and the significant accounting judgements contained in them, ensuring that the judgements and policies taken by management are appropriate
- the appropriateness of the Group's relationship with the external auditors, including auditor independence, fees and provision of non-audit services
- the effectiveness of the external audit process, making recommendations to the Board on the appointment of the external auditor
- the activities and effectiveness of the internal audit function (Corporate Audit)
- the effectiveness of the Group's internal control and risk management systems
- the effectiveness of the Group's whistleblowing policies.

Written terms of reference that outline the Committee's authority and responsibilities are available on our website at www.gkn.com.

The Committee held five scheduled meetings in 2017, generally timed to coincide with the financial and reporting cycles of the Company. Attendance at these meetings is set out in the table on page 59. Additional meetings were held on an ad hoc basis as required.

I report formally to the Board on Committee proceedings after each meeting and Committee meeting papers and minutes are made available to all members of the Board.

## Significant issues

We identified the issues below as significant in the context of the 2017 financial statements. We consider these areas to be significant taking into account the level of materiality and the degree of judgement exercised by management. We debated the issues in detail to ensure that the approaches taken were appropriate.

| Area of focus | Committee action |
|---|---|
| **North American Balance Sheet Review**<br><br>In the final quarter of 2017, executive management carried out an investigation into potential accounting adjustments in Aerospace North America (see page 26).<br><br>Many of the resulting accounting adjustments required judgement and estimation, including in the assessment of the carrying value of inventory and receivable balances, the recoverability of specific items of property, plant and equipment, and the recognition of liabilities. Additionally, judgement was necessary when assessing the extent to which the identified accounting adjustments may relate to prior years and consequently whether there was a need to restate previously reported results and financial statements.<br><br>The review also included an assessment of the root causes and potential failures in GKN's internal control and risk management systems. | In consultation with executive management, in November 2017, we agreed the scope of the review and that each element would be supported by independent experts. We oversaw the appointment of each expert and the scope and materiality applied to their work. KPMG was appointed to lead the independent accountant's review, while lawyers in the UK (Slaughter and May) and US (Kirkland & Ellis) carried out the conduct review.<br><br>Management and KPMG regularly reported to the Committee during the period November 2017 to February 2018. We sought to ensure that the review had been thorough and balanced and requested recommendations for addressing identified issues and future improvements. Details of management's review are given in the Strategic Review on page 26. Given the significance of this review, as Chairman of the Committee, I also attended the weekly management Steering Group meetings.<br><br>We spent considerable time discussing and challenging management on the key judgements, assumptions and estimates taken during the course of this review and on the outcomes. We also sought to ensure that management was able to apply sufficient resource to enable the review to be completed on a timely basis.<br><br>A key element of our review focused on the judgement by management that the prior period errors identified were not sufficiently material to warrant restatement of prior year accounts in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. We reviewed a specific report from management on this matter and challenged the basis of their conclusions, in particular:<br><br>> whether adjustments arose as a result of the failure to use reliable information that was available when the prior year accounts were authorised for issue and would reasonably have been expected to have been taken into account, and hence represent prior period errors<br><br>> whether it was practicable to identify and appropriately measure amounts relating to prior years<br><br>> the extent to which adjustments arose as a result of changes in management estimates and judgements, rather than error, and hence should be recorded against 2017 profits.<br><br>We discussed these matters with the Group's external auditors, including the distinction between a prior period error and a change in accounting estimate and whether the prior period error was material in the context of the Group accounts.<br><br>Taking into account the reports made by management and external experts, we are satisfied that:<br><br>> the accounting adjustments made are appropriate and prudent, taking into account the potential range of outcomes<br><br>> the nature and impact of the errors were not material to the prior year results<br><br>> the conduct review concluded that the adjustments did not arise from fraudulent behaviours<br><br>> recording these adjustments in the current year, accompanied by comprehensive presentation and disclosures, is appropriate. |

| Area of focus | Committee action |
|---|---|
| **Impairment testing**<br><br>An impairment review is carried out annually by management to identify business units in which the recoverable amount is less than the value of the assets carried in the Group's accounts. Impairment results in a charge to the Group income statement.<br><br>Key judgements and assumptions need to be made when valuing the assets of the business units including the amount of potential future cash flows arising from them. | We considered the significant judgements, assumptions and estimates made by management in preparing the impairment review to ensure that they were appropriate. We considered the appropriateness of assumptions relating to:<br><br>> the discount rates, which reflect the risk inherent in each unit taking into account factors such as geography and sector, used to discount the expected future cash flows to their present value<br><br>> the long-term growth rates for the regions in which the units were based<br><br>> the forecast of operating cash flows, based on the most recent budget and strategic reviews and taking into account data such as sales profile and prices, market performance, volume, raw material costs and capital expenditure<br><br>> the period over which cash flows are forecast<br><br>> the disclosure of key estimates and judgements in the financial statements.<br><br>We also considered sensitivities that would impact the assumptions noted above.<br><br>We obtained the external auditor's view in relation to the appropriateness of the approach and outcome of the review. Taking this into account, together with the documentation presented and the explanations given by management, we were satisfied that the approach taken was thorough and the judgements were appropriate.<br><br>The review resulted in the impairment of seven units and a charge to the income statement of £131 million. |

**>> See Note 11 (c) to the financial statements**

| Area of focus | Committee action |
|---|---|
| **Clarity and completeness of reporting**<br><br>The Board uses adjusted results as the measure of the ongoing performance of the Group's divisions and excludes items which may be volatile and therefore distort the comparison of trading performance.<br><br>Significant events during the year require judgement in determining which items should be separately identified. | We considered the clarity and completeness of the accounts as a whole taking into account matters such as:<br><br>> the guidance issued by ESMA and the FRC<br><br>> the judgements management made in relation to the presentation and disclosure including the nature and consistency of items adjusted<br><br>> the updated disclosures and reconciliations.<br><br>We received updates from management explaining the basis of accounting for complex contracts and significant events.<br><br>We sought Deloitte's opinion on the proposed presentation and disclosure and concluded that it was appropriately transparent and complete. |

We also reviewed the following areas due to their materiality and the application of judgement. However, these do not include areas where management has made critical estimates or judgements and, as we considered them to be stable in nature, we did not classify them as significant issues in the context of the 2017 financial statements.

| Area of focus | Committee action |
|---|---|
| **Post-employment obligations**<br><br>Determining the current value of the Group's future pension obligations requires a number of assumptions. These assumptions relate principally to life expectancy, discount rates applied to future cash flows, rates of inflation and future salary increases. | Key matters reviewed included the appropriateness of valuation assumptions such as discount rates, mortality and inflation. The Committee also reviewed the impact of certain pension de-risking activities on the financial statements.<br><br>Valuation assumptions, prepared by external actuaries and adopted by management, were considered in the light of prevailing economic indicators and the view of the external auditors. The approach adopted by management was accepted as appropriate. |

**>> See Note 24 to the financial statements**

| Area of focus | Committee action |
|---|---|
| **Development costs on aerospace programmes**<br><br>Development costs for large aerospace programmes can be significant. Assessing the likelihood of future recoverability of costs involves various judgements and assumptions relating to anticipated volumes, forecast cash flows and discount rates. | Impairment reviews of GKN Aerospace's programme development costs against associated future cash flows are circulated to the Committee every six months. On each occasion we reviewed the valuation and the assumptions made, including programme risk factors, and the most recent external forecasts of aircraft programme demand. Actions and factors likely to influence levels of headroom in impairment tests were noted and the view of the external auditors was sought in relation to the appropriateness of the approach and outcome.<br><br>Taking into account the documentation presented by management and the assessment from the external auditors, we were satisfied with the approach and judgements taken. |

>> See Note 11 (b) to the financial statements

| Area of focus | Committee action |
|---|---|
| **Tax matters**<br><br>GKN is subject to tax audits globally which are often long and complex processes. Provisions made for uncertain tax positions involve judgement in their valuation and the likelihood of challenge to tax positions. | We reviewed management updates and the external auditor's assessments on certain tax matters, including:<br>> the increase in provisions for uncertain tax positions. In particular, 2017 saw increases in provisions in certain countries where GKN has been subject to lengthy audits and challenging assessments<br>> the release of tax provisions arising from resolution of previously uncertain tax positions, including releases following the successful resolution and finalisation of cases and audits in respect of specific subsidiaries.<br><br>Having considered updates from management and the external auditor's views, the Committee was satisfied with the judgements taken by management. |

>> See Note 6 to the financial statements

## External audit

We have:

> approved Deloitte's audit plan, terms of engagement and fee for the audit of the 2017 financial statements

> reviewed the independence, objectivity and effectiveness of Deloitte

> recommended to the Board the reappointment of Deloitte for 2017

> noted the non-audit fees payable to Deloitte, having regard to the policy on the provision of non-audit services.

The Committee is responsible for making recommendations to the Board in relation to the appointment of the external auditors. We also approve the terms of engagement and fees of the external auditors, ensuring that they have appropriate audit plans in place and that an appropriate relationship is maintained between the Group and the external auditors.

### 2017 audit plan

Deloitte's audit plan sets out the scope and objectives of the audit together with an overview of the planned approach, an assessment of the Group's risks and controls and proposed areas of audit focus. Following the initiation of the North American Balance Sheet Review, the Committee agreed a revised audit plan to extend the scope of the audit to perform additional procedures at the Aerospace North America sites, and at units outside GKN Aerospace. The level of materiality was adjusted both at Group level and for the businesses within Aerospace North America.

### Independence and objectivity

As a Committee, we are responsible for safeguarding the independence and objectivity of the external auditors in order to ensure the integrity of the external audit process. As such, we are responsible for the development, implementation and monitoring of the Company's policies on external audit which regulate the appointment of former employees of Deloitte and set out the approach to be taken when using the external auditors for non-audit work.

### Our annual review processes included:

> receiving confirmation from Deloitte that they remained independent and objective within the context of applicable professional standards

> ensuring that management confirmed compliance with the Group's policies on the employment of former employees of Deloitte and the use of Deloitte for non-audit work

> considering Corporate Audit's review of Deloitte's objectivity, independence and effectiveness, and of the audit process.

As a result of this review, we concluded that Deloitte remained appropriately independent.

### Non-audit services

In order to safeguard independence further, we monitor compliance with the policy for the provision of non-audit services. The policy sets out a core list of permissible non-audit services which can be undertaken by the external auditors if there are compelling reasons to do so. It generally excludes the external auditors from undertaking consultancy work and tax services. The use of Deloitte for non-audit services is subject to materiality thresholds based on the value of the proposed non-audit service engagements. Any proposal to use Deloitte for non-audit work with a value between £50,000 and £250,000 must be submitted to the Group Finance Director for approval before their appointment. All proposals above this amount must be approved by me as Chairman of the Committee. In addition, the Group Finance Director will seek my authorisation for certain aspects of non-audit services relating to acquisitions, disposals and investigative accounting services, regardless of the fee value. The use of contingent fees is strictly prohibited under the policy.

There were no significant engagements, or categories of engagements, of the external auditors for non-audit services during 2017.

Details of the fees paid to Deloitte in 2017 can be found in note 4 (a) to the financial statements. Non-audit fees incurred during 2017 amounted to £0.8 million which related principally to audit-related assurance services. Non-audit fees as a percentage of audit fees totalled 11% (ratio of 0.11:1). All such activities remained within the policy approved by the Board.

## Effectiveness and reappointment of Deloitte for 2018

The Committee assessed Deloitte's performance throughout the year taking into consideration:

- its feedback and insights on the Group's business and internal control systems
- the quality of Deloitte's reports to the Committee
- its planning process and audit plan for the 2017 financial statements
- feedback from Deloitte on its own performance
- its performance in the 2017 half-year review process.

Our assessment was supplemented by a survey to review the effectiveness of Deloitte's audit process in relation to the 2016 financial year. During the survey, the views of senior management and finance personnel were sought and the results considered by the Committee. The survey confirmed that Deloitte's audit approach was effective, and there were no questions around their objectivity and independence or the strength of audit challenge.

Following our assessment, we consider both Deloitte and its audit processes to be effective. It is our opinion that Deloitte has developed a good understanding of the Group's businesses and internal control systems in the time since its appointment and has a strong comprehension of the challenges that we face. Deloitte has also developed a good working relationship with management which is supplemented by robust challenge of management judgements.

This is the second year Deloitte has been the Company's auditor following the competitive tender undertaken in 2015. The current audit partner is Mr Ian Waller, who has been in position since Deloitte was appointed. Given the recent tender, it is not anticipated that the next tender will take place before 2025.

Taking these elements into account, we concluded that it was appropriate to recommend to the Board Deloitte's reappointment as the Company's auditor for 2018.

There are no contractual obligations restricting our choice of external auditor.

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit & Risk Committee Responsibilities) Order 2014 for the financial year under review.

## FRC Audit Quality Review

The FRC's Audit Quality Review team selected PwC's audit of the Company's 2015 financial statements as part of their annual inspection of audit firms. There were no significant findings and only one matter relating to the audit of the Group's SDS joint venture in China was identified as requiring limited improvement. In reviewing Deloitte's audit approach, the Committee was mindful of the observations made by the FRC in relation to SDS in respect of the PwC audit.

## Internal control and risk management

In fulfilling our remit we:

- considered the annual Internal Control Review conducted by Corporate Audit
- reviewed the results of audits undertaken by Corporate Audit
- received reports on control issues of significance to the Group
- reviewed the status of the Group's internal financial control monitoring system
- reported to the Board on our evaluation of the effectiveness of the Group's systems of internal control and risk management, informed by reports from Corporate Audit and Deloitte
- reviewed the methodology and approach to the creation of a total risk assurance map to further improve the Group's risk management processes
- carried out in-depth reviews of the quality risk management and programme management processes in GKN's key businesses
- in relation to the North American Balance Sheet Review, reviewed the reports from management and the external experts regarding the circumstances under which these issues arose and the remedial steps taken. We have considered the further remedial steps proposed to the Group's internal control and risk management systems to address identified issues and avoid any repetition of these issues in the future. These actions are summarised on page 26
- in light of the issues arising out of the North American Balance Sheet Review, reviewed management's reassessment of the principal risks (set out on pages 32 to 39).

In reviewing the effectiveness of the Group's systems of internal control and risk management, we considered the Internal Control Review conducted on an annual basis by Corporate Audit. The review drew together and assessed the output and results of key sources of assurance for the Group and provided the Committee with assurance that the processes reviewed were continuing to operate effectively.

During the year, we considered feedback from Deloitte with regard to the Group's internal control systems and reviewed quarterly reports from Corporate Audit which detailed any internal control issues and identified any themes arising with regard to audit recommendations. We received regular updates on progress in respect of the continued development and improvement of the Group's risk management systems and independent assurance programmes. In particular, we reviewed the quality risk management system within GKN Aerospace, GKN Driveline and GKN Powder Metallurgy and considered the programme management processes used by GKN Aerospace and GKN Driveline.

Progress is being made on the development of a total risk assurance map for the Group, and we received an update on the methodology and approach being taken by Corporate Audit on this.

Where we identified areas requiring improvement, specific actions were delegated to management with progress against the actions tracked at subsequent meetings. In relation to the North American Balance Sheet Review, we are satisfied that the actions taken by management are adequate and that appropriate improvement plans have been inititiated. We will continue to monitor the implementation of these improvement plans during 2018.

Apart from the improvement plans identified under the North American Balance Sheet Review, no significant failings or weaknesses were identified during our review of the Group's systems of internal control and risk management and we concluded that, in relation to businesses outside Aerospace North America, the risk management and internal control processes in place during 2017 and up to the date of this report were effective.

I reported the outcome of our review to the Board and confirmed that the Committee was satisfied that it was appropriate for the Board to make the statements required by the UK Corporate Governance Code 2016 with regard to the Group's systems of internal control and risk management.

### Internal audit

In fulfilling our responsibilities, we:

> reviewed progress against the 2017 Corporate Audit programme

> considered the 2018 Corporate Audit programme, including the proposed audit approach, coverage and allocation of resources, and approved variations to the programme to enable greater focus on the North American Balance Sheet Review

> reviewed the effectiveness of Corporate Audit.

To safeguard its independence, Corporate Audit reports directly to the Committee and, as Chairman, I play a key role in setting the Head of Corporate Audit's objectives and reviewing performance.

The Committee reviews and approves the annual audit programme before the start of each year to ensure that it is aligned to the key risks of the business. During the year the Committee is updated on:

> Corporate Audit's charter and strategy

> audit activities

> progress against the approved annual programme

> any control issues identified

> any themes arising in relation to audit recommendations

> the results of any unsatisfactory audits and the action plans to address them.

We considered the adequacy of management's response to matters raised by Corporate Audit and monitored the implementation of all recommendations made.

The Group's risk profile is constantly changing. As a crucial part of the Group's four lines of defence, we need to ensure that Corporate Audit's remit remains fit for purpose and that it is operating at the highest levels of quality and effectiveness.

During 2017, the Committee reviewed and approved a revised strategy for the development of Corporate Audit's activities. Delivery of key strategic projects, including the total risk assurance map and greater use of data analytics, is a key focus for the function in 2018. These projects will be undertaken alongide delivery of an internal audit plan that will consider both areas of principal risk to the Group and site-level processes and control, including a high degree of focus on our Aerospace North America businesses and Project Boost.

### Employee disclosure

GKN operates a Group-wide international employee disclosure hotline. Run by an external and independent third party, the hotline enables employees to make (anonymously if preferred) confidential disclosures about suspected impropriety and wrongdoing. Any matters reported are investigated and escalated to the Committee as appropriate, and statistics on the volume and general nature of all disclosures made are reported to the Board on a biannual basis.

### Other matters

During the year we:

> received an update on IT risk management and the control environment for the use of technology within the Group

> received updates from divisional finance directors on matters relevant to their divisions

> monitored the induction programme for Jos Sclater in relation to his appointment as Group Finance Director during the period.

### Advice provided to the Committee

The Committee has independent access to the services of the Company Secretary, Corporate Audit and to the external auditors, and may obtain outside professional advice as necessary in the performance of its duties.

### Performance evaluation

The Committee's annual evaluation was carried out as part of the Board evaluation process described on page 60. A report on the Committee's performance was provided by the Company Secretary. Feedback showed that the Board had confidence in the effectiveness of the Committee.

On behalf of the Committee

Shonaid Jemmett-Page

**Shonaid Jemmett-Page**
*Chairman of the Audit & Risk Committee*
26 February 2018

# DIRECTORS' REMUNERATION REPORT

**Dear Shareholder**

I am pleased to present the Directors' remuneration report for 2017.

**Looking back… remuneration outcomes in 2017**

**Base salaries**

Base salary increases for executive Directors in July 2017 ranged from 2.1% to 2.9% taking into account performance and increases awarded elsewhere in the Group. The average global increase for all employees was 3.3%.

**Annual bonus**

Payouts based on Group and divisional performance against profit, cash and strategic measures, underpinned by quality of earnings, ranged from 0% to 32.75% of salary.

**Long-term incentives**

The 2015 Sustainable Earnings Plan (SEP) core award, which required compound annual EPS growth of at least 6%, lapsed along with the associated sustainability award.

**Summary**

These modest outcomes demonstrate the strong tie between performance and reward in our remuneration policy and scheme design.

**Annual bonus plan**

As described in the strategic report, GKN made progress in 2017, notably strong growth in management sales. Excluding the impact of the North American Balance Sheet Review, management trading profit was slightly ahead of 2016 and earnings per share (EPS) increased from 31.0 pence to 31.7 pence. However, when taking into account the impact of the Review, trading profit before tax and EPS both declined year on year. In this context, Nigel Stein waived his right to a bonus payment.

**Long-term incentive plan**

The 2015 SEP award lapsed as we did not achieve the very challenging annual compound growth rate target of at least 6% in management EPS over the three-year performance period to 2017.

**Board changes**

The Committee considered the leaving arrangements for Nigel Stein, Adam Walker and Kevin Cummings during the year. It also considered the remuneration of Anne Stevens and Jos Sclater on their appointment as Chief Executive and Group Finance Director respectively. The approach we took in relation to these matters is in line with our remuneration policy and is detailed in the report.

**Looking forward… proposed changes in 2018**

Our remuneration policy and framework are key ingredients in driving the long-term success of the Group. They are vital both for facilitating the attraction and retention of high calibre individuals who can manage the Group successfully and for ensuring that executives are appropriately incentivised and remunerated for their performance and that of the Group as a whole.

**Principles**

Our policy continues to be designed around three key principles which have underpinned our executive remuneration framework for a number of years:

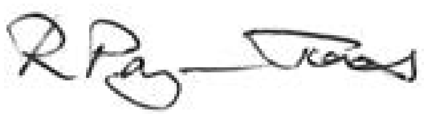
> **Alignment to GKN strategy and performance**
A significant element of executive remuneration is variable and linked to Group performance. Our annual bonus plan rewards the delivery of a balanced selection of financial and strategic measures while long-term incentives are designed to focus executives on our strategic objective of delivering sustainable long-term earnings growth.

> **Aligning executives with shareholders**
A substantial proportion of the remuneration package is delivered in shares through the Deferred Bonus Plan and the SEP. This supports our shareholding requirement and creates a culture of share ownership, long-term stewardship and alignment with our shareholders.

> **Paying within the competitive range**
> In setting quantum, we consider remuneration practices in comparable businesses to ensure remuneration remains within the competitive range, so as to properly mitigate the risks of executive turnover, without paying more than is necessary. We also consider the remuneration of executive Directors in the context of other executives and employees throughout the Group.

### Project Boost

For 2018, our approach to implementing our remuneration policy remains broadly unchanged. However, the Committee is currently considering the structure of a one-off incentive plan to reinforce the delivery of Project Boost over the next three years. Project Boost is key to maximising shareholder value through the improvement of cash flow and margin, and it is therefore crucial that management is incentivised appropriately to deliver the project. It is intended that participation in this incentive plan would apply to executive Directors and all management including plant managers. The implementation of any new plan will require our remuneration policy to be amended and major shareholders will be consulted in due course.



**Professor Richard Parry-Jones CBE**
*Chairman of the Remuneration Committee*
26 February 2018

**2017 key activities**

| | |
|---|---|
| **Salary and annual incentive plan** | > Considered and approved STVRS payout for 2016 and set targets for 2017.<br>> Approved salary review proposals for executive Directors, Company Secretary and members of the Executive Committee and reviewed fees for the Chairman. |
| **Long-term incentive arrangements** | > Determined vesting levels for 2014 SEP awards. |
| **Policy and remuneration framework** | > Consulted with shareholders on proposed changes to our remuneration policy to be put before the AGM.<br>> Adopted a revised policy relating to the payment of non-UK executive Directors in their home currency, to align with the policy adopted by the Company for employees generally. |
| **Compliance and governance** | > Considered and reviewed practices and changes to corporate governance environment with regard to remuneration arrangements. |
| **Management changes** | > Considered and approved remuneration arrangements for incoming and departing Directors, and as a result of changes in responsibilities.<br>> Considered the remuneration arrangements for changes at senior executive level. |

# Annual report on remuneration

The Committee presents the annual report on remuneration, which together with the Chairman's letter, will be put to shareholders for approval as an advisory vote at the 2018 AGM to be held on 3 May 2018.

## Executive Directors

### Single total figure of remuneration (audited)

The table below shows the single total figures for 2017 and the comparative figures for 2016.

| | Fixed pay | | | | | | Variable pay | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary £000 | | Taxable benefits £000 | | Pension £000 | | Annual bonus STVRS – cash £000 | | Annual bonus STVRS – deferred shares £000 | | Long-term incentives £000 | | Other remuneration £000 | | Recovery | Total remuneration £000 | |
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | **2017** | 2016 |
| **Executive Directors** | | | | | | | | | | | | | | | | | |
| Nigel Stein | 835 | 815 | 18 | 18 | 259 | 326 | – | 518 | – | – | – | 136 | – | – | **–** | **1,112** | 1,813 |
| Jos Sclater | 71 | – | 2 | – | 17 | – | 19 | – | 9 | – | – | – | – | – | **–** | **118** | – |
| Phil Swash | 524 | 505 | 15 | 15 | 160 | 157 | 115 | 263 | 57 | – | – | 19 | 2 | 202 | **–** | **873** | 1,161 |
| **Former Executive Directors** | | | | | | | | | | | | | | | | | |
| Kevin Cummings | 452 | 505 | 380 | 126 | 90 | 101 | – | 328 | – | 62 | – | 26 | – | 229 | **(291)** | **631** | 1,377 |
| Adam Walker | 504 | 571 | 13 | 15 | 126 | 143 | – | 367 | – | – | – | – | – | – | **–** | **643** | 1,096 |
| **Total** | **2,386** | 2,396 | **428** | 174 | **652** | 727 | **134** | 1,476 | **66** | 62 | **–** | 181 | **2** | 431 | **(291)** | **3,377** | 5,447 |

### Explanatory notes to the single total figure table

#### Board changes

The following changes took place during the year:

| Director | Date of appointment | Date of leaving the Board |
|---|---|---|
| Adam Walker | – | 10 November 2017 |
| Jos Sclater | 10 November 2017 | – |
| Kevin Cummings | – | 16 November 2017 |
| Nigel Stein | – | 31 December 2017 |

All figures in the single total figure table and in this report relate to remuneration earned during the period in which the relevant person served as a Director on the Board.

#### Salary

While Kevin Cummings was a Director, he was a US national on assignment. For 2017, the Committee adopted a revised policy for the setting of salary for non-UK executive Directors, and his service contract was amended so that the sterling value of his salary was converted to US dollars at the average exchange rate for the 2016 calendar year, with the intention that US dollars would be the currency of his salary on an ongoing basis.

For 2016, his salary was set in sterling and payment was made in US dollars based on GKN's budget exchange rate for the first six months of the year and subsequently recalculated at the average market rate for June for the remainder of the year. The same principle also applied to pension and taxable benefits to the extent they were paid in US dollars. These terms were in accordance with his service contract at that time.

#### Taxable benefits

Relates to healthcare benefits, car and fuel allowances and, for Kevin Cummings, his US benefits and expatriate allowances.

#### Pension

There are differing arrangements for each of the executive Directors as described on page 76.

#### Annual bonus (STVRS)

For 2017, 33% of STVRS payments are automatically deferred into shares for two years and the balance is paid in cash. This is in line with the approved policy. Nigel Stein waived his right to a bonus payment for 2017.

For 2016, Kevin Cummings had an amount representing 12.3% of salary deferred into shares, which has since lapsed (see Recovery on page 76). No amounts were deferred for Nigel Stein, Phil Swash or Adam Walker. STVRS payouts for that year were based on a cash payment up to 65% of salary with any amount in excess being deferred into shares for two years.

#### Long-term incentives (SEP)

The performance period for the 2015 SEP core award ended on 31 December 2017 and both the core and associated sustainability awards lapsed in full.

For 2016, the values relate to shares vested under the 2012 sustainability award and dividend equivalent shares accrued from date of grant to date of release on the vested shares. These values were based on the GKN share price of 350.2p on 21 February 2017 (the date on which the Committee determined the outcome of the performance condition for the 2012 sustainability award).

### Other remuneration

For Phil Swash, value comprises options granted under the GKN plc 2017 Sharesave Plan (SAYE) in the year based on the embedded value at grant (20% of the average share price for the three dealing days immediately before the invitation date multiplied by the number of options granted). Adam Walker also participated in the 2017 SAYE grant. However, as his options lapsed on leaving GKN, they are not included in the table on page 75. Full details of the SAYE option grants are set out on page 82.

For 2016, the values relate to vested share awards granted in 2015 under the GKN Share Incentive and Retention Plan (SIRP) to Phil Swash and Kevin Cummings before their appointment to the Board (see Recovery below for Kevin Cummings). These values were calculated on the same basis as the SEP 2012 sustainability awards referred to on page 75.

### Recovery

The recovery made in 2017 relates to amounts reported in the single total figure table for 2016 that lapsed in accordance with the severance terms agreed with Kevin Cummings (see page 87), relating to the 2015 SIRP award and the 2016 STVRS.

## Salary

The annual salary reviews for executive Directors were carried out in June 2017. Our assessment took into account a number of factors including individual performance, scope of responsibilities, benchmarking data from our remuneration advisers, and increases awarded to other employees.

We approved salary increases ranging from 2.1% to 2.9% (rounded to the nearest thousand) to take effect from 1 July 2017. The average increase for employees globally was 3.3%.

Subsequently, in November 2017, Phil Swash received a 7.6% increase having assumed additional operational responsibility for GKN Wheels & Structures and GKN Off-Highway Powertrain. At the same time, Jos Sclater was appointed to the Board as Group Finance Director.

| | Date of last salary change | | | |
|---|---|---|---|---|
| | **10 Nov 2017 £** | 1 July 2017 £ | 1 July 2016 £ | Increase % |
| **Executive Directors** | | | | |
| Nigel Stein | **–** | 845,000 | 825,000 | 2.4 |
| Jos Sclater | **500,000**[1] | – | – | – |
| Phil Swash | **565,000** | 525,000 | 510,000 | 2.9[2] |
| **Former Executive Directors** | | | | |
| Kevin Cummings | **–** | 525,000[3] | 510,000 | 2.9 |
| Adam Walker | **–** | 590,000 | 578,000 | 2.1 |

1 Salary on appointment to the Board.
2 Excludes subsequent increase on assuming additional responsibilities.
3 Notional salary in sterling for the purposes of calculating long-term incentive awards. The 2.9% increase was applied to Kevin Cummings's salary in US dollars.

### Implementation of policy for 2018

Any salary increases in 2018 will be in line with the approved policy and reported in next year's annual report on remuneration.

## Taxable benefits

All UK executive Directors received healthcare benefits and car and fuel allowances. The values of these benefits are shown in the single total figure table on page 75.

Kevin Cummings received US benefits and expatriate allowances as part of his assignment to the UK. These are set out in the table below.

| Tax equalisation[1] £000 | Expatriate allowance (net)[2] £000 | Tax return[3] £000 | Car[4] £000 | Medical insurance £000 | Total £000 |
|---|---|---|---|---|---|
| 231 | 125 | 11 | 5 | 8 | 380 |

1 Company operated hypothetical US tax and social security withholding so that he was placed in a tax neutral position to prevent double taxation in the UK and US. The amount represents the best estimate of the cost of the tax equalisation benefit that is not expected to be refunded to the Company, based on the information available to date.
2 Assignment expenses included housing.
3 Assistance with completion of tax return.
4 Amount represents provision of a car net of payroll contributions.

### Implementation of policy for 2018

Benefits for 2018 will be implemented in line with the approved policy.

## Pension entitlements

Pension benefits are provided to executive Directors through the GKN Group Pension Scheme 2012 (the Scheme). Directors may receive benefits either under the defined benefit or the defined contribution sections of the Scheme depending on when they joined the Group and/or they may choose to take a cash allowance.

Nigel Stein and Phil Swash were entitled to legacy arrangements under the defined benefit section of the Scheme, which closed to future accruals on 30 June 2017. Nigel Stein opted out of the Scheme in 2014 and from the date of opting out until May 2017 he received a cash allowance of 40% of his base salary. From May 2017, his allowance was reduced to 25% of base salary in line with the approved policy.

Phil Swash accrued benefits during the period up to 30 June 2017 under the defined benefit section of the Scheme based on a pension of up to two-thirds of pensionable salary and maximum accrual rate of 1/40th (calculated on a career average basis since 1 September 2007). He received a cash allowance of 25% on the difference between his pensionable salary and base salary. From 1 July 2017, his benefits under the defined benefit section of the Scheme were crystalised and will be index linked, and he receives 25% of his base salary as a combination of a payment into the defined contribution section of the Scheme and a cash allowance.

Jos Sclater receives 25% of base salary from the date of his appointment to the Board as a combination of a payment into the defined contribution section of the Scheme and a cash allowance.

Adam Walker had opted out of the Scheme and received a cash allowance of 25% of base salary, which ceased when he resigned from the Board.

Kevin Cummings (as a US national) received a retirement benefit allowance into a 401(k) retirement plan up to the maximum permitted by US law until he left the Board.

### Additional information

No compensation is offered for any additional tax suffered by a Director in the event that the value of their pension exceeds the statutory lifetime allowance.

### Implementation of policy for 2018

Pension entitlements for 2018 will be implemented in line with the approved policy.

### Pension benefits (audited)

The table below sets out details of the pension benefits of those executive Directors who benefit from the defined benefit section of the Scheme.

| | Pivotal retirement date[1] | Accrued pension at 31.12.17[2] £000 | Transfer value of accrued pension at 31.12.2017[3] £000 | Increase in accrued pension during year (net of inflation) £000 | Pension value in year from defined benefit scheme (A) £000 | Pension value in year from cash allowance/defined contribution (B) £000 | Total pension value in year as reported in single total figure table (A+B)[4] £000 |
|---|---|---|---|---|---|---|---|
| Nigel Stein | 31.12.15 | 90 | 2,379 | – | 8 | 251 | 259 |
| Phil Swash | 07.10.23 | 21 | 541 | 1 | 22 | 138 | 160 |

1 Earliest date that a non-reduced pension is payable to Directors. No additional benefits are provided for early retirement.
2 Accrued annual pension includes entitlements earned as an employee before becoming a Director as well as for qualifying services after becoming a Director. As the defined benefit section of the Scheme closed to future accrual on 30 June 2017, this amount is based on service up to that date.
3 Transfer value represents the present value of accrued benefits. It does not represent an amount of money which the individual is entitled to receive. The change in transfer value over the year reflects the additional pension earned and the effect of changes in financial market conditions during the year. The method and assumptions used to calculate transfer values from the Scheme were last reviewed in March 2016 and remain applicable.
4 Notional value of defined benefit and cash allowances included in single total figure table on page 75.

The single total figure table on page 75 includes remuneration received by way of pension contributions to the defined contribution section of the Scheme and/or cash allowances.

### Appointment of Anne Stevens as Chief Executive

Anne Stevens was appointed as interim Chief Executive under a contract dated 15 December 2017, which took effect on 1 January 2018. Her salary was £1,123,850 per year and she was not entitled to any benefits other than UK tax support and Company-provided accommodation.

From 12 January 2018, Anne was appointed as Chief Executive under a contract dated 13 February 2018. She will receive an annual salary of £845,000. In addition, she will receive healthcare benefits, expatriate benefits allowance and a cash allowance of 25% of base salary as an alternative to contributing to the pension scheme. She will also be entitled to participate in the short- and long-term incentive arrangements. Her remuneration is in line with the approved policy. Further details of Anne's service contract are set out on page 87.

### Annual bonus plan: Short Term Variable Remuneration Scheme (STVRS)

The operation of the 2017 STVRS award is in line with the approved policy as set out below.

| | Operation |
|---|---|
| **Performance period** | One year. |
| **Opportunity** | Up to 150% of salary. |
| **Measures** | A combination of financial measures and strategic measures, the weighting of which is reviewed annually.<br>Financial measures are assessed against profit and cash targets in relation to the Group and divisions as appropriate.<br>Strategic measures vary from year to year and by division in accordance with Group priorities. |
| **Qualitative assessment of performance** | Financial measures are subject to assessment by the Committee. The achievement of strategic measures is assessed by the Corporate Audit function which provides a report to the Committee. |
| **Other restrictions** | Subject to malus and clawback. |
| **Release** | 33% of bonus payments will be deferred into shares and will be subject to a two-year holding period under the Deferred Bonus Plan (DBP). |

### 2017 STVRS performance (audited)

The financial and strategic measures for the 2017 STVRS were linked to our overall strategic objectives and financial goals that applied during 2017. This strategic framework is set out on page 14 of the 2016 annual report and accounts, and the five strategic objectives that applied during 2017 are: Leading in our chosen markets; Leveraging a strong global presence; Differentiating ourselves through technology; Driving operational excellence; and Sustaining above market growth, with the aim of Delivering strong financial returns.

| Performance measure | Link to 2017 strategic objectives and financial goals |
|---|---|
| **Financial measures** | |
| Profit | Delivering strong financial returns |
| Cash | Delivering strong financial returns |
| **Strategic measures** | |
| Develop capability in additive manufacturing | Differentiating ourselves through technology |
| Further progress and success in eDrive to improve market share | Differentiating ourselves through technology |
| Sharpen business focus | Leading in our chosen markets |
| Increase productivity and standardisation | Driving operational excellence |
| Closure of UK defined benefit pension scheme to new accruals | Delivering strong financial returns |

The performance against financial measures is set out below and shows the extent to which performance was met at threshold, target and maximum levels. The table shows Nigel Stein's actual performance in relation to the 2017 STVRS, however Nigel Stein waived his right to this payment in light of the adjustments made as a result of the North American Balance Sheet Review. Jos Sclater's 2017 STVRS actual performance as percentage of salary only relates to the period of time he was a Director.

| | | Target performance | | | | Actual performance (as % of salary) | |
|---|---|---|---|---|---|---|---|
| Director | Measure | Threshold | Target | Maximum | Actual | Threshold / Target / Maximum | Maximum opportunity (% of salary) |
| Nigel Stein | Group profit | £770m | £810m | £842m | £572m | 0.00% | 75 |
| | Group cash | | See below | | | 12.50% | 37.5 |
| | Group strategic measures | | See below | | | 27.00% | 37.5 |
| | | | | | | Total achieved: 39.50% | 150 |
| Jos Sclater | Group profit | £770m | £810m | £842m | £572m | 0.00% | 75 |
| | Group cash | | See below | | | 1.80% | 37.5 |
| | Group strategic measures | | See below | | | 3.80% | 37.5 |
| | | | | | | Total achieved: 5.60% | 150 |
| Phil Swash | Group profit | £770m | £810m | £842m | £572m | 0.00% | 37.5 |
| | Divisional profit | £380m | £409m | £430m | £361m | 0.00% | 37.5 |
| | Divisional cash | | See below | | | 7.25% | 37.5 |
| | Divisional strategic measures | | See below | | | 25.50% | 37.5 |
| | | | | | | Total achieved: 32.75% | 150 |

The management profit and margin figures above are calculated using the 2017 budget exchange rates to eliminate the impact of translational currency fluctuations.

Annual profit and margin targets for the Group and each division are set in line with the budget approved by the Board in light of shareholder expectations, the Group's strategy and market conditions.

Cash targets for the Group and the divisions included operating cash flow targets (measured monthly over ten months), cash conversion targets (measured at two points in the year) and stock turn targets (measured three times during the year). These targets were based on the Group's budget. The rationale for measuring cash on a monthly basis is to encourage smooth flow of cash throughout the year so as to incentivise sustainable cash flow. Given the complex structure and number of cash targets, we believe the disclosure of such targets would not be practical or meaningful to shareholders.

Performance directed on strategic measures included the following:

| **Strategic measures** | **Outcome** |
|---|---|
| Develop capability in additive manufacturing | > Orders won and in the pipeline with targeted customers.<br>> Accredited as a Partner with multiple organisations in the year. |
| Further progress and success in eDrive to improve market share | > Considerable success in gaining business.<br>> Market leader in P4 architecture for electric all-wheel drives; successful launch of eTwinster. |
| Sharpen business focus | > Progress on portfolio rationalisation and movement of work to plan. |
| Increase productivity and standardisation | > Increased standardisation significantly across CVJ.<br>> Progress on cobots and automation.<br>> Progress on the Gold Operating System for Aerospace. |
| Closure of UK defined benefit pension scheme to new accruals | > Success in closing the defined benefit pension scheme in the UK within reasonable cost and without disruption to operations. |

### Implementation of policy for 2018

The STVRS performance measures are reviewed annually. The measures and weightings for 2018 are set out below. The outcome of these measures will be disclosed in the next annual report on remuneration.

| | % of salary | |
|---|---|---|
| | Target | Maximum |
| Profit | 22.5 | 45 |
| Cash conversion | 22.5 | 45 |
| Strategic objectives | 30 | 60 |
| **Total** | **75** | **150** |

## Deferred Bonus Plan (DBP)

The operation of the DBP is in line with the approved policy as set out below.

| | Operation |
|---|---|
| **Amount deferred** | 33% of any bonus payments. |
| **Performance condition** | None. |
| **Other restrictions** | Subject to continued employment and malus provisions. |
| **Retention period** | Two years. |

The table below sets out the DBP awards granted during the year in relation to the amounts deferred under the 2016 STVRS based on amounts in excess of 65% of salary:

| Director | % of salary deferred into shares | Face value of award (£)[1] | No of shares awarded[2] | Date of release |
|---|---|---|---|---|
| Kevin Cummings[3] | 12.3 | 62,115 | 16,675 | 2019 |

1 Value excludes amount of dividend equivalents paid in cash from date of grant to date of release.
2 Granted with no exercise price. Further details are shown on page 82.
3 Award lapsed on date of leaving (see page 82).

Jos Sclater also received a 2017 DBP award before his appointment to the Board (see page 82 for further details). As reported on page 75, 33% of the 2017 STVRS payments for Phil Swash and Jos Sclater will be deferred into shares under the DBP and awards will be granted in 2018.

## Long-term incentives: Sustainable Earnings Plan (SEP)

The operation of the SEP was simplified for 2017 and is in line with the approved policy as set out below.

| | Operation |
|---|---|
| **Performance period** | Single award with a three-year performance period. |
| **Opportunity** | Normal annual maximum opportunity is 200% of salary. However, an exceptional award of 250% of salary may be made to facilitate the external recruitment of a new executive Director. |
| **Quantitative measure** | EPS growth relative to automotive and aerospace end markets as a primary measure.<br>Committee retains flexibility to implement additional financial or strategic measures if appropriate. |
| **Qualitative assessment of performance** | We assess the level of vesting to ensure that it is justified by the quality of earnings over the performance period. In doing so, we take account of:<br>> EPS performance against shareholder expectations<br>> Group ROIC against internal projections, new investment performance and cost of capital<br>> shareholder value creation<br>> whether EPS has grown in absolute terms. |
| **Other restrictions** | Subject to malus and clawback. |
| **Release** | Vested shares will be subject to a two-year holding period before release. |

### 2017 SEP target

The detailed performance measures for the 2017 awards are set out below.

| Growth in EPS target[1] | Vesting level[2] |
|---|---|
| 5% growth above end markets | 100% |
| 1% growth above end markets | 25% |
| Less than 1% growth above end markets | 0% |

1 Compound annual EPS growth based on management EPS calculated using book tax rate as reported in note 7 to the financial statements.
2 Vesting between 1% and 5% growth above end markets is on a straight-line basis.

### Vesting of awards in 2017 (audited)

The vesting of the 2015 SEP core award was subject to EPS growth over a three-year period to 31 December 2017. As stated in the Committee Chairman's letter, the required EPS growth was not achieved and both the core and sustainability awards lapsed in full on 19 February 2018.

| | Target for vesting[1] | | |
|---|---|---|---|
| 2015 SEP core award | Threshold | Maximum | Actual |
| Performance measure (EPS growth[2]) | 6% | 12% | -2.9% |
| Vesting level | 25% | 100% | 0% |

1 Core awards vest on a straight-line basis between threshold and maximum levels.
2 Compound annual growth in management EPS normalised for tax, and excluding exceptional items, post-employment finance charges and volatile IFRS charges or credits.

### Awards granted in 2017 (audited)

The tables below set out awards made during the year under the SEP and the SAYE to each person appointed as a Director at the time of the award.

| Director and award type[1] | % of salary | Face value of award (£)[2] | No. of shares awarded | % vesting at threshold | End of performance period |
|---|---|---|---|---|---|
| Nigel Stein | 200 | 1,650,000 | 464,135 | 25 | 31.12.19 |
| Phil Swash | 200 | 1,020,000 | 286,919 | 25 | 31.12.19 |
| Kevin Cummings[3] | 200 | 1,020,000 | 286,919 | 25 | 31.12.19 |
| Adam Walker[3] | 200 | 1,156,000 | 325,175 | 25 | 31.12.19 |

1 SEP awards were granted as a single performance share award with no exercise price.
2 Value is based on the maximum number of shares vesting assuming the performance condition is satisfied in full. The number of shares was calculated using the GKN share price of 355.5p, being the average share price for the three dealing days immediately before the date of grant (11 May 2017). The value excludes dividend equivalent amounts (paid in additional shares or cash) accrued from the date of grant to date of release and released at the same time as shares vested under the SEP award.
3 Awards lapsed on date of leaving (see page 82).

| Director and award type[1] | Savings period | Face value of award (£)[2] | No. of shares awarded | Maturity date |
|---|---|---|---|---|
| Phil Swash | 3 years | 9,000 | 3,491 | 01.10.2020 |
| Adam Walker[3] | 3 years | 9,000 | 3,491 | 01.10.2020 |

1 SAYE awards were granted as market value options with an exercise price.
2 Value is based on the maximum number of shares vesting assuming continued employment until the maturity date. The number of shares was calculated using the GKN share price of 257.79 pence being the average share price for the three dealing days immediately before the invitation date (1 August 2017) less a 20% discount. Awards were granted on 24 August 2017.
3 Award lapsed on date of leaving (see page 82).

Jos Sclater received awards under the SEP and SAYE before his appointment to the Board (see page 82 for further details).

### Implementation of policy for 2018

The vesting schedule for the 2017 SEP on page 79 will also apply to the 2018 SEP awards.

In line with the approved policy, the performance measures for the 2018 award will include both financial and strategic measures (up to a maximum weighting of 20% of the maximum opportunity). Financial performance will be measured against a base year EPS for 2017 (using book tax rate) of 31.7 pence (adjusted to take into account the impact of the North American Balance Sheet Review). The strategic measures will be disclosed in next year's annual report on remuneration.

## Historic plans

The GKN Executive Share Option Scheme (ESOS) is the only remaining historic long-term incentive plan with outstanding awards. No awards have been granted under the ESOS since the introduction of the SEP in 2012. Details of vested and outstanding ESOS awards are shown on page 82.

## Executive Directors' share interests (audited)

We operate a shareholding requirement as we believe that the interests of Directors should be closely aligned with those of shareholders. Executive Directors can achieve a considerable part of this alignment through the retention of shares released under the DBP and long-term incentive plans.

During the year, we approved an increase to the shareholding requirement for executive Directors from 200% of salary to 250% of salary. In doing so, the alignment of their interests has been strengthened further with those of shareholders. Directors are expected to retain all vested long-term incentive awards (net of tax) until the requirement is met in full.

Executive Directors are expected to achieve 125% of base salary within five years of appointment and 250% as soon as possible thereafter. The table below sets out where the shareholding requirement has been met or the progress made towards meeting it.

We recognise that the performance of the SEP plays an important factor in executive Directors achieving their shareholding requirement. The recent performance of the SEP has resulted in no payout in 2016, 2017 or 2018 and therefore it may take some executive Directors longer to achieve the requirement. This will also be the case for the other executives who are also subject to a shareholding requirement.

We apply a similar shareholding requirement to Executive Committee members and the top 100 executives in the Group as we believe their interests should be closely aligned with shareholders in the same way as those of executive Directors and non-executive Directors. Executive Committee members are expected to achieve a minimum shareholding of 100% of base salary (having to retain all vested long-term incentive awards net of tax until the requirement is met in full). The top 100 executives below that level are required to achieve a minimum shareholding of either 20% or 30% of base salary, depending on their grade (having to retain 50% of vested long-term incentive awards net of tax until the requirement is met in full).

The shareholding requirement for all executives is tested annually on 31 December using the average share price for the final three months of the year based only on shares held outright by the executives or their connected persons. Shares deferred under the DBP are not taken into account until they are released.

The table below shows the number of shares held by executive Directors and their connected persons at 31 December 2017. It also shows their interests in share awards and options at the same date.

| | Shares | | | Interests in share awards and options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares held | Shareholding requirement | | Without performance conditions | | | With performance conditions | | |
| | | % of salary | | DBP[2] | SIRP Restricted[3] | SAYE[4] | SEP[5] | SIRP Performance[6] | ESOS[7] |
| | | Required | Achieved[1] | Unvested | Unvested | Unvested | Unvested | Unvested | Vested |
| **Executive Directors** | | | | | | | | | |
| Nigel Stein | 2,127,416 | 250% | 795% | 6,515 | – | – | 1,431,331 | – | 635,041 |
| Jos Sclater | 37,812[8] | 250% | 24% | 6,677 | 59,064 | 3,491 | 275,648 | 44,552 | – |
| Phil Swash | 118,011 | 250% | 66% | – | – | 3,491 | 743,923 | 57,563 | 61,453 |
| **Former Executive Directors** | | | | | | | | | |
| Kevin Cummings | 211,711[9] | – | – | – | – | – | – | – | 116,346[10] |
| Adam Walker | 115,899[11] | – | – | – | – | – | – | – | – |

1 Based on average share price of 315.90 pence per share for the period 1 October 2017 to 31 December 2017 and salary as at 31 December 2017.
2 DBP awards granted as conditional awards. Vesting is subject to continued employment only. Malus provisions apply.
3 SIRP Restricted award granted as conditional award before being appointed to the Board. Vesting is subject to continued employment only. Malus and clawback provisions apply.
4 SAYE awards granted as market value options. Vesting is subject to continued employment only.
5 SEP awards granted as conditional awards. Vesting is subject to the achievement of an EPS performance condition. Malus and clawback provisions apply.
6 SIRP Performance awards granted as conditional awards before being appointed to the Board. Malus and clawback provisions apply. SIRP awards vested in full and will be released as soon as practicable after the holding period.
7 ESOS awards are market value options. Vested ESOS awards are those not exercised at 31 December 2017.
8 Shares held on appointment to the Board.
9 Shares held on leaving the Board (including 10,000 GKN American Depository Receipts).
10 Awards held on leaving the Board (see page 82 for further details).
11 Shares held on resigning from the Board.
12 All Directors are potential beneficiaries under the employee share ownership plan trust (Trust) and have a deemed interest in shares held in the Trust (see page 88).

Further details on the interests in share awards and options shown above can be found in the table and additional notes on page 82.

There were no changes in the interests of Directors in the period 31 December 2017 to 26 February 2018.

## Directors' interests in share awards and options

| Director and plan | Shares held at 01.01.2017[1] | Shares granted in year | Shares released/ options exercised in year | Dividend shares released in year | Shares lapsed in year | No. of shares at 31.12.2017 | Status at 31.12.2017[2,3] | Share price (pence)[4] | Performance period |
|---|---|---|---|---|---|---|---|---|---|
| **Nigel Stein** | | | | | | | | | |
| ESOS 2010^ | 434,621 | – | – | – | – | 434,621 | Vested | 134.60 | 2010-2012 |
| ESOS 2011^ | 200,420 | – | – | – | – | 200,420 | Vested | 199.58 | 2011-2013 |
| SEP 2012 | 244,969 | – | 209,973 | 23,572 | 34,996 | – | Released | 208.36 | 2015-2016 |
| DBP 2016 | 6,515 | – | – | – | – | 6,515 | Unvested | 272.07 | n/a |
| | **886,525** | – | **209,973** | **23,572** | **34,996** | **641,556** | | | |
| SEP 2014 | 335,502 | – | – | – | 335,502 | – | Lapsed | 396.23 | 2014-2018 |
| SEP 2015 | 381,355 | – | – | – | – | 381,355[5] | Unvested | 358.17 | 2015-2019 |
| SEP 2016 | 585,841 | – | – | – | – | 585,841 | Unvested | 272.07 | 2016-2020 |
| SEP 2017 | – | 464,135 | – | – | – | 464,135 | Unvested | 355.50 | 2017-2019 |
| | **1,302,698** | **464,135** | – | – | **335,502** | **1,431,331** | | | |
| **Jos Sclater**[6] | | | | | | | | | |
| SIRP 2015 Performance | 44,552 | – | – | – | – | 44,552 | Unvested | 289.73 | 2015-2016 |
| | **44,552** | – | – | – | – | **44,552** | | | |
| SAYE 2017^ | – | 3,491 | – | – | – | 3,491 | Unvested | 257.79 | n/a |
| SEP 2015 | 72,076 | – | – | – | – | 72,076[5] | Unvested | 358.17 | 2015-2019 |
| SEP 2016 | 113,198 | – | – | – | – | 113,198 | Unvested | 272.07 | 2016-2020 |
| SEP 2017 | – | 90,374 | – | – | – | 90,374 | Unvested | 355.50 | 2017-2019 |
| SIRP 2017 Restricted | – | 59,064 | – | – | – | 59,064 | Unvested | 325.066 | n/a |
| DBP 2017 | – | 6,677 | – | – | – | 6,677 | Unvested | 372.50 | n/a |
| | **185,274** | **159,606** | – | – | – | **344,880** | | | |
| **Phil Swash** | | | | | | | | | |
| ESOS 2010^ | 36,714 | – | – | – | – | 36,714 | Vested | 134.60 | 2010-2012 |
| ESOS 2011^ | 24,739 | – | – | – | – | 24,739 | Vested | 199.58 | 2011-2013 |
| SEP 2012 | 34,560 | – | 29,623 | 3,319 | 4,937 | – | Released | 208.36 | 2015-2016 |
| SIRP 2015 Performance | 57,563 | – | – | – | – | 57,563 | Unvested | 289.73 | 2015-2016 |
| | **153,576** | – | **29,623** | **3,319** | **4,937** | **119,016** | | | |
| SAYE 2017^ | – | 3,491 | – | – | – | 3,491 | Unvested | 257.79 | n/a |
| SEP 2014 | 69,231 | – | – | – | 69,231 | – | Lapsed | 396.23 | 2014-2018 |
| SEP 2015 | 93,128 | – | – | – | – | 93,128[5] | Unvested | 358.17 | 2015-2019 |
| SEP 2016 | 363,876 | – | – | – | – | 363,876 | Unvested | 272.07 | 2016-2020 |
| SEP 2017 | – | 286,919 | – | – | – | 286,919 | Unvested | 355.50 | 2017-2019 |
| | **526,235** | **290,410** | – | – | **69,231** | **747,414** | | | |
| **Kevin Cummings** | | | | | | | | | |
| ESOS 2009^ | 55,056 | – | – | – | – | 55,056[7] | Vested | 110.08 | 2009-2011 |
| ESOS 2010^ | 36,714 | – | – | – | – | 36,714[7] | Vested | 134.60 | 2010-2012 |
| ESOS 2011^ | 24,576 | – | – | – | – | 24,576[7] | Vested | 200.90 | 2011-2013 |
| SEP 2012 | 47,332 | – | 40,570 | 4,546 | 6,762 | – | Released | 208.36 | 2015-2016 |
| | **163,678** | – | **40,570** | **4,546** | **6,762** | **116,346** | | | |
| SEP 2014 | 82,314 | – | – | – | 82,314 | – | Lapsed | 396.23 | 2014-2018 |
| SEP 2015 | 105,790 | – | – | – | 105,790 | –[8] | Lapsed | 358.17 | 2015-2019 |
| SEP 2016 | 363,876 | – | – | – | 363,876 | –[8] | Lapsed | 272.07 | 2016-2020 |
| SEP 2017 | – | 286,919 | – | – | 286,919 | –[8] | Lapsed | 355.50 | 2017-2019 |
| SIRP 2015 Performance | 65,391 | – | – | – | 65,391 | –[8] | Lapsed | 289.73 | 2015-2016 |
| DBP 2017 | – | 16,675 | – | – | 16,675 | –[8] | Lapsed | 372.50 | n/a |
| | **617,371** | **303,594** | – | – | **920,965** | – | | | |
| **Adam Walker** | | | | | | | | | |
| SAYE 2017^ | – | 3,491 | – | – | 3,491 | –[8] | Lapsed | 257.79 | n/a |
| SEP 2014 | 212,982 | – | – | – | 212,982 | – | Lapsed | 396.23 | 2014-2015 |
| SEP 2015 | 241,929 | – | – | – | 241,929 | –[8] | Lapsed | 358.17 | 2015-2019 |
| SEP 2016 | 410,671 | – | – | – | 410,671 | –[8] | Lapsed | 272.07 | 2016-2020 |
| SEP 2017 | – | 325,175 | – | – | 325,175 | –[8] | Lapsed | 355.50 | 2017-2019 |
| DBP 2016 | 4,248 | – | – | – | 4,248 | –[8] | Lapsed | 272.07 | n/a |
| | **869,830** | **328,666** | – | – | **1,198,496** | – | | | |

^ Indicates awards granted as share options.

1 The figures for SEP awards granted in 2014, 2015 and 2016 represent both the core and sustainability awards and those granted in 2017 are based on a single award.

2 SIRP 2015 Performance and DBP 2016 awards will both be released as soon as practicable after the end of the relevant holding and vesting periods respectively.

3 Expected release dates for other awards:
> ESOS dates exercisable up to: 6 May 2020 (2010 award) and 31 March 2021 (2011 award).
> SAYE dates exercisable: 1 October 2020 to 31 March 2021 (2017 award).
> DBP expected release date: February 2019 (2017 award).
> SEP expected release dates: in 2019/2021 (2016 award) and in February 2022 (2017 award). Release date for 2016 awards is based on 50% of any vested core award being released after three years and the remaining 50% and any vested sustainability award being released after five years, in both cases after the announcement of the prior year annual results. The 2017 awards are released after the end of the two-year holding period.
> SIRP Restricted expected release date: July 2020 (2017 award).

4 The share price used to calculate the number of shares granted under awards and options is:
> for SEP, DBP and SIRP Performance and SIRP Restricted, it is the average price for the three dealing days immediately before the grant dates
> for SAYE, it is the average price for the three dealing days immediately before the invitation date, and for the ESOS, it is the five dealing days immediately before the grant date. These are also the prices at which SAYE and ESOS options can be exercised.

5 Performance condition for the 2015 SEP core and sustainability awards was not met so these awards lapsed in full on 19 February 2018.

6 Awards granted before being appointed to the Board.

7 Awards exercisable for period of six months following leaving date.

8 Awards lapsed on leaving the Board.

The aggregate gain made by Directors on the release of the above awards during the year was £1,121,000.

# Non-executive Directors

## Single total figure of remuneration (audited)

| | Basic fees £000 | | Senior Independent Director/Committee Chairman fee £000 | | Total £000 | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Chairman** | | | | | | |
| Mike Turner | **350** | 335 | **–** | – | **350** | 335 |
| **Non-executive Directors** | | | | | | |
| Angus Cockburn | **63** | 60 | **–** | – | **63** | 60 |
| Tufan Erginbilgic | **63** | 60 | **–** | – | **63** | 60 |
| Shonaid Jemmett-Page | **63** | 60 | **15**[1] | 15[1] | **78** | 75 |
| Richard Parry-Jones | **63** | 60 | **25**[2] | 25[2] | **88** | 85 |
| Anne Stevens[3] | **63** | 30 | **–** | – | **63** | 30 |
| **Total** | **665** | 605 | **40** | 40 | **705** | 645 |

1 Fee for Audit & Risk Committee Chairman.
2 Fees for Remuneration Committee Chairman (£15,000) and Senior Independent Director (£10,000).
3 Anne Stevens is a US national and her fee was converted into US dollars using the exchange rate quoted on Bloomberg for the last practicable date before the quarterly payment date.

## Fees

As reported last year, fees for non-executive Directors are now reviewed (but not necessarily increased) annually in line with employee salary reviews.

The Committee and the Board carried out their review of fees for the Chairman and non-executive Directors respectively in November 2017 and decided that no changes would be made for 2018. The Board also reviewed the additional fees for the Chairmen of the Remuneration and Audit & Risk Committees and the Senior Independent Director, and agreed that no changes were necessary.

### Implementation of policy for 2018

The table below sets out the fees with effect from 1 January 2018.

| | **1 Jan 2018 £** | 1 Jan 2017 £ | Increase % |
|---|---|---|---|
| Chairman | **350,000** | 350,000 | 0 |
| Non-executive Directors | **63,000** | 63,000 | 0 |
| Audit & Risk Committee Chairman | **15,000** | 15,000 | 0 |
| Remuneration Committee Chairman | **15,000** | 15,000 | 0 |
| Senior Independent Director | **10,000** | 10,000 | 0 |

## Non-executive Directors' shareholdings

Non-executive Directors are required to achieve a minimum shareholding of 30% of their base fee within three years of appointment. The minimum requirement level was reviewed in December 2017 and continues to remain appropriate. The shareholding requirement is tested annually on 31 December using the average share price for the final three months of the year based only on shares held outright by the Directors or their connected persons.

Details of how the Chairman and non-executive Directors meet the shareholding requirement are set out below. Anne Stevens will be subject to the shareholding requirement for executive Directors (see page 81) following her appointment as Chief Executive.

The table below shows the number of shares held by the Chairman and non-executive Directors and their connected persons at 31 December 2017.

| | | Shareholding requirement | |
|---|---|---|---|
| | Shares held | % of fees required | % of fees achieved[1] |
| **Chairman** | | | |
| Mike Turner | 260,000 | 30 | 235% |
| **Non-executive Directors** | | | |
| Angus Cockburn | 10,000 | 30 | 50% |
| Tufan Erginbilgic | 30,000 | 30 | 150% |
| Shonaid Jemmett-Page | 12,900 | 30 | 65% |
| Richard Parry-Jones | 10,000 | 30 | 50% |
| Anne Stevens | – | 30 | – |

1 Based on average share price of 315.90 pence per share for the period 1 October 2017 to 31 December 2017 and fees as at 31 December 2017.

# Remuneration in context

Our remuneration framework is cascaded to the management population globally. Salary reviews for management are undertaken annually with reference to their performance position in range and local rates of inflation to ensure that they are paid fairly. STVRS awards and benefits such as car allowances are granted to some 700 employees worldwide and long-term incentive awards are granted to around 300 executives and all plant managers to encourage share ownership and align their interests with those of shareholders. Shareholding requirements currently apply to the top 100 executives.

Salary reviews for executive and non-executive Directors take into account average increases awarded to the senior management population, the wider management population and all employees in the Group. Given that the Group operates in more than 30 countries, all of which are subject to different practices and rates of inflation, and differing levels of market competitiveness, cost of living and skills, the Company does not directly consult with employees as part of the process of reviewing the remuneration framework.

### Percentage change in the remuneration of the Chief Executive

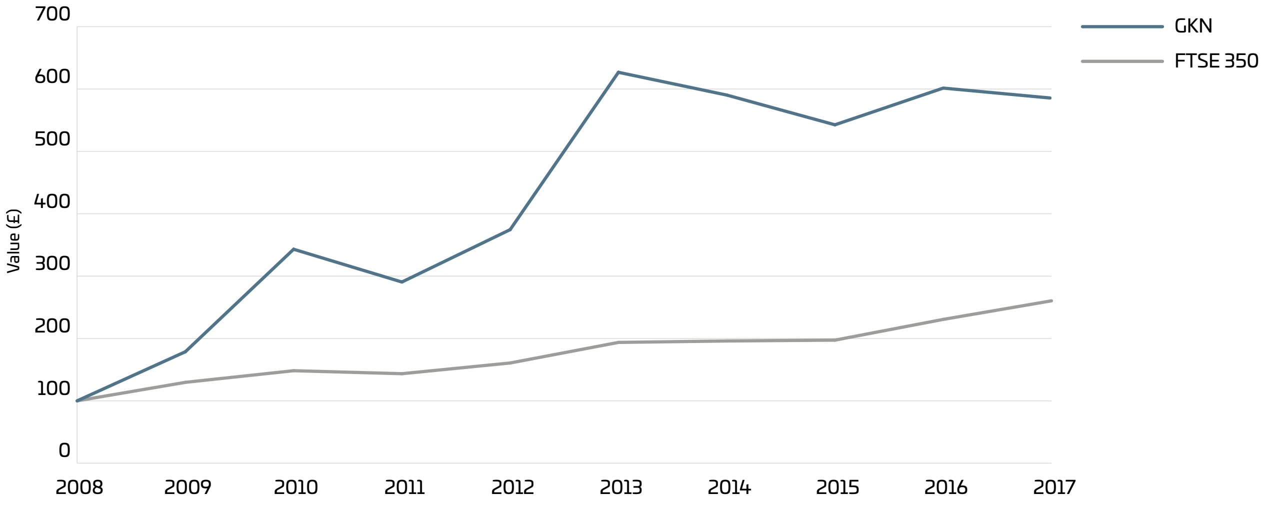
The table below shows the percentage change in salary, benefits and bonus for the Chief Executive compared to a senior management population of approximately 458 employees worldwide. We consider this group to be appropriate as it includes employees with international responsibilities who have similar remuneration arrangements to the Chief Executive; however some benefits to employees globally are driven by local practice and can vary according to the jurisdiction.

| | Chief Executive % | Senior management % |
|---|---|---|
| Salary | 2.4[1] | 4[2] |
| Benefits | 0 | 1.7 |
| Annual bonus | -100 | -52.7 |

1 The average increase for all employees globally (3.3%) was taken into account when considering the salary increase for the Chief Executive.
2 Salary increases reflect additional responsibilities, promotions and increases awarded in certain high-inflation countries.

### Historical performance graph

The graph below provides a comparison of GKN's total shareholder return with that of the FTSE 350 Index, based on an initial investment of £100 over the nine-year period to 31 December 2017. The FTSE 350 Index was chosen for this chart as it is a broadly based index which contains more manufacturing and engineering companies than the FTSE 100 Index.



## Pay for performance

The table below shows the total remuneration of the Chief Executive over the past nine years as well as the level of STVRS payout and long-term incentive vesting achieved as a percentage of maximum.

| | Kevin Smith[1] | | | Nigel Stein[1] | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | **2017** |
| Total remuneration (single total figure, £000) | 1,267 | 1,779 | 3,659 | 3,206 | 3,853 | 2,922 | 1,681 | 1,813 | **1,112** |
| STVRS payout (% of maximum) | 50 | 95 | 39 | 42 | 75 | 48 | 61 | 58 | **0** |
| LTIP vesting (% of maximum) | 0 | 0 | 100 | 100 | 100 | 67.5 | 0 | 10 | **0** |

1 Sir Kevin Smith retired as Chief Executive on 31 December 2011 and Nigel Stein was appointed Chief Executive on 1 January 2012 and retired as Chief Executive on 31 December 2017.

## Relative importance of spend on pay

The table below compares the total remuneration for all employees with dividends paid to shareholders for 2017 and 2016.

| | **2017 £m** | 2016 £m | Change % |
|---|---|---|---|
| Total employee remuneration[1] | **1,961** | 1,849 | 6.1[2] |
| Dividends[3] | **154** | 150 | 2.7 |

1 Includes salary, bonus and benefits (see note 9 to the financial statements).
2 This relates principally to currency fluctuations. Normal wage increases and headcount changes amounted to 1%.
3 Includes the total dividends paid in each financial year (see note 8 to the financial statements).

# Governance

## Membership of the Remuneration Committee

All members of the Committee as at 31 December 2017 are listed below and are independent non-executive Directors. Anne Stevens stepped down from the Committee with effect from 1 January 2018 following her appointment as interim Chief Executive and subsequent appointment as new Chief Executive on 12 January 2018.

| | |
|---|---|
| **Chairman** | Richard Parry-Jones |
| **Members** | Angus Cockburn<br>Tufan Erginbilgic<br>Shonaid Jemmett-Page |
| **Secretary** | Kerry Watson (Company Secretary) |
| **External advisers** | Mercer Kepler (Kepler) |
| **Internal advisers** | Mike Turner (Group Chairman), Nigel Stein (Chief Executive) and Monique Carter (Group HR Director) were consulted and invited to attend meetings as necessary. In addition, the Global Reward, Group Finance and Company Secretariat functions supported the Committee as appropriate. Care was taken to ensure there were no conflicts of interest when consulting with senior management. |
| **Meetings held** | The Committee held five scheduled meetings during the year (see page 59 for attendance at Committee meetings). Additional meetings were held as necessary. |
| **Role** | The Board has delegated responsibility to the Committee for:<br>> approving the Group's policy on executive Directors' remuneration and, within the terms of that policy, setting the remuneration and other terms of service of the executive Directors and the Company Secretary<br>> approving the fees of the Chairman<br>> monitoring the level and structure of remuneration of senior executives below Board level.<br>The Committee's terms of reference are available on our website at www.gkn.com. |

## Advisers to the Committee

We appointed Kepler (now part of Mercer Limited) as our independent advisers in April 2016 following a competitive tender process. Their performance will be reviewed regularly. During the year, Kepler provided advice on all aspects of remuneration arrangements for executive Directors and senior executives below Board level as well as market updates and practices. The fees for this, on a cost-incurred basis, were £37,500.

The wider Marsh & McLennan group (which includes Kepler and Mercer) provided other services to the Group during the year. Mercer provided services in relation to actuarial services, pension advisory and salary benchmarking data, and Marsh & McLennan in relation to insurance broking, and risk assessment and risk management consultancy.

Kepler is a member of the UK's Remuneration Consultants Group and contributes to and abides by the Code of Conduct for executive remuneration consulting. This includes Kepler's absolute commitment to integrity, objectivity, confidentiality, quality and client service. The Committee is satisfied that the advice it receives from Kepler is objective and independent.

## Committee performance evaluation

The annual evaluation of the Committee was carried out internally and looked at the effectiveness of both the Committee and the Chairman of the Committee. Feedback from the evaluation concluded that the Committee is regarded as effective in covering its remit and is seen by Board members as independent-minded and rigorous in its decision-making.

## External appointments

The Board recognises that executive Directors may be invited to become non-executive Directors of other companies and that the knowledge and experience from such appointments can benefit both the Director and the Company. Executive Directors may accept one non-executive directorship with another company (excluding that of chairman of a FTSE 100 company). Any such appointment requires Board approval and must not lead to any conflicts of interest.

During 2017, Nigel Stein was a non-executive director of Inchcape plc and received fees of £60,000 for the period up to 31 December 2017 (date he retired as Chief Executive and from the GKN Board). Adam Walker is a non-executive director of Kier Group plc and also chairman of its risk management and audit committee and received total fees of £52,363 up to 10 November 2017 (the date he resigned from the GKN Board). The Directors retained the fees they received for these appointments.

## Service contracts and letters of appointment

Executive Directors are appointed under service contracts and non-executive Directors by letters of appointment. Further details of these are set out in the tables on page 87 and in the approved policy. All Directors in office at the date of this annual report, as set out on page 87 will offer themselves for election or re-election at the 2018 AGM.

## Executive Directors' service contracts

| | Date of contract | Notice from Company | Notice from Director |
|---|---|---|---|
| Anne Stevens | 13.02.18 | 12 months | 6 months |
| Jos Sclater | 08.06.11 | 12 months | 6 months |
| Phil Swash | 08.01.16 | 12 months | 6 months |

Anne Stevens was appointed interim Chief Executive under a contract dated 15 December 2017 which took effect on 1 January 2018. The term of that appointment was originally 12 months but could be terminated by the provision of one month's notice by either party. In the event of early termination, the Company could make a payment of basic salary in lieu of notice.

From 12 January 2018, Anne was appointed as Chief Executive under a contract dated 13 February 2018, with notice provisions as set out above.

Jos Sclater's service contract was entered into on his appointment as General Counsel with effect from 28 September 2011 and continues to apply to his role as Group Finance Director on 10 November 2017.

## Non-executive Directors' letters of appointment

| | Date of original letter of appointment | Expiry of current term | Years' service at 31.12.17 |
|---|---|---|---|
| Mike Turner | 31.07.09[1] | 03.05.18 | 8 years |
| Angus Cockburn | 19.11.12 | 01.01.19 | 5 years |
| Tufan Erginbilgic | 04.04.11 | 08.05.20 | 6 years |
| Shonaid Jemmett-Page | 28.04.10 | 31.05.19 | 7 years |
| Richard Parry-Jones | 26.02.08 | 28.02.20 | 9 years |

1 Relates to date appointed as non-executive Director. His subsequent letter of appointment as Chairman was dated 24 November 2011.

## Payments for loss of office (audited)

Kevin Cummings left the Board and GKN on 16 November 2017. Payments in respect of his departure are set out below:

- 12 months' pay in lieu of notice (PILON), comprising base salary ($724,500) and retirement benefit ($144,900).
- $273,000 as compensation for loss of office.
- US healthcare benefits for a period of 12 months, estimated at approximately $22,000.
- Repatriation expenses of approximately $8,500.

Tax return preparation advice support for 2017 and 2018, and tax equalisation on the PILON amounts will be provided as per the terms of his expatriation agreement. The cost of this will not be known until the end of 2018 and will be reported when known.

All unvested incentive awards granted under the SEP, the SIRP and the DBP lapsed. Vested ESOS options will be exercisable until 15 May 2018 (six months following leaving), in accordance with the plan rules. Details of the awards that lapsed and options exercisable are set out on page 82.

## Payments to past Directors (audited)

### Nigel Stein

Nigel Stein retired as Chief Executive and Director on 31 December 2017 and will retire from the Group on 14 March 2018. No STVRS or SEP awards will be made to him in 2018. Remuneration payments in respect of Nigel Stein's retirement as determined by the Committee are set out below.

In accordance with the rules of the relevant plans, vested incentive awards will be treated as follows:

- 2010 ESOS award over 434,621 shares with an option price of 134.60p and 2011 ESOS award over 200,420 shares with an option price of 199.58p have vested and will be exercisable until 13 September 2018 (six months following retirement).
- The 2016 DBP award over 6,515 shares will be released as soon as practicable after the vesting period in accordance with the rules of the plan. A cash amount equivalent to the dividends on the shares during the deferral period will also be paid.
- In respect of the unvested 2016 SEP award, the Committee has exercised discretion and determined that he will be treated as a 'good leaver' under the terms of the plan. Under the revised rules of the plan as approved by shareholders in May 2017, he will also be treated as a 'good leaver' in respect of the 2017 SEP. The 2015 SEP core and sustainability awards lapsed as noted earlier in this report.
- The number of shares under the 2016 and 2017 SEP awards will be pro-rated to reflect his length of service during the performance periods and vesting will remain subject to the original performance conditions.
- No payment was made in respect of his 2017 STVRS (see page 78 for further details).

### Adam Walker

Adam Walker left the Board and the Company on 10 November 2017. He received no payments for loss of office. In accordance with the relevant incentive plan rules, all of his outstanding awards lapsed on his date of leaving. He did not receive a 2017 STVRS payment.

### William Seeger

William Seeger stepped down from the Board on 25 February 2014 and subsequently retired from the Group on 31 August 2014.

In the 2013 annual report on remuneration, we disclosed estimated values of certain expatriate benefits that he was entitled to receive. Details of the actual payments made to him during the year are set out below:

- Tax return support of £7,450 (2016: £7,172). Value estimated at £25,000 until the vesting of all outstanding awards. No further payments due.
- Tax and social security equalisation continued to be applied to payments made during the year so he was not disadvantaged by his global tax position. This treatment resulted in GKN making a payment of £117,847 (2016: £80,273) to the UK and US tax authorities. For 2016, the Company held an estimated credit balance of £45,000 due to the timing of hypothetical taxes being withheld on the release of the 2012 SEP core award and the amount actually being paid over to the local authorities. Tax equalisation will continue to be applied to any relevant payments made up to 2018 when the balancing credits and payments will be reconciled.

On 28 February 2017, the remaining shares vested under his 2012 core award (90,797 shares and 10,192 dividend equivalent shares) were released to him. The shares vested under his 2012 sustainability award (10,893 shares and 1,220 dividend equivalent shares) were also released on the same day. In both cases, the shares were pro-rated to reflect time served during the respective core and sustainability performance periods. There are no further awards outstanding.

The aggregate gain made by William Seeger on the release of the above awards during the year was £407,000.

### Dilution limits

During the year, we introduced the SAYE and the GKN plc 2017 Share Incentive Plan (SIP). The first SAYE awards were granted in August 2017 and those under the SIP are expected to be granted in March 2018.

The rules of our discretionary share plans (SEP and ESOS) and all-employee plans (SAYE and SIP) set certain limits on the amount of newly issued shares or treasury shares that can be used. We monitor these limits carefully to ensure that in any rolling ten-year period, no more than 5% of the issued share capital is used for executive plans and no more than 10% of the issued share capital is used for all-employee plans. Against these limits, the percentage of shares issued under our executive plans and all-employee plans in the previous ten-year rolling period was 2.75% and 3.15% respectively.

There is also a limit that the number of shares held in the employee share ownership plan trust (Trust) does not exceed 5% of the issued share capital at any time. Details of this limit and movements in Trust shares are set out in the table below. A dividend waiver operates for Trust shares.

| Balance at 31 December 2016 | Shares acquired | Shares transferred to participants | Balance of shares at 31 December 2017 | Percentage of shares held at 31 December 2017 |
|---|---|---|---|---|
| 2,013,467 | 1,759,996 | 149,095 | 3,624,368 | 0.21% |

Our normal policy is to satisfy awards under the SEP, ESOS and SAYE by using shares held in treasury; however we have flexibility to use newly issued shares or shares held in the Trust if necessary. Awards under the DBP and the SIRP are satisfied by Trust shares. During the year, awards under the SEP and ESOS were satisfied through treasury shares and those under the DBP and SIRP by Trust shares.

### Statement of voting at AGM

The table below sets out the votes cast at the 2017 AGM for the annual report on remuneration and the remuneration policy. Shareholders raised no issues at the 2017 AGM.

| | Votes for | | Votes against | | Total votes | Votes withheld[1] |
|---|---|---|---|---|---|---|
| | No. of shares | % of shares | No. of shares | % of shares | No. of shares | No. of shares |
| Annual report on remuneration (2017 AGM) | 1,059,478,840 | 99.37 | 6,699,813 | 0.63 | 1,066,178,653 | 99,841,835 |
| Remuneration policy (2017 AGM) | 1,065,561,772 | 97.41 | 28,344,636 | 2.59 | 1,093,906,408 | 72,114,080 |

1 Votes withheld are not counted in the total votes.

During the year, we consulted with major shareholders on our new remuneration policy and remuneration arrangements generally, and are committed to doing so in the future.

### Compliance statement

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the requirements of the Listing Rules. The Board has also complied with the remuneration principles in the UK Corporate Governance Code.

The Directors' remuneration report, including the Chairman's letter and annual report on remuneration, has been approved by the Board.

Signed on behalf of the Board

**Professor Richard Parry-Jones CBE**
*Chairman of the Remuneration Committee*
26 February 2018

As at 6 March 2018, there were no changes in the interests of Directors.

# Directors' remuneration policy

The Company's full policy on directors' remuneration was approved by shareholders at the 2017 AGM and can be found on the Company's website at www.gkn.com/remuneration. We have included sections of the remuneration policy below that we consider would be most helpful for shareholders to see in the context of the annual report on remuneration set out in this report.

The policy applies for three years from May 2017. Should any changes be required to the policy mid-cycle, these will be subject to a reasoned rationale and consultation with major shareholders before being submitted to shareholders for approval.

**Future policy table**

**Base salary**

**Purpose and link to strategy**

To provide a market competitive salary to recruit and retain individuals with the necessary knowledge, skills and experience to deliver the Group's strategic objectives.

**Operation**

Normally reviewed annually with any increase generally taking effect from 1 July. Salary increases will normally be in line with the average increase awarded to other employees in the Group.

Salaries may be set and/or paid in GBP or any other currency, to reflect the circumstances of the individual Director.

**Assessment**

Key factors taken into account include individual experience, scope of the role, responsibility and performance, Group profitability, prevailing market conditions and pay awards in the Group generally.

**Performance measures**

None.

**Maximum opportunity**

Maximum annual increases will be broadly in line with those for other salaried UK employees in the normal course of business. Higher increases may be appropriate to reflect a significant change in a Director's role or responsibilities, or if (in shareholders' interests) a Director was intentionally appointed on a below-market salary initially and their subsequent performance in the role warrants an above-average salary increase.

**Changes**

Revised definition of 'Maximum opportunity'.

**Benefits**

**Purpose and link to strategy**

To provide benefits consistent with the scope and location of the role.

**Operation**

Benefits principally include car and fuel allowance, life assurance, disability and healthcare benefits.

Other benefits may be provided at the discretion of the Committee based on individual circumstances and business requirements, such as appropriate relocation and expatriate allowances and support.

Benefits are provided on a grossed up basis where appropriate.

**Assessment**

Benefits are consistent with those provided to senior managers. They are set at a level which the Committee considers appropriate and are kept under review.

**Performance measures**

None.

**Maximum opportunity**

Car and fuel allowances will not increase by more than 15% in any one year.

Maximum life assurance is 4x salary for defined benefit members and 8x salary for defined contribution members.

Some benefits (such as healthcare insurance) are provided through third parties and therefore the cost to the Company may vary from year to year.

Relocation and expatriate allowances, where granted, are set at a level which the Committee considers appropriate based on market practice and individual circumstances.

**Changes**

No change.

## Pension

### Purpose and link to strategy

To provide appropriate retirement benefits and assist with recruitment and retention.

### Operation for external appointments

Since 1 January 2013, benefits have been provided by means of a cash allowance and/or payment into the defined contribution section of the GKN Group Pension Scheme (the Scheme).

### Operation for current Directors and internal appointments

Benefits may be provided through the defined contribution or legacy defined benefit sections of the Scheme, or as a cash allowance. For Directors subject to legacy arrangements under the defined benefit scheme, the pension due under these arrangements is up to two-thirds pensionable salary calculated on a career average basis for service from 1 September 2007.

The closure of the Company's UK defined benefit section is currently subject to consultation; should it be closed, Phil Swash will receive pension benefits through a cash allowance and/or as a payment into the defined contribution section of the Scheme.

For non-UK appointments, benefits will be provided in accordance with local practice and the maximum opportunity set out in this policy. Benefits for US nationals will be provided through a retirement benefit allowance or 401(k) retirement savings plan.

The specific arrangements for individual Directors are set out in the relevant section of the annual report on remuneration.

### Performance measures

None.

### Maximum opportunity

The maximum total contribution (into the defined contribution section and/or a cash allowance in lieu) is 25% of base salary. If Directors continue to accrue benefits under the defined benefit section of the Scheme, they will be eligible for a contribution (into the defined contribution section and/or a cash allowance in lieu) worth 25% of the difference between pensionable salary and base salary.

### Changes

Maximum retirement benefit for Directors participating in legacy arrangements reduced from 40% to 25% of the reference salary used for this calculation, and inclusion of benefits for non-UK Directors.

## Annual bonus (STVRS)

### Purpose and link to strategy

To drive and reward achievement of short-term financial and strategic measures which support long-term strategic objectives.

### Operation

Award levels and performance measures (including the proportion relating to strategic measures and weightings) are reviewed annually to ensure alignment with the Group's financial and long-term strategic objectives.

A total of 33% of the bonus payment is deferred into shares under the DBP; the balance is paid in cash.

### Assessment

Performance is measured over one financial year. The level of payment is determined by the Committee after the year end based on performance against targets.

Malus and clawback may be applied as set out in note 2 on page 92.

### Performance measures

Appropriate targets are set each year which align with the specific business objectives for that year. Targets are normally applied to a combination of financial and strategic measures relating to Group and, where appropriate, divisional performance. A significant proportion of the total award is based on financial measures.

Payments range between 0 to 150% of base salary with 75% of base salary payable for achievement of on-target performance.

### Maximum opportunity

Maximum is 150% of base salary.

### Changes

Maximum increased from 110% to 150% of base salary. Amount deferred into shares changed from any payment in excess of 65% of base salary to a mandatory deferral of 33% of any payment earned.

### Deferred Bonus Plan (DBP)

**Purpose and link to strategy**

A total of 33% of any STVRS payment is deferred into shares to assist with retention of key executives and to align their interests with those of shareholders.

**Operation**

DBP awards are released at the end of a two-year deferral period. Awards generally lapse in the event of resignation during the deferral period.

On release, a cash amount is paid equivalent to the aggregate dividends per share paid during the deferral period.

Malus provisions will be applied as set out in note 2 on page 92.

**Performance measures**

No additional performance measures beyond those required for STVRS (see previous page).

Release is subject to continued employment.

**Maximum opportunity**

No additional opportunity above the STVRS maximum.

**Changes**

Change to amount deferred into shares (see changes for STVRS on previous page).

### Sustainable Earnings Plan (SEP)

**Purpose and link to strategy**

To encourage and reward sustained earnings performance in line with the Group's growth strategy and its objective of creating long-term shareholder value.

To assist with retention of key executives.

**Operation**

SEP awards are normally granted annually with vesting based on performance over a three-year period. A holding period of two years is applied for any vested awards.

The value of dividends accrued on vested shares from date of grant to date of release is delivered in additional shares or cash at the discretion of the Committee.

The Committee reviews the award levels annually and keeps performance targets under review to ensure continued alignment with strategy.

Vesting at threshold is 25% rising to a maximum of 100%.

All vested shares to be retained (net of tax) until shareholding requirement is met.

Malus and clawback provisions will be applied as set out in note 2 on page 92.

**Assessment**

In considering the extent to which an award has vested, the Committee assesses both the extent to which the EPS target has been met and the quality of earnings.

The Committee must be satisfied that the level of vesting is justified by the quality of earnings and EPS performance against shareholder expectations by taking into account Group return on invested capital (ROIC) against internal projections, new investment performance and cost of capital; shareholder value creation; and whether EPS has grown in absolute terms during the performance period. Having considered these factors and the underlying financial performance of the Company, the Committee can reduce the level of SEP vesting if it feels it is justified in doing so.

**Performance measures**

Measured over a three-year period based on a stretching EPS growth target. The Committee retains flexibility to determine (at the time of making an award) that additional elements in relation to long-term financial and strategic measures may be introduced (subject to a maximum weighting of 20% of the maximum opportunity).

While stretching, targets under the SEP are designed to discourage inappropriate risk taking.

**Maximum opportunity**

Maximum award level is 200% of base salary (or 200% of a notional UK salary for non-UK executive Directors).

**Changes**

The three-year core award and two-year sustainability award have been simplified to a single award with a three-year performance period and additional two-year post-vesting holding period. Flexibility to introduce additional performance measures if appropriate.

## Notes to future policy table

### 1. Discretion

The Committee may exercise discretion as set out below. Any discretion will be exercised diligently and in the interests of shareholders.

**Pension:** to provide alternative arrangements on terms no more favourable if it considers it to be in the interests of the Company.

**STVRS:** to (i) alter targets to reflect changed circumstances such as material changes in accounting standards or changes in the Group's structure; (ii) reduce payments based on its assessment of underlying performance of the Group, including health and safety performance; and (iii) make a payment wholly in cash in certain circumstances (such as to a departing Director).

**SEP:** to adjust and/or set different performance measures and targets if events occur (such as a change in strategy, a material acquisition and/or divestment of a Group business, or a change in prevailing market conditions) which causes the Committee to determine that the measures or targets are no longer appropriate and that amendment is required to achieve their original purpose.

**Exceptional circumstances:** flexibility to exercise discretion in genuinely unforeseen and exceptional circumstances not referred to in this policy. If this should happen, the Committee will implement the arrangements within the boundaries of the policy taking a reasonable and appropriate position had such discretion been included and it being in the interests of shareholders. Before doing so, the Committee will consult with major shareholders and explain the exercise of this type of discretion in the following year's annual report on remuneration.

### 2. Malus and clawback

Malus and clawback provisions are operated as follows.

Clawback provisions allow the Company to recover the value of cash or vested shares in the event of a material misstatement in GKN plc's accounts, gross misconduct or a serious failure to comply with our Code of Conduct. These provisions apply for a period of two years from the date any STVRS payment is made or the date shares are released under the SEP.

Malus provisions allow the Company to reduce a cash payment or share award in full or in part in the event of a failure of risk management or major reputational damage to GKN. It also includes the clawback provisions set out above. These provisions apply to awards under the DBP and SEP.

### 3. Legacy arrangements

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out above where the payment is made pursuant to terms that were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' include the satisfaction of awards of variable remuneration and, in relation to an award over shares, the terms of the payment were 'agreed' at the time the award was granted.

## Chairman and non-executive Directors

### Purpose and link to strategy

To provide fees within a market-competitive range to recruit and retain individuals with the necessary experience and ability to make a substantial contribution to the Group's affairs.

### Operation

Fees are reviewed annually and paid in cash.

The Chairman is paid a single consolidated fee.

Non-executive Directors are paid a basic fee plus an additional fee for any chairmanship of Board committees and for the role of Senior Independent Director.

The Chairman and non-executive Directors do not receive benefits in kind nor do they participate in the Group's short- and long-term incentive arrangements or in its pension scheme. Their expenses for travel to and from Board meetings and Board events are reimbursed by the Company.

### Assessment

Key factors taken into account when reviewing fees include scope of the role, time commitment, prevailing market conditions and pay awards in the Group generally.

### Maximum opportunity

Set at a level which reflects the contribution and commitment required of them, taking into account fee levels in other companies of similar size and complexity.

Overall, the fees paid to non-executive Directors will remain within the limit stated in the articles of association, currently £1 million per annum.

### Changes

Fees to be reviewed annually to bring them in line with the salary review for Group employees and executive Directors.

# ADDITIONAL INFORMATION

## Annual general meeting

The annual general meeting (AGM) of the Company will be held at 2.00pm on Thursday 3 May 2018 at 195 Piccadilly, London W1J 9LN. The notice of meeting, which includes the business to be transacted at the meeting, is included within the AGM circular. The circular also contains an explanation of all the resolutions to be considered at the AGM.

## Dividend

The Directors recommend a final dividend of 6.2 pence per ordinary share in respect of the year ended 31 December 2017, payable to shareholders on the register at the close of business on 6 April 2018. This, together with the interim dividend of 3.1 pence paid in September 2017, brings the total dividend for the year to 9.3 pence.

## Issued share capital

At 31 December 2017, the issued share capital of the Company consisted of 1,726,103,630 ordinary shares of 10 pence each (2016: 1,726,103,630 shares), of which 8,625,886 shares (0.5%) were held in treasury (2016: 11,629,654 shares; 0.7%). During the year, a total of 3,003,768 ordinary shares were transferred out of treasury in connection with the exercise of awards by participants under the Company's share incentive schemes (2016: 539,274 shares).

The ordinary shares are listed on the London Stock Exchange. In addition, GKN has a sponsored Level 1 American Depositary Receipt (ADR) programme for which the Bank of New York Mellon acts as Depositary. The ADRs trade in the US over-the-counter market where each ADR represents one GKN ordinary share.

## Rights and obligations attaching to shares

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's annual report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

On a show of hands at a meeting of GKN, every member present holding ordinary shares has one vote. On a poll taken at a meeting, every member present and entitled to vote has one vote in respect of each ordinary share held by him or her. In the case of joint shareholders, only the vote of the senior joint holder who votes (and any proxy duly authorised by him or her) may be counted. Shares held in treasury carry no voting rights.

GKN operates an employee share option plan trust (the Trust) to satisfy the vesting and exercise of awards of ordinary shares made under the Group's share-based incentive arrangements. The trustee of the Trust does not exercise any voting rights in respect of shares held by the Trust. Once the shares are transferred from the Trust to share scheme participants, the participants are entitled to exercise the voting rights attaching to those shares. A dividend waiver operates in respect of shares held by the Trust pursuant to the provisions of the Trust deed.

Full details of the rights and obligations attaching to the Company's shares are contained in the articles of association.

## Restrictions on the transfer of securities

While the Board has the power under the articles of association to refuse to register a transfer of shares, there are no restrictions on the transfer of shares.

Under the Company's articles, the Directors have power to suspend voting rights and the right to receive dividends in respect of shares in circumstances where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

## Substantial shareholders

As at 31 December 2017, the Company had been notified of the following holdings of voting rights in its shares under Rule 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority:

| Shareholder | % of voting rights |
|---|---|
| BlackRock, Inc. | 5.80 |
| Deutsche Bank AG | 5.43 |

In the period up to and including 1 March 2018, the Company was advised of the following changes and additions to the interests notified under Rule 5 of the Disclosure Rules and Transparency rules of the Financial Conduct Authority:

| Shareholder | % of voting rights |
|---|---|
| Bank of America Corporation | 7.047 |
| Barclays plc | 5.259 |
| Deutsche Bank AG | Below 3% |
| GIC Private Limited | Below 3% |
| HSBC Holdings plc | 6.068 |

## Relations with other capital providers

The Board recognises the contribution made by other providers of capital to the Group and welcomes the views of such providers in relation to the Group's approach to corporate governance.

## Directors

The Directors who served during the financial year were as follows:

| Name | Position as at 31 December 2017 | Service in the year ended 31 December 2017 |
|---|---|---|
| Mike Turner | Chairman | Served throughout the year |
| Nigel Stein | Chief Executive | Retired from the Board on 31 December 2017 |
| Kevin Cummings | N/A | Left the Board on 16 November 2017 |
| Angus Cockburn | Independent non-executive Director | Served throughout the year |
| Tufan Erginbilgic | Independent non-executive Director | Served throughout the year |
| Shonaid Jemmett-Page | Independent non-executive Director | Served throughout the year |
| Richard Parry-Jones | Senior Independent Director | Served throughout the year |
| Jos Sclater | Group Finance Director | Appointed to the Board on 10 November 2017 |
| Phil Swash | Chief Executive GKN Automotive | Served throughout the year |
| Anne Stevens | Independent non-executive Director | Served throughout the year |
| Adam Walker | N/A | Retired from the Board on 10 November 2017 |

Membership of the Board and biographical details of the Directors in office at the date of this report are shown on pages 52 and 53. Further details relating to Board and committee composition are disclosed in the corporate governance statement.

Following his appointment to the Board in November 2017 and in accordance with the Company's articles of association, Jos Sclater will retire and offer himself for election at the 2018 AGM. All other Directors in office will retire and offer themselves for re-election at the 2018 AGM in accordance with the UK Corporate Governance Code.

The articles of association provide that a Director may be appointed by an ordinary resolution of shareholders or by the existing Directors, either to fill a vacancy or as an additional Director. Further information on GKN's internal procedures for the appointment of Directors is given in the corporate governance statement.

Anne Stevens, who served as an independent non-executive Director throughout 2017, was appointed as Chief Executive in January 2018. Executive Directors serve under contracts that are terminable with 12 months' notice from the Company and six months' notice from the executive Director. The non-executive Directors serve under letters of appointment and do not have service contracts with the Company.

Copies of the service contracts of the executive Directors and the letters of appointment of the non-executive Directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

The Directors' remuneration report, which includes the Directors' interests in GKN shares, is set out on pages 73 to 92.

## Directors' powers

The Board of Directors may exercise all the powers of the Company subject to the provisions of relevant legislation, the Company's articles of association and any directions given by the Company in general meeting. The powers of the Directors include those in relation to the issue and buyback of shares.

At the 2017 AGM, the Directors were authorised to exercise the powers of the Company to purchase up to 171,722,259 of its ordinary shares. No shares were purchased under this authority in 2017. The Directors were also authorised to allot shares in the Company up to an aggregate nominal amount of £57,240,753, with an additional authority to allot up to a further aggregate nominal amount of £57,240,753 in connection with an offer by way of a rights issue. These authorities will remain valid until the 2018 AGM or 30 June 2018, if earlier. Resolutions to renew these authorities will be proposed at the 2018 AGM.

## Directors' indemnities

Pursuant to the articles of association, the Company has executed a deed of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Companies Act 2006, were in force during the year ended 31 December 2017 and remain in force. The indemnity provision in the Company's articles of association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

A copy of the deed poll of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

The Company has also arranged appropriate insurance cover for legal action taken against its Directors and officers.

## Conflicts of interest

Under the Companies Act 2006, Directors must avoid situations where they have, or could have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. As permitted by the Act, the Company's articles of association enable Directors to authorise actual and potential conflicts of interest.

Formal procedures for the notification and authorisation of such conflicts are in place. These procedures enable non-conflicted Directors to impose limits or conditions when giving or reviewing authorisation and require the Board to review the register of Directors' conflicts annually and on an ad hoc basis when necessary. Any potential conflicts of interest are considered by the Board prior to the appointments of new Directors.

## Articles of association

The Company's articles of association can only be amended by special resolution of the shareholders. GKN's current articles are available on our website at www.gkn.com.

## Change of control

As at 31 December 2016, the Company's subsidiary, GKN Holdings plc, had agreements with 14 banks for 15 bilateral banking facilities totalling £800 million, and a £32 million loan facility with the European Investment Bank. Each of these agreements provides that, on a change of control of GKN plc, the respective bank can give notice to GKN Holdings plc to repay all outstanding amounts under the relevant facility.

The Company has in issue £450 million fixed rate notes paying 5.375% per annum interest and maturing on 19 September 2022 and £300 million variable rate notes paying 3.375% per annum interest and maturing on 12 May 2032, in each case issued under Euro medium-term note programmes established by GKN Holdings plc (the Notes). Pursuant to the terms attaching to the Notes, a holder of the Notes has the option to require GKN Holdings plc to redeem or (at GKN Holdings plc's option) purchase the holder's Notes at their principal amount if there is a change of control of the Company and either (i) the Notes are unrated or do not carry an investment grade credit rating from at least two ratings agencies; or (ii) if the Notes carry an investment grade credit rating from at least two ratings agencies, the Notes are downgraded to a non-investment grade rating or that rating is withdrawn within 90 days of the change of control and such downgrade or withdrawal is cited by the ratings agencies as being the result of the change of control.

Companies in GKN Aerospace are party to long-term supply contracts with customers which are original equipment manufacturers of aircraft and aero engines. Certain of these contracts contain provisions which would entitle the customer to terminate the contract in the event of a change of control of the Company, where such change of control conflicts with the interests of the customer.

Companies in GKN Driveline are party to supply contracts with customers which are original equipment manufacturers of motor vehicles. Certain of these contracts contain provisions which would entitle the customer to terminate the contract in the event of a change of control of the Company.

All the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards normally vest and become exercisable on a change of control subject to the satisfaction of any performance conditions at that time.

## Payments to suppliers

It is Group policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract.

## Branches

GKN, through various subsidiaries, has established branches in a number of different countries in which the business operates.

## Donations

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2017.

## Research and development

Group subsidiaries undertake research and development work in support of their principal manufacturing activities. Further details of the Group's research and development activities can be found throughout the strategic report.

## Financial instruments

Details of the Group's use of financial instruments can be found in note 19 to the financial statements.

## Strategic report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' report has been included in the strategic report. Specifically, this relates to information on the likely future developments of the business of the Group, financial risk management and the disclosure of greenhouse gas emissions for which the Company is responsible.

## Disclosures required by Listing Rule 9.8.4R

Information relating to the waiver of dividends can be found on page 93. There are no other disclosures to be made under the above Listing Rule.

## Auditors and disclosure of information

Each of the Directors who held office at the date of approval of this Directors' report confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The strategic report, comprising the inside front cover and pages 1 to 51, and this Directors' report, comprising pages 52 to 96 which together form the management report as required under the Disclosure Rules and Transparency Rules 4.1.8R, have been approved by the Board and are signed on its behalf by

KAWatson

**Kerry Watson**
*Company Secretary*
26 February 2018

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

> select suitable accounting policies and then apply them consistently

> make judgements and accounting estimates that are reasonable and prudent

> state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors to:

> properly select and apply accounting policies

> present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information

> provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

> make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors as at the date of the annual report, whose names and functions are set out on pages 52 and 53, confirm that to the best of their knowledge:

> the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole

> the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

> the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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

**Mike Turner CBE**
*Chairman*
26 February 2018