GKN Aerospace Services Limited

Annual report and financial statements

Registered number 00355922

31 December 2022

Contents

Strategic Report

1. Business Review

GKN Aerospace is a global multi-technology developer and manufacturer of engine and airframe structures and electrical wiring systems for the global aerospace industry, across both civil and defence platforms. With operations in 12 countries, it is a global leader based on technological innovation, advanced processes and engineering excellence, while its products enable aircraft to fly safely and more efficiently. GKN Aerospace is structured according to its core customer markets – Structures (civil and defence airframe) and Engines. Its technology is used throughout the aerospace industry: from high-use single aisle aircraft and the world's longest haul passenger planes, through to business jets, helicopters, the world's most advanced fighter jets and space launchers.

The Company's operations are managed as part of the global operations of GKN Aerospace, with 3,600 employees at 31 December 2022 operating from sites in Bristol, Isle of Wight, Luton, Portsmouth, Solihull and London. The principal activities of the Company are the UK civil and defence Structures manufacturing operations and certain technology and head office functions of GKN Aerospace. Please refer to www.gknaerospace.com for more details about GKN Aerospace.

Business performance
During the year there was a strong recovery in air travel in the face of challenging macro-economic conditions, including global supply chain disruption and inflationary pressures. Aircraft build rates and global flight hours continued to improve over the year but nonetheless remain below pre-pandemic levels, giving further confidence of continued recovery. GKN Aerospace's Engines and civil Structures businesses continued to benefit from the strong recovery in the narrow body market. GKN Aerospace's defence Structures business continued to refocus its strategy toward positions on higher quality design-to-build platforms.

The Company's headline sales were £85 million, 16% higher than 2021. At constant exchange rates sales were £46 million, 9% higher, benefitting particularly from strong demand for A320. The Company was also successful in securing a long-term narrow body commercial agreement with Airbus. The Company returned to operating profitability in 2022, following two years of operating losses. Operating profit of £24 million compared to an operating loss of £2 million in 2021. The improvement in Operating profit reflected the benefits of increased sales, favourable foreign exchange impacts and lower restructuring charges with some profit headwinds arising from supply chain disruption and certain operational challenges. The Net finance charge of £54 million includes a £58 million fair value re-measurement loss of forward foreign currency derivative contracts due to the strengthening of the US Dollar. Loss before tax of £11 million compares to a profit before tax in 2021 of £6 million. The net assets of the Company decreased by £83 million to £600 million which included an after tax re-measurement loss of £83 million on post-employment benefits arising from market volatility impacting asset performance. Despite this, the pension schemes remain in surplus.

As part of GKN Aerospace's Lean Operating Model, the business continued to reduce its total suppliers, having cut its supplier roster by approximately 20% over the last four years to secure higher performance from a simpler, more responsive supply chain. This has helped minimise disruption from the ongoing macro-economic headwinds impacting the industry.

In keeping with its core mission to be a leader in the transition to sustainable aviation, GKN Aerospace continued sustainable aviation technology development in 2022. The business supports some of the industry's leading programmes to enhance the aircraft of today, and develop the longer-term zero-emissions solutions of the future including pioneering solutions in electric flight and hydrogen propulsion development. This includes global partnerships with five electric aircraft manufacturers, supporting a more sustainable future while unlocking a potential major new commercial market.

Strategic Report *(continued)*

1. Business Review *(continued)*

Outlook
The recovery in the aerospace sector is well underway, supported by pent up demand in civil aviation and increases in defence budgets, strong revenue growth is expected again this year. GKN Aerospace remains well-placed to support near and medium-term volume ramp-ups, while continuing to execute on its longer-term growth and productivity initiatives. GKN Aerospace is fully committed to offsetting inflationary pressures and managing supply chain issues.

2. Principal Risks and Uncertainties

The Company is a wholly owned indirect subsidiary of Melrose Industries plc. The annual report for Melrose Industries plc is available from www.melroseplc.net and the results of this Company under IFRS are consolidated into those financial statements. The risks and uncertainties of Melrose Industries plc, which include those of the Company, are discussed on pages 40 to 48 of the Melrose Industries plc annual report. Of these principal risks and uncertainties the below are particularly relevant to the Company:

Operational and Commercial
GKN Aerospace operates in competitive markets throughout the world and is diversified across a variety of production and sales geographies. This provides a degree of impact mitigation from the potential commercial challenges and market disruptions. However, the widespread disruption caused by recent geopolitical events has heightened exposure to supply chain and end-market commercial risk.

Commercial risk areas include production quality assurance, customer concentration and uncertainties related to future customer demand, onerous customer and supplier contracts. There is also inherent uncertainty associated with the impact of increased competitive pressures on the maintenance/improvement of market share, potential disruptions to direct and indirect supply chains and increases to the price of raw materials, technological innovation and market disruption, and the performance and management of programme partners.

As risk mitigation, the Company has implemented robust engineering design and validation processes from initial design and development through production and into service. High levels of quality assurance are embedded in robust manufacturing systems. In addition there are ongoing assessments of supply chain robustness and quality. The Company runs a programme of internal quality audits and is subject to external agency quality reviews and certifications. Shifts in the characteristics of the aerospace marketplace are closely monitored by our management teams. Careful consideration is given to commercial relationships to avoid overreliance on individual partners and counterparties. Contracts are reviewed in accordance with our Delegated Authorities framework before commitment and on an ongoing basis. Developments in aeronautical engineering are monitored closely by our dedicated technology team who are represented by the Chief Technology Officer at Executive Committee level.

Economic and Political
GKN Aerospace operates in a global market and is affected by global economic conditions. The Company is also affected by government actions and the willingness of governments to commit resource. Current global economic and financial market conditions have recently been characterised by high levels of volatility and uncertainty. There has been continued widespread disruption to production and trading environments which in particular has been caused by the conflict in Ukraine and China's 'zero-COVID' policy.

Strategic Report *(continued)*

2 Principal Risks and Uncertainties *(continued)*

Economic and Political (continued)
Fluctuation in commodity prices, the rise in inflation, the potential for a significant and prolonged global downturn, and uncertainty in the political environment, may materially and adversely affect the Company's operational performance and financial condition. Further, these factors may materially affect customers, suppliers and other parties with whom we do business. Rising inflation levels may result in increased costs both in terms of the operation of plants and the manufacturing of products, which in turn may be passed on to customers. More generally, adverse economic and financial market conditions may cause customers to terminate existing orders, to reduce their purchases, or to be unable to meet their obligations to pay outstanding debts. These market conditions may also cause our suppliers to be unable to meet their commitments or to change the credit terms they extend.

We closely monitor order books, cash performance, cost control and other leading indicators, to ensure that we could respond quickly to adverse trading conditions. This included the identification of cost reduction and efficiency measures. Many of our contracts (especially in civil aviation) allow us to pass on cost increases to our customers. Any deterioration in market conditions is discussed urgently through the management line, up to and including the GKN Aerospace Executive Committee and to Melrose

Loss of Key Management and Capabilities
The success of the Company is built upon strong management teams. As a result, the loss of key personnel could have a significant impact on performance, at least for a time. The loss of key personnel or the failure to plan adequately for succession or develop new talent may impact our reputation or lead to a disruption in the leadership of the business. Competition for personnel is intense and we may not be successful in attracting or retaining qualified personnel, particularly engineering professionals.

Succession planning within the Melrose Group is coordinated via the Nomination Committee in conjunction with the Board and includes all Directors and senior Melrose employees. The Company recognises that, as with most businesses, particularly those operating within a technical field, appointments are dependent on Directors and employees with particular managerial, engineering or technical skills. Appropriate remuneration packages and long-term incentive arrangements are offered to attract and retain such individuals

Legal and Regulatory
GKN Aerospace is subject to applicable laws and regulations in the global jurisdictions in which it operates. Regulations include those related to export controls and sanctions, environmental and safety requirements, product safety and liability, tax laws, intellectual property rights, competition laws and other ethical business practices.

GKN Aerospace has a strong culture of 'doing the right thing' which is regularly emphasised by senior management. It is reflected in a new GKN Aerospace Code of Ethics, available in many languages within our Compliance Portal, which was launched in the first quarter of 2022. The portal, available on the Company's intranet, contains comprehensive compliance guidance covering a range of issues. The Code of Ethics is underpinned by GKN Aerospace-wide governance policies and procedures available in our 'Aerospace Policy Management System'. GKN Aerospace also operates an independent employee disclosure hotline to monitor any employee concerns. Awareness of compliance issues is maintained through an ongoing staff training process.

During the year, the business continued to have a fully developed legal function, headed by our General Counsel. The legal function is properly staffed and supported by external advisors where necessary or helpful to ensure ongoing compliance in the jurisdictions in which the business operates across the globe. This is augmented by central oversight from the Melrose legal team and robust annual reviews.

Health and safety is a key priority for GKN Aerospace. To mitigate risks the Company has implemented a GKN Aerospace-wide health and safety programme and appointed a Senior Vice President of Health, Safety and Environment reporting directly to the GKN Aerospace CEO to oversee health, safety and environmental matters.

Strategic Report *(continued)*

2 Principal Risks and Uncertainties *(continued)*

Climate change
Increased frequency in extreme weather and climate-related natural disasters can lead to physical damage to our sites in addition to disruptions in our businesses' supply chains. Additionally, new legislation, regulations and corporate governance practices in relation to the environment may require additional expense, restrict commercial flexibility and business strategies, or introduce additional liabilities for the Company or the Directors. Changing demand patterns influenced by climate change concerns creates risks for the sustainability of product portfolios. In addition, obtaining insurance for natural disasters is more difficult, with higher premiums and excesses going forward.

Melrose sets the tone on sustainability and climate issues and also holds each business and their management teams accountable for their progress, and provides them with a platform to absorb best practices, to accelerate progress. In consultation with Melrose, GKN Aerospace aggregates environmental data and sets meaningful sustainability targets. Sustainability is recognised as a key factor in our evaluation of commercial bids and proposals.

The Company engages with Melrose's sustainability agenda including its Task Force on Climate-related Financial Disclosures ("TCFD") report, its first Net Zero Transition Plan, its Carbon Disclosure Project ("CDP"), Supply Chain engagement initiative and its inaugural CDP Water Security submission.

New environmental legislation, regulations and corporate governance practices are monitored and embedded by our Regulatory and Legal team. Changing demands are monitored by divisional management teams in consultation with our technology experts. We rigorously assess our insurance arrangements to ensure adequate and value-for-money cover over climate related business risks (e.g. flooding, violent storms).

Information Security and Cyber Threats
GKN Aerospace recognises that the Company has a potential exposure to information security and cyber threats as GKN Aerospace holds data in relation to civil aerospace technology and controlled defence contracts. Information security and cyber threats are an increasing priority across all industries, particularly given rising geopolitical tensions as a result of the conflict in Ukraine and relations between the US and China. The lasting impact of the COVID-19 pandemic continued to drive increased online traffic, reduced physical contact, and has created additional new threats, which in turn has required increased attention.

Cyber security breaches of GKN Aerospace's IT systems, or carelessness with paper documents, could result in the misappropriation of confidential information belonging to it or its customers, suppliers or employees. In response to the increased sophistication of information security and cyber threats, GKN Aerospace has worked, and continues to work, with external security consultants to monitor, improve and refine its strategy to aid the prevention, identification and mitigation of any present and future threats. GKN Aerospace has implemented a comprehensive IT governance framework designed to prevent and detect cyber incidents. Ongoing awareness campaigns ensure our staff are aware of security expectations.

Other Risks
In addition to the risks that are identified on pages 40 to 48 of the Melrose Industries plc Annual Report (discussed above), there are some risk that are relevant to the Company as an operating business.

These risks include the risk of failure of a specific piece of equipment or facility leading to manufacturing disruption and delivery delays. Divisional management carefully monitor 'single points of failure' and develop contingency and business continuity plans.

Additionally, the business has undergone a period of strategic realignment which involves the reassignment of some work to other locations, and the closure of some sites. This process continues through 2023 and inevitably leads to project execution risks. The process is closely managed at divisional and executive committee level and appropriate resources (including dedicated project management offices where appropriate) are allocated to ensure the process is well controlled.

The risks and ongoing mitigating actions are periodically reviewed by the GKN Aerospace Executive team.

Strategic Report *(continued)*

3. Section 172(1) Statement

This is an overview of how the Directors performed their duty to promote the success of the Company under section 172 of the Companies Act 2006.

The principal activities and background of the Company are outlined in the Business Review.

The Directors must act in accordance with a set of general duties detailed in section 172 of the Companies Act 2006. These general duties include a duty to promote the success of the Company, and specifically to act in a way that the Director considers, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, having regard (amongst other matters) to the:

- likely consequences of any decisions in the long-term;
- interests of the Company's employees;
- need to foster the Company's business relationships with customers, suppliers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between shareholders of the Company.

This statement has been prepared in accordance with the requirements of The Companies (Miscellaneous Reporting) Regulations 2018, which require the Company to describe how the Directors have had regard to the matters set out in section 172 of the Companies Act 2006 during the financial year under review. It is noted that the Directors have always acted in accordance with such duties in their decision making and they will continue to do so. In light of the additional disclosure requirements, we have set out below further detail on how the Directors have fulfilled their duties during the course of 2022.

(a) The likely consequences of any decision in the long-term

The Company operates within the wider management structure of GKN Aerospace. The GKN Aerospace Executive Committee is responsible for the strategic management and oversight of the GKN Aerospace business as a whole and for the taking of decisions which are material to the GKN Aerospace business, including the Company, in the short, medium and long-term.

During 2022, the GKN Aerospace Executive Committee and the Company's directors continually reviewed the performance of GKN Aerospace (and within it the Company) against its competitors and the aerospace market generally and continually assessed the likely future development of the aerospace market.

The Directors' primary focus is on the creation of long-term value for its ultimate shareholder, Melrose Industries plc ("Melrose"). Melrose's stated strategy is to invest in and manage its businesses as if it intends to own them forever, whilst acting with integrity, honesty, transparency and decisiveness, and it is this culture and approach which the GKN Aerospace Executive Committee and the Directors of the Company take in all their decision making. For example, all major business decisions are made on the basis of approved business plans, which set out the anticipated financial consequences and benefits of the decision in the long-term.

Strategic Report *(continued)*

3. Section 172(1) Statement *(continued)*

(b) The interests of the Company's employees and how the Company's actions taken during 2022 encourage employee engagement

The Company employed 3,600 people at 31 December 2022 operating from sites in Bristol, Isle of Wight, Luton, Portsmouth, Solihull and London. GKN Aerospace places the interests of its employees at the heart of its decision making. Reflecting this, the Company continually engages with its employees in order to ensure that their voice is heard. The Company recognises the trade union Unite, with whom it has collective bargaining agreements by establishment/location. Approximately 60% of the Company's employees are members of and are represented by Unite.

Business updates are provided to the Company's elected union representatives twice a year through our UK Information & Consultation Forum, including monthly financial performance, capital investment decisions, new business wins and any key decisions affecting employees. In addition, a number of presentations are delivered to employees throughout the year through local "All Hands" meetings to give all employees updates of key business decisions as well as an overview of operational performance.

GKN Aerospace measures employee engagement through an annual employee engagement survey, the results of which are shared with its Executive Committee and the Company's directors, and are used to inform decision making. The Company's target is to increase employee engagement year-on-year. GKN Aerospace conducts the annual survey to gauge the employee engagement levels within a team, a site, a business line and globally. Employee opinions, on their teams and place of work, will be used locally and globally to help determine any positive or negative themes/common trends and indicate to local and global management where engagement efforts need to focus. These efforts can then take the shape of a number of initiatives/activities to support individual managers or sites in their pursuit of a Great Place to Work for all. The Company's ambition is to become a recognised Gallup World Class Employer by 2025. GKN Aerospace will also run a pulse survey to test employee engagement during the year.

The GKN Aerospace CEO and Executive team host monthly calls with the GKN Aerospace Executive population to update them on the Company's strategic direction and leadership focus. There is an opportunity for questions to be raised and responded to by the Executive team.

GKN Aerospace has HR representatives at each location who are responsible for managing interactions between the employees and management of the business. Whilst the Company does not operate a share incentive scheme, employees are encouraged to be involved in business performance through other reward and incentive initiatives that are managed by the HR function on a local basis. Many employees participate in local bonus schemes, with the payment and level of any bonus linked to profit and cash performance as well as individual objectives and operational performance metrics. The HR function are also managing a talent review process to ensure that GKN Aerospace can support all of its employees to grow, develop and bring their best to the business.

GKN Aerospace operates a confidential whistleblowing hotline where employees can report any concerns anonymously. Feedback from this hotline is investigated and actioned accordingly. Usage and calls are regularly reviewed by the GKN Aerospace Executive Committee to identify any trends and to feed into our enterprise risk management process.

In addition to the above, GKN Aerospace employs a number of measures for providing employees systematically with information on matters of concern to them as employees. All GKN Aerospace employees are updated regularly on day to day business matters either through local "town hall" meetings with site leadership teams, newsletter and intranet sites. Globally GKN Aerospace uses its intranet page to share business updates, challenges facing particular sites or businesses and to share success stories. The GKN Aerospace CEO also produces a regular blog either in video or narrative format to update the employees on where his leadership team are taking the business.

Strategic Report *(continued)*

3. Section 172(1) Statement *(continued)*

(c) The need to foster the Company's business relationships with customers, suppliers and others

Customers
It is critical to the future success of GKN Aerospace that it builds and maintains deep, long-lasting and committed relationships with its customers. GKN Aerospace and the Company work closely with customers across the aerospace sector in order to form strong relationships that encourage a culture of collaboration in order to drive future opportunity and growth in the aerospace market.

One of GKN Aerospace's priorities is operational excellence which places an emphasis on GKN Aerospace's ability to deliver quality products and services to its customers to meet their needs. GKN Aerospace and the Company monitors the "voice of the customer" and maintains key performance indicators that support this and ensure strong quality, cost and delivery performance.

GKN Aerospace has developed a Commercial Excellence model that encourages the development of close relationships with its customers to gain deeper insight into customer and market outlook and to drive an alignment between customer needs and GKN Aerospace's strategy for the future. GKN Aerospace has a single customer-facing team for each major customer. These teams manage programmes and act a single point-of-contact for the customer, no matter the product or system GKN Aerospace supplies, and where it is supplied from. All material decisions taken by GKN Aerospace and by the Company, involve consideration of their impact on relationships with our customers.

Suppliers
GKN Aerospace has a range of suppliers. Maintaining strong relationships with our suppliers is vital to the future success of GKN Aerospace. We build our relationships with our suppliers on the basis of:
- open dialogue and transparent decision-making;
- setting clear expectations of our suppliers;
- continuous supplier relationship management, through our dedicated Commodity Purchasing Managers;
- regular information exchange through our SOP processes;
- supplier quality reviews and audits; and
- senior management business reviews which enable suppliers to have a greater understanding of GKN Aerospace's future needs and strategy, whilst allowing suppliers to have the confidence to develop new innovations in conjunction with GKN Aerospace.

The Supplier Code of Conduct (the "Supplier Code") sets out the fundamental principles which GKN Aerospace and as such the Company expects of its suppliers. A copy of the Supplier Code can be found on our corporate website (https://www.gknaerospace.com/globalassets/downloads/aerospace-suppliers-portal/gkn-aerospace-supplier-code-of-conduct.pdf/).

Other Stakeholders
In addition to the stakeholders considered elsewhere in this statement, the Directors also have regard to the impact of their decisions on other stakeholders including government and regulators, third parties with whom the Company deals and potential future employees and students. The relationship with all major stakeholders is considered as part of each potential decision.

(d) The impact of the Company's operations on the community and the environment

GKN Aerospace's corporate social responsibility strategy includes consideration of: (i) social issues (including regulatory compliance, ethical procurement and equality and inclusion); (ii) environmental issues (including the reduction of carbon emissions, improved manufacturing processes, and product lifecycle management) and (iii) workplace and community issues (including health and safety, community volunteering, fundraising activities and sponsorship).

Strategic Report *(continued)*

3. Section 172(1) Statement *(continued)*

(d) The impact of the Company's operations on the community and the environment *(continued)*

At GKN Aerospace our mission is to become the most trusted and sustainable partner in the sky and our goal is to become a net zero CO_2 emissions organisation by 2050. We strive to promote a positive impact on our world and always seek to minimise our impact on the environment and conserve essential resources. We do this by continuously improving our facilities' environmental and energy performance by implementing and maintaining ISO 14001 & 50001 certifications. We drive our efforts through a centrally coordinated sustainability strategy with laser-focused attention on our operations' environmental impact and greenhouse gas footprint.

GKN Aerospace's ground-breaking development in liquid hydrogen technology, the £54 million collaborative H2GEAR programme focuses on technology to accelerate aerospace decarbonisation, with the goal of zero CO_2 emissions hydrogen-powered subregional aircraft entering the skies as early as the late 2020s. The programme is expected to create more than 3,100 jobs across the UK and will reinforce the UK's position at the forefront of aerospace technology research and development.

In addition, the Company's Global Technology Centre ("GTC") in Bristol, UK played a key role in several landmarks in electric flight in 2022. Both Vertical VX4 and Eviation's ALICE aircraft celebrated their first flights in 2022, marking the dawn of a new era of zero-emission flight. GKN Aerospace developed and delivered the electric wiring interconnection system (EWIS) for the VX4, as well as assembling the aircraft at the GTC. GKN Aerospace also designed and developed the fully integrated wings, electrical wiring system and empennage for ALICE.

(e) The desirability of the Company maintaining a reputation for high standards of business conduct

GKN Aerospace has a code of conduct known as the GKN Aerospace Code of Ethics. The Code of Ethics is a key part of the GKN Aerospace ethics and compliance program, and forms a central component of the Company's culture. Additionally, the Code of Ethics sets out the standards of conduct expected of the Company and its employees. Together with GKN Aerospace's Culture Principles, we summarise this in our way of working, "A Great Place to Work", which involves everyone in the Company having a personal responsibility to treat people with care, respect and dignity. This also includes the responsibility to speak up via the various Company speak up channels, which are available to employees in instances where they believe conduct is wrong and/or falls short of the standards which the Company expects.

We also cascade our ethical standards to our suppliers through our Supplier Code of Conduct, which sets out the minimum ethical standards we expect from our suppliers. The Supplier Code of Conduct forms part of our terms and conditions with our suppliers, and requires them to maintain high ethical standards including, amongst other things refraining from engaging in any bribery and corruption (including the facilitation of tax evasion), a prohibition in engaging in forced, child or bonded labour; and complying with health and safety laws. Our suppliers are required to meet the laws regulations of the countries in which they operate and are encouraged to report instances of conduct they believe is wrong and/or falls short of the standards which the Company expects through the reporting hotline we provide.

The Company ensures that the GKN Aerospace requirements are met by way of on-going Company communications including training, governance processes and specialist review, advice and assurance provided by the teams which form the three lines of defence to risk management model implemented by the Company.

(f) The need to act fairly as between members of the Company

The Company has only one member, Westland Group plc, which is 100% indirectly owned by Melrose Industries plc. During the year there was therefore no actual or potential conflict between the interests of any members of the Company.

Strategic Report *(continued)*

4. Key Performance Indicators

The Company's operations comprise the UK operations of GKN Aerospace. GKN Aerospace also has significant operations in the USA, Scandinavia, Netherlands and Asia. The Company's operations are managed and reported separately within the Structures civil and Structures defence business lines. The financial results of the Company's operations are reported to the business lines, GKN Aerospace and Melrose Industries plc under IFRS.

For these reasons, the Directors believe that analysis using key performance indicators is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The key financial performance indicators of Melrose Industries plc, which includes this Company, are discussed on page 28 of Melrose Industries plc annual report, which does not form part of this report.

The sustainability and environmental performance of Melrose Industries plc, which includes this Company, is discussed on pages 56 to 81 of the Melrose Industries plc annual report. The health and safety performance of Melrose Industries plc, which includes this Company, is discussed on page 87 of Melrose Industries plc annual report.

5. Going concern

The financial statements have been prepared on a going concern basis. The Company's forecasts show that the Company expects to be able to continue to operate for the next 12 months from the date of the approval of these financial statements.

The Company is an indirect subsidiary of Melrose Industries plc, a global manufacturing and engineering group. The Full Year Results 2022 of Melrose Industries plc disclosed there was significant liquidity headroom of £2.6 billion at 31 December 2022 and sufficient headroom throughout its going concern forecast period.

Long-term intercompany arrangements exists with GKN Enterprise Limited (an intermediary company within the group) to sweep any excess cash from GKN Aerospace Services Limited to GKN Enterprise Limited. Under this arrangement the Company is able to draw amounts in excess of the current receivable balance from GKN Enterprise Limited to fund working capital needs and other expenditure, which is then offset against this current receivable balance from GKN Enterprise Limited. This availability of cash has been factored into the going concern assessment.

Further details regarding the adoption of the going concern basis can be found in the accounting policies in the financial statements.

Approved by the Board on 29 June 2023 and signed on its behalf by:

R Gough
Director
14 July 2023

Directors' Report

1. Financial results and future developments

The profit and loss account of the Company shows a profit after tax for the financial year of £1 million (2021: £17 million). Refer to the Strategic Report Outlook for future developments within the industry and GKN Aerospace.

2. Financial risk management

The Company's operations expose it to a variety of financial risks including the effects of credit risk. As a subsidiary of Melrose Industries plc the Company's funding is provided by GKN Enterprise Ltd via current accounts. The policies in relation to external risks, including interest rate risk, price risk, credit risk, cash flow risk, foreign exchange risk and liquidity risk, all of which are managed centrally by the Melrose Industries plc treasury function, are set out in the annual report of Melrose Industries plc. The Company uses derivative financial instruments (forward foreign currency contracts) to manage foreign exchange risks. No other derivatives financial instruments are used by the Company.

The Financial risk management policies of Melrose Industries plc are outlined in the Melrose Industries plc annual report see pages 35 to 37.

3. Dividends

No interim dividend was paid for the years ended 31 December 2022 and 31 December 2021. The Directors have not proposed a final dividend for the year ended 31 December 2022 and no final dividend was paid for the year ended 31 December 2021.

4. Research and Development

The Company undertakes research and development work in support of its principal manufacturing activities. Refer to Note 3 of the Financial Statements. GKN Aerospace has strong technology positions to make aircraft fly further, faster and greener. GKN Aerospace aims to deliver the best technology today and develop the innovative technologies of tomorrow. Please visit www.gknaerospace.com/en/our-technology/ for further details.

5. Directors

The Directors who held office during the year and up to the date of this report are as follows:

Mr G Barnes
Mr J Crawford (resigned 31 May 2023)
Mr R Gough
Mr M Gregory (appointed 19 September 2022)
Mr W Fernandez (appointed 31 May 2023)
Ms M Kismul
Mr G Morgan
Mr J Pritchard
Mr M Richards
Mr G Rouy-Poirier (resigned 1 October 2022)
Ms S Schofield (appointed 1 December 2022)
Ms J Smyth (appointed 19 September 2022)

Directors' Report *(continued)*

6. Directors Indemnities

Pursuant to the Company's Articles of Association, the Company has indemnified 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 2022 and are in force at the date of this Directors' report. 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 Company's Articles of Association is available for inspection at the Company's registered office during normal business hours.

7. Employee Consultation

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of GKN Aerospace as a whole. Communication with employees is promoted through a variety of means including in-house newsletters, briefing meetings and the GKN Aerospace intranet which provides access to GKN Aerospace information, news, policies and procedures.

8. Disabled Persons

The Company's policy in relation to the employment of disabled persons is to give full consideration to job applications received from disabled persons. Candidates are selected and appointed on the basis of their ability to perform the duties of the job. Where appropriate, special training is given to facilitate engagement of the disabled and modifications to the job will be considered. Where an employee becomes disabled whilst employed by the Company, arrangements will be made wherever possible for re-training in order that a different job may be performed. Consideration for modifying jobs will be given.

9. Post balance sheet events

The Company is a guarantor in respect of the payment obligations owed by Melrose plc under its committed bank facility. On 20 April 2023 a new committed bank facility became effective following the demerger of the Dowlais Group from the Melrose Group. The new facility replaced the facility in place as at 31 December 2022. The new facility has a maturity date of April 2026 and consists of a three-year multi-currency denominated term loan of US$300 million and €100 million, a three-year revolving credit facility of US$250 million and a three-year multi-currency denominated revolving credit facility of US$550 million, £300 million and €300 million, which can be extended by up to two additional one year periods.

On 9 February 2023, the Trustees of GKN Group Pension Scheme 4 ("the Scheme"), sponsored by the Company, signed a contract to fully secure benefits for all members of the Scheme for a cash settlement of approximately £45 million. At 31 December 2022, the Scheme had total liabilities of £433 million (31 December 2021: £628 million) and an accounting surplus of £52 million (31 December 2021: £87 million).

10. Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' 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 have elected to prepared the Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

Directors' Report *(continued)*

10. Statement of Directors' Responsibilities *(continued)*

Under company law the Directors must not approve the Financial Statements 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 these 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; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, 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.

11. Statement of corporate governance arrangements

During the year, GKN Aerospace and the Company complied with the corporate governance principles, policies and procedures of its ultimate shareholder Melrose. Melrose has systems, processes and controls in place in accordance with the guidance contained in the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial Business Reporting" and the UK Corporate Governance Code. These systems, processes and controls ensure that the Melrose Group is well managed, with appropriate oversight and control. Melrose has an ongoing process for identifying, evaluating, tracking and managing the principal risks faced by the Melrose Group, which include the Company. These systems, processes and controls are subject to regular monitoring and review. As such, the Company did not apply any specific corporate governance code during the financial year.

12. Disclosure of Information to Auditor

The auditor's responsibilities in relation to the Financial Statements are set out in their report on pages 13 to 15. In the case of each of the persons who were Directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

13. Auditor

Deloitte LLP is to be reappointed as the Company's auditor under section 487(2) of the Companies Act 2006.

Approved by the Board on 29 June 2023 and signed on its behalf by:

R Gough, Director, 14 July 2023
Company registered number: 00355922

Independent Auditor's Report to the members of GKN Aerospace Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of GKN Aerospace Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account and the statement of other comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- financing facilities including nature of facilities, repayment terms and covenants
- linkage to business model and medium-term risks
- assumptions used in the forecasts
- amount of headroom in the forecasts (cash)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report to the members of GKN Aerospace Services Limited *(continued)*

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, HMRC; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

Independent Auditor's Report to the members of GKN Aerospace Services Limited *(continued)*

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, IT, forensic and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override and manual adjustments to revenue. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit, in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing any correspondence with HMRC. No such correspondence was noted.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

Bashir Bahaj FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP, Statutory Auditor, London, United Kingdom, 14 July 2023

Profit and Loss Account and Statement of Other Comprehensive Income
for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Turnover	2	**601,418**	516,430
Operating profit/(loss)	3	**24,356**	(1,616)
Net finance charge	6	**(54,300)**	(3,878)
Distribution from GKN Investments II LP	19	**18,909**	11,891
(Loss)/profit before taxation		**(11,035)**	6,397
Tax on (loss)/profit	7	**11,616**	11,087
Profit for the financial year		**581**	17,484
Other comprehensive income			
Re-measurement of net defined benefit pension asset	19	**(111,903)**	178,630
Re-measurement of post-employment medical obligations	20	**957**	-
Tax on re-measurements	7	**27,737**	(44,658)
Other comprehensive (loss)/income for the year, net of tax		**(83,209)**	133,972
Total comprehensive (loss)/income for the year		**(82,628)**	151,456

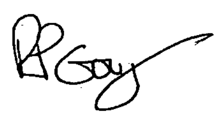
All results are derived from continuing operations.
The notes on pages 19 to 38 form part of these financial statements.

Balance Sheet
at 31 December 2022

	Note	2022 £000	2021 £000
Fixed assets and other assets due after more than one year			
Investments in subsidiaries	8	**159,719**	159,719
Intangible assets – Goodwill	9	**6,355**	12,711
Intangible assets – Development and software costs	9	**46,661**	57,386
Tangible fixed assets	10	**103,788**	113,385
Pension assets	19	**12,688**	107,568
Current accounts with GKN Enterprise Ltd	16	**484,753**	-
Debtors due after more than one year	13	**79,624**	66,552
		893,588	517,321
Current assets			
Stocks	11	**83,783**	62,627
Debtors due within one year	12	**188,338**	140,365
Current accounts with GKN Enterprise Ltd	16	**-**	457,278
Cash at bank and in hand		**10,450**	10,577
		282,571	670,847
Creditors: amounts falling due within one year	14	**(267,698)**	(338,722)
Net current assets		**14,873**	332,125
Total assets less current liabilities		**908,461**	849,446
Creditors: amounts falling due after more than one year	15	**(258,685)**	(96,293)
Provisions for liabilities			
Provisions	18	**(46,100)**	(70,877)
Post-employment medical obligations	20	**(4,028)**	-
		(308,813)	(167,170)
Net assets		**599,648**	682,276
Capital and reserves	21		
Called up share capital		**300,203**	300,203
Share premium account		**50,000**	50,000
Other reserve		**15,250**	15,250
Merger reserve		**(10,737)**	(10,737)
Profit and loss account		**244,932**	327,560
Shareholders' funds		**599,648**	682,276

The notes on pages 19 to 38 form part of these financial statements.

These Financial Statements were approved by the board of directors on 29 June 2023 and were signed on its behalf by:



R Gough
Director, 14 July 2023
Company registered number: 00355922

Statement of Changes in Equity
for the year ended 31 December 2022

	Called up Share capital £000	Share Premium account £000	Other reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2021	300,203	50,000	15,250	(10,737)	176,104	530,820
Total comprehensive income for the year						
Profit and loss	-	-	-	-	17,484	17,484
Other comprehensive income						
Re-measurement of net defined benefit liability	-	-	-	-	178,630	178,630
Tax on re-measurement of net defined benefit liability	-	-	-	-	(44,658)	(44,658)
Total comprehensive expense for the year	-	-	-	-	151,456	151,456
Balance at 31 December 2021	**300,203**	**50,000**	**15,250**	**(10,737)**	**327,560**	**682,276**
Total comprehensive income for the year						
Profit and loss	-	-	-	-	581	581
Other comprehensive income						
Re-measurement of net defined benefit pension asset	-	-	-	-	(111,903)	(111,903)
Re-measurement of post-employment medical obligations					957	957
Tax on re-measurements	-	-	-	-	27,737	27,737
Total comprehensive income for the year	-	-	-	-	(82,628)	(82,628)
Balance at 31 December 2022	**300,203**	**50,000**	**15,250**	**(10,737)**	**244,932**	**599,648**

Notes

(forming part of the financial statements)

1 Accounting policies

GKN Aerospace Services Limited (the "Company") is a private company limited by shares and is incorporated and domiciled in the UK. The principal activities of the Company are stated in the Strategic Report, Business Review. The Company is registered in England and Wales with the registered number 00355922. The registered office of the Company is 2nd Floor One Central Boulevard, Blythe Valley Park, Shirley, Solihull, B90 8BG.

These financial statements are prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Melrose Industries plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Melrose Industries plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT. The Company has taken advantage of the exemption from the requirement to produce consolidated financial statements in accordance with s400 of the Companies Act 2006. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the year;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Melrose Industries plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments;* and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

Critical account judgements and key sources of estimation uncertainty
The Company's significant accounting policies are set out below. The preparation of financial statements, in conformity with FRS 102, requires the use of estimates, subjective judgement and assumptions that may affect the amounts of assets and liabilities at the balance sheet date and reported profit and earnings for the year. The Directors base these estimates, judgements and assumptions on a combination of past experience, professional expert advice and other evidence that is relevant to the particular circumstance.

The Directors consider that there are no key accounting judgements other than those that involve estimation. The Directors consider that the key sources of estimation uncertainty are those in respect of defined benefit pension obligations and provisions, details of the principal estimates, judgements and assumptions made are set out in Notes 19 and 18.

Notes *(continued)*

1 Accounting policies *(continued)*

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

1.2 Going concern

The financial statements have been prepared on a going concern basis. The Company's forecasts show that the Company expects to be able to continue to operate for the next 12 months from the date of the approval of these financial statements.

The Company is an indirect subsidiary of Melrose Industries plc, a global manufacturing and engineering group. The Full Year Results 2022 of Melrose Industries plc disclosed there was significant liquidity headroom of £2.6 billion at 31 December 2022 and sufficient headroom throughout its going concern forecast period.

Long-term intercompany arrangements exists with GKN Enterprise Limited (an intermediary company within the group) to sweep any excess cash from GKN Aerospace Services Limited to GKN Enterprise Limited. Under this arrangement the Company is able to draw amounts in excess of the current receivable balance from GKN Enterprise Limited to fund working capital needs and other expenditure, which is then offset against this current receivable balance from GKN Enterprise Limited. This availability of cash has been factored into the going concern assessment.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.6 Other financial instruments

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

1.7 Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment. Income from investments is recognised when the Company's right to receive payment has been established (provided that it is probable that economic benefits will flow to the Company and the amount of income can be measured reliably).

1.8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- freehold buildings — up to 50 years
- leasehold properties — over lease term or 50 years, whichever is the shorter

Other fixed assets:

- general plant, machinery, fixtures, fittings and equipment — 6 – 15 years
- computers — 3 – 5 years
- commercial vehicles and cars — 4 – 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Notes *(continued)*

1 Accounting policies *(continued)*

1.9 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets – software costs

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation of development costs is charged to the profit or loss on a straight line basis over the product's life up to a maximum of 15 years starting from the date on which serial production commences, or by units of production where this more appropriately reflects the consumption of the asset.

The estimated useful lives of other intangible fixed assets are as follows:

- computer software costs 3 – 5 years
- goodwill 15 years

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

1.10 Government grants

Government grants are recognised when the relevant grant criteria have been met and written confirmation has been received from the funding authority. Government grants are credited to the profit and loss account over the expected useful lives of the assets to which they relate or in years in which the related costs are incurred.

1.11 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Provision is made for obsolete, slow-moving or defective items where appropriate.

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash-generating units ("CGU") that is expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Employee benefits

Pensions and post-employment benefits

The Company's pension arrangements comprise various defined benefit and defined contribution schemes. Contributions to externally funded defined benefit schemes are based on the advice of independent actuaries or in accordance with the rules of the schemes.

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.15 Turnover

Turnover is measured at the fair value of the consideration receivable which generally equates to the invoiced amount, excluding sales taxes. The Company has two principal revenue streams:

Sales of product

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

Design and build

On occasions cash is received in advance of work performed to compensate the Company for costs incurred in design and development activities. Where such amounts are received and the risk and rewards of ownership over development assets are not deemed to have been transferred, amounts are deferred on the balance sheet (in 'Payments received on account') and taken to turnover as the Company performs its contractual obligations either on delivery of product or milestones.

Due to the nature of the design and build contracts there can be significant 'learning curves' whilst the Company optimises its production process. During the early phase of these contracts, all costs including any start-up losses are taken directly to the Profit and Loss account.

1.16 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred.

Interest receivable and Interest payable

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Borrowing costs are expensed in profit or loss in the year in which they are incurred.

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in years different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes *(continued)*

2 Turnover

Turnover represents the amounts derived from the provisions of goods which fall within the Company's ordinary activities stated net of VAT. The Company operates in the UK with one principal area of activity, being the supply of aerospace products to original equipment manufacturers.

	2022	2021
	£000	£000
By geographical market		
United Kingdom	**425,877**	326,108
Continental Europe	**28,616**	21,692
Americas	**138,943**	162,399
Rest of the world	**7,982**	6,231
	601,418	516,430

3 Profit/(loss) before interest and tax is after (charging)/crediting

	2022	2021
	£000	£000
Raw materials & consumables	**(234,292)**	(226,506)
Other adjustments to stocks	**(558)**	2,634
Staff costs:		
Wages and salaries	**(147,071)**	(134,024)
Social security costs	**(16,051)**	(13,792)
Other pension costs – defined benefit schemes	**-**	(97)
Other pension costs – defined contribution schemes	**(18,704)**	(17,160)
Restructuring project costs	**(4,143)**	(13,157)
Retirement benefits paid by GKN Investment II LP (Note 19)	**15,000**	15,000
Depreciation of tangible assets	**(19,191)**	(19,948)
Impairment of tangible assets	**-**	-
Amortisation of goodwill	**(6,356)**	(6,356)
Amortisation of other intangible assets	**(11,224)**	(13,580)
Impairment of other intangible assets	**-**	-
Operating lease charges, net of off market lease provision utilisation	**(9,946)**	(8,983)
Services provided by the Company's auditor		
Fees payable for the audit	**(795)**	(651)
Fees payable for other services	**-**	-
Net charge in respect of commercial, programme, warranty and legal arrangements	**(437)**	(1,897)
Net charge for loss-making contract provisions	**-**	(4,767)
Revaluation gain on retranslation of US dollar denominated monetary items	**2,515**	667

Research and development expenditure was £24,664,000 (2021: £26,783,000) before customer and government funding of £6,377,000 (2021: £10,359,000).

Notes *(continued)*

4 Average number of employees

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2022	2021
Works	**2,755**	2,649
Administrative staff	**753**	713
	3,508	3,362

5 Directors' remuneration

	2022	2021
	£000	£000
Aggregate remuneration	**846**	992
Aggregate Company contributions to pension schemes	**57**	63
Aggregate amounts received under long-term incentive schemes	**29**	32
	932	1,087

The Directors' emoluments for the year are disclosed in accordance with the Companies Act 2006. Emoluments are apportioned for the services provided by the Directors to the Company. The emoluments of four Directors are borne by another Group company.

	2022	2021
Exercised share options	**-**	-
Accruing benefits under defined benefit pension schemes in respect of qualifying services	**-**	-
Accruing benefits under money purchase pension schemes in respect of qualifying services	**6**	4
Received/entitled to receive shares under long term incentive schemes in respect of qualifying services	**-**	-

Pension benefits are provided to six Directors through the GKN Group Pension Scheme No. 1 (the Scheme). Directors are entitled to receive benefits under the defined benefit or defined contribution sections of the Scheme depending on when they joined the Group and/or they may choose to take a cash allowance. The defined benefit section of the Scheme closed to future accruals on 30 June 2017. One Director has opted out of the Scheme.

GKN makes contributions to the defined contribution section of the Scheme in respect of Directors' qualifying services. GKN pays a multiple of an individual's contribution depending on the individual's grade subject to a maximum % of the individual's salary.

In respect of the highest paid Director

	2022	2021
	£000	£000
Remuneration	**567**	618
Amounts (excluding shares) receivable under long-term incentive schemes	**-**	-
Company contributions to pension schemes	**34**	34
	601	652
Defined benefit accrued pension entitlement at 31 December	**-**	-
Defined benefit accrued lump sum at 31 December	**-**	-

Notes *(continued)*

6 Net finance charge

	2022 £000	2021 £000
Change in value of forward foreign currency derivative contracts	**(57,674)**	1,915
Finance income/(expense) on defined benefit pension plans	**2,299**	(1,401)
Finance expense on post-employment medical obligations	**(108)**	-
Unwind of discounts within provisions	**1,507**	(364)
Interest on current accounts with GKN Enterprise Ltd	**4,314**	(830)
Other interest receivable/(payable)	**(413)**	(57)
Interest payable on loans with Group undertakings	**(5,080)**	(3,666)
Interest receivable on loans with Group undertaking	**855**	525
	(54,300)	(3,878)

7 Taxation

Total tax recognised in the profit and loss account

	2022 £000	2021 £000
Current tax		
UK Corporation tax		
Current tax on income for the year	**-**	-
Withholding taxes suffered	**-**	-
Adjustments in respect of prior years	**(558)**	(184)
Total current tax	**(558)**	(184)
Deferred tax		
Origination and reversal of temporary differences		
Current year	**7,564**	4,450
Effect of rate differences on deferred tax recognition	**2,687**	17,707
Adjustment in respect of prior year	**1,923**	(10,886)
Total deferred tax	**12,174**	11,271
Total tax	**11,616**	11,087

Total tax recognised in other comprehensive income and equity

		2022			2021	
	£000 Current tax	**£000 Deferred tax**	**£000 Total tax**	£000 Current tax	£000 Deferred tax	£000 Total tax
Recognised in:						
Profit and loss account	**(558)**	**12,174**	**11,616**	(184)	11,271	11,087
Other comprehensive income	**-**	**27,737**	**27,737**	-	(44,658)	(44,658)
Total tax	**(558)**	**39,911**	**39,353**	(184)	(33,387)	(33,571)

Notes *(continued)*

7 Taxation *(continued)*

Reconciliation of effective tax rate

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19% (2021: 19%)

	2022 **£000**	2021 £000
(Loss)/profit before tax	**(11,035)**	6,397
Profit/(loss) before tax multiplied by the standard UK corporation rate of 19% (2021: 19%)	**2,097**	(1,215)
Tax effect of expenditure not deductible in determining taxable profits	**702**	(170)
Group relief surrendered at nil tax rate	**4,765**	(4,882)
Withholding taxes suffered	**-**	-
Effect of rate differences on deferred tax recognition	**2,687**	28,424
Other deferred tax movements	**-**	-
Adjustment to current tax charge in respect of prior periods	**(558)**	(184)
Adjustment to deferred tax charge in respect of prior periods	**1,923**	(10,886)
Total tax included in profit or loss	**11,616**	11,087

The rate of UK corporation tax for the year ended 31 December 2022 was 19%. The Finance Act 2021 included an increase in the UK corporation tax rate to 25% with effect from 1 April 2023. As this change had been enacted at the balance sheet date, the closing deferred tax balances have been re-measured using the 25% rate to the extent that the deductible or taxable temporary differences will reverse post 1 April 2023.

Recognised deferred tax assets

	Post employment obligations £000	Fixed Asset timing difference £000	Other £000	Total £000
At 1 January 2022	(52,785)	63,657	21,685	32,557
Included in the profit and loss account	(912)	1,907	11,179	12,174
Included in other comprehensive income	27,737	-	-	27,737
At 31 December 2022	**(25,960)**	**65,564**	**32,864**	**72,468**

Other deferred tax assets includes £16,733,000 (2021: £2,314,000) in respect of derivative financial instruments (forward foreign currency contracts) and £13,001,000 (2021: £16,791,000) in respect of provisions. Deferred tax assets are recognised where management projections indicate the future availability of taxable profits to absorb the deductions.

8 Investments in subsidiaries

	£000
Cost and Net book value	
At 1 January 2022 and at 31 December 2022	**159,719**

Investments in subsidiary undertakings are not impaired at 1 January 2022 and 31 December 2022.

Notes *(continued)*

8 Investments in subsidiaries *(continued)*

The following is a list of the Company's subsidiaries at 31 December 2022:

	Equity interest %	Class of share held
United Kingdom		
11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT		
GKN 1 Trustee 2018 Ltd	100	Ordinary
GKN 4 Trustee 2018 Ltd	100	Ordinary
15 Atholl Crescent, Edinburgh, Scotland, EH3 8HA		
GKN Investments II LP	100	Membership Interest
GKN Investments II GP Ltd	100	Ordinary
China		
Room 805, 8th Floor, Building 2, No. 1859 Shibo Avenue, Shanghai		
GKN Aerospace (Shanghai) Co., Ltd	100	Ordinary
1 Xinwang Road, Jingjiang Economic and Technic Development Zone, Jingjiang, Jiangsu		
GKN Aerospace (Jingjiang) Co., Ltd	100	Registered investment

9 Intangible assets and goodwill

	Goodwill £000	Software costs £000	Development costs £000	Total £000
Cost				
Balance at 1 January 2022	91,257	15,567	251,367	358,191
Additions	-	99	400	499
Disposals in year	-	(108)	-	(108)
Balance at 31 December 2022	**91,257**	**15,558**	**251,767**	**358,582**
Amortisation and impairment				
Balance at 1 January 2022	78,546	13,553	195,995	288,094
Amortisation charge for the year	6,356	1,041	10,183	17,580
Impairment charge for the year	-	-	-	-
Disposals in year	-	(108)	-	(108)
Balance at 31 December 2022	**84,902**	**14,486**	**206,178**	**305,566**
Net book value				
At 31 December 2022	**6,355**	**1,072**	**45,589**	**53,016**
At 31 December 2021	12,711	2,014	55,372	70,097

Capitalised development costs are not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions requiring them to be treated as an asset in accordance with FRS 102 Section 18.

Notes *(continued)*

10 Tangible fixed assets

	Land and buildings £000	Other fixed assets £000	Capital work in progress £000	Total £000
Cost				
Balance at 1 January 2022	41,292	322,661	4,922	368,875
Additions	25	3,612	5,985	9,622
Disposals	(7)	(3,868)	-	(3,875)
Transfers	978	3,091	(4,069)	-
Balance at 31 December 2022	**42,288**	**325,496**	**6,838**	**374,622**
Depreciation and impairment				
Balance at 1 January 2022	29,050	226,440	-	255,490
Depreciation charge for the year	2,548	16,643	-	19,191
Impairment charge for the year	-	-	-	-
Disposals	(7)	(3,840)	-	(3,847)
Balance at 31 December 2022	**31,591**	**239,243**	**-**	**270,834**
Net book value				
At 31 December 2022	**10,697**	**86,253**	**6,838**	**103,788**
At 31 December 2021	12,242	96,221	4,922	113,385

11 Stocks

	2022 £000	2021 £000
Raw materials and consumables	**35,950**	24,092
Work in progress	**35,644**	29,966
Finished goods	**12,189**	8,569
	83,783	62,627

The amount of any adjustment to stocks recognised in profit and loss in the year was £558,000 expense (2021: £2,634,000 income).

Notes *(continued)*

12 Debtors due within one year

	2022	2021
	£000	£000
Trade debtors	**98,173**	85,190
Amounts owed by Group undertakings	**28,305**	18,301
Corporation tax – R&D Expenditure credit	**2,379**	1,998
Other debtors	**14,161**	16,075
Other financial assets (Note 17)	**3,672**	4,238
Prepayments and accrued income	**12,926**	14,563
Loans due from Group undertaking	**28,722**	-
	188,338	140,365

The amounts owed by group undertakings are unsecured, interest free and repayable on demand. Loans due from Group undertaking are amounts drawn under unsecured revolving credit facilities of $20,000,000 and $14,750,00, both due 31 December 2023 and both bearing interest at 12 month USD LIBOR plus 2.0%.

13 Debtors due after more than one year

	2022	2021
	£000	£000
Deferred tax assets (Note 7)	**72,468**	32,557
Other financial assets (Note 17)	**597**	8,320
Loans due from Group undertaking	**6,559**	25,675
	79,624	66,552

Loans due from Group undertaking are amounts drawn under an unsecured $16,000,000 revolving credit facility due 31 December 2024 bearing interest at 12 month USD LIBOR plus 2.0%.

14 Creditors: amounts falling due within one year

	2022	2021
	£000	£000
Payments received on account	**28,333**	32,615
Trade creditors	**122,094**	90,336
Amounts owed to group undertakings	**13,173**	8,626
Other creditors including social security and other taxation	**32,829**	29,090
Loan owed to GKN Holdings Ltd	**-**	150,728
Loans owed to GKN Enterprise Ltd	**29,466**	-
Accruals and deferred income	**23,104**	19,167
Other financial liabilities (Note 17)	**18,699**	8,160
	267,698	338,722

The amounts owed to group undertakings are unsecured, interest free and repayable on demand. Loans owed to GKN Enterprise Ltd are amounts drawn under unsecured revolving credit facilities of $20,000,000 and $14,750,00, both due 31 December 2023 and both bearing interest at 12 month USD LIBOR plus 2.0%.

Notes *(continued)*

15 Creditors: amounts falling after more than one year

	2022 £000	2021 £000
Payments received on account	**43,254**	50,370
Loan owed to GKN Enterprise Ltd	**848**	25,675
Loan owed to GKN Holdings Ltd	**150,719**	-
Accruals and deferred income	**11,363**	6,593
Other financial liabilities (Note 17)	**52,501**	13,655
	258,685	96,293

Loan owed to GKN Enterprise Ltd are amounts drawn under an unsecured $16,000,000 revolving credit facility due 31 December 2024 bearing interest at 12 month USD LIBOR plus 2.0%. Loan owed to GKN Holdings Ltd is the amount drawn under an unsecured £200,000,000 revolving credit facility due 31 December 2024 and bears interest at 12 month sterling LIBOR plus 2.0%.

16 Current accounts with GKN Enterprise Limited

Current accounts with GKN Enterprise Ltd represents funding both of a permanent nature and to cover short term funding of the Company's working capital.

On 1 January 2022 the Company entered into 9 current account facilities with GKN Enterprise Limited, for a total of £917 million. The facilities are due on 30 June 2024, interest is earned at the 1 month GBP swap rate (vs SONIA) - 0.125% for accounts in hand and 1 month GBP swap rate (vs SONIA) +1.000% for accounts overdrawn.

In 2021, the accounts were without repayment terms and were interest bearing at 1 month LIBOR -0.125% for accounts in hand and 1 month LIBOR +1.000% for accounts overdrawn.

17 Other financial assets and liabilities

	2022 £000	2021 £000
Amounts falling due within one year		
Financial assets	**3,672**	4,238
Financial liabilities	**(18,699)**	(8,160)
	(15,027)	(3,922)
Amounts falling due after more than one year		
Financial assets	**597**	8,320
Financial liabilities	**(52,501)**	(13,655)
	(51,904)	(5,335)
	(66,931)	(9,257)

All Other financial assets and liabilities are forward foreign currency derivative contracts held at fair value through profit and loss. Gains and losses recognised on the change in the value of forward foreign currency derivative contracts are presented in note 6.

Notes *(continued)*

18 Provisions

	At 1 January 2022 £000	Provisions made £000	Provisions released £000	Utilised £000	Unwind of discount £000	**At 31 December 2022 £000**
Off market lease	10,056	-	(6,597)	(3,206)	(253)	**-**
Restructuring	1,273	63	-	(1,263)	-	**73**
Warranty	8,969	847	(2,396)	(247)	-	**7,173**
Litigation and commercial	12,063	9,439	(4,936)	(2,625)	-	**13,941**
Dilapidations	2,979	-	-	(30)	-	**2,949**
A380 Programme termination	7,432	-	(2,517)	(1,168)	-	**3,747**
Loss making contracts	28,105	-	-	(8,634)	(1,254)	**18,217**
	70,877	10,349	(16,446)	(17,173)	(1,507)	**46,100**

Loss-making contract provisions represent the forecast unavoidable costs required to meet the obligations of long-term agreements, in excess of the contractual inflow expected to be generated in respect of these agreements. In assessing the unavoidable costs, management has considered the possibility that future actions could impact the profitability of the contracts. Calculation of the liability includes estimations of volumes, price and costs to be incurred over the life of the contract, which are discounted to a current value. Future changes within these estimates, or commercial progress could have a material impact on the provision in future periods.

Provisions set aside for other commercial, litigation and warranty exposures either relate to specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation or amounts provided systematically based on historical experience under contractual warranty obligations attaching to the supply of goods. Calculation of the liability represents the best estimate of the expenditure required to settle the Company's obligations, based on past experience, recent claims and current estimates of costs relating to specific claims and subsequently updated for changes in estimates as necessary.

The off market lease provision, which was released in the year following a rent revision, arose as part of the 2009 Filton acquisition. The release was offset within Operating profit by recognising £6,750,000 deferred income as part of the wider landlord/customer commercial agreement.

Utilisation of the provisions due in more than one year is estimated at £7 million in 2024, £2 million in 2025, £2 million in 2026, £2 million in 2027 and £5 million due thereafter.

Significant judgements and estimates: Whilst estimating provisions requires judgement, the range of reasonably possible outcomes can be material. After consideration of sensitivity analysis, amounts stated represent management's best estimate of the likely outcome.

19 Employee benefits – pensions

The Company's pension arrangements at 31 December 2022 comprise two defined benefit schemes and a defined contribution scheme. On 1 July 2019 the GKN UK 2012 Pension Plan was split into four separate pension schemes "the GKN Group Pension Schemes (Numbers 1 - 4)". Two of these schemes, (GKN Group Pension Scheme (Number 1) and GKN Group Pension Scheme (Number 4) are allocated to the Company. These schemes are funded plans, closed to new members and were closed to future accrual in 2017. The valuation of the plans was based on a full actuarial valuation as of 5 April 2022, updated to 31 December 2022 by independent actuaries.

On 30 June 2019 the Company entered into a settlement deed with various Group companies and the GKN Pension Trustees. The Company took a membership interest in GKN Investments II LP, for £150,719,000 financed by a revolving credit facility from GKN Holdings Ltd. GKN Investments II LP owns and sub-leases property assets, enters into sub-licensing of the GKN trademark licence in respect of the GKN Aerospace businesses and improves the funding of the Company's pension schemes. During the year GKN Investments II LP made contributions of £15,000,000 (2021: £15,000,000) to the Company's pension schemes, lowering the Company's net pension deficit and is shown as retirement benefit income within Operating profit. The Company has also accrued £18,909,000 (2021: £11,891,000) relating to its own partnership distribution from GKN Investments II LP which is due to be settled during 2023.

Notes *(continued)*

19 Employee benefits – pensions *(continued)*

The cost of the Group's defined benefit plans is determined in accordance with IAS 19 (revised): "Employee benefits" using the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations and using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially.

Movements in present value of defined benefit obligation and fair value of plan assets

	Defined benefit obligation £000	Plan assets £000	Net pension asset/(liability) £000
At 1 January 2022	(1,627,278)	1,734,846	107,568
Liabilities assumed from Group undertaking	-	-	-
Net expense recognised in profit and loss	-	-	-
Past service cost	-	-	-
Expenses paid	-	*(2,435)*	*(2,435)*
Interest (expense)/income	*(31,835)*	*34,134*	*2,299*
Total net expense recognised in profit or loss	(31,835)	31,699	(136)
Re-measurement	487,841	(599,744)	(111,903)
Contributions by employer	-	17,159	17,159
Benefits paid	71,431	(71,431)	-
At 31 December 2022	**(1,099,841)**	**1,112,529**	**12,688**

The fair value of the plan assets and the return on those assets were as follows:

	2022 Fair value £000	2021 Fair value £000
Equities	**-**	**-**
Private equities	**38,800**	**133,369**
Diversified growth funds	**232,200**	**281,675**
Government debt	**690,800**	**875,454**
Corporate bonds	**112,400**	**240,837**
Insurance contracts	**14,177**	**21,290**
Property	**11,600**	**37,680**
Cash and others	**12,552**	**144,541**
	1,112,529	**1,734,846**
Actual return on plan assets	**(565,610)**	**73,680**

Notes *(continued)*

19 Employee benefits – pensions *(continued)*

Estimating the defined benefit pension obligation involves a number of significant assumptions and estimates, the principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2022	2021
	%	%
Discount rate	**4.8**	2.0
Future salary increases (past/future service)	**n/a**	n/a
Inflation (RPI/CPI)	**3.2/2.7**	3.7/2.7
Rate of increase in payment and deferred pensions	**2.7**	2.7

Mortality assumptions for The GKN Group Pension Schemes (Numbers 1 and 4) as at 31 December 2022 were based on the Self Administered Pension Scheme ("SAPS") "S3PA" base tables with scheme-specific adjustments. The base table mortality assumption for each of the UK plans reflects best estimate results from the most recent mortality experience analyses for each scheme. Weighting factors vary by scheme.

Future improvements for all UK plans are in line with the 2021 Continuous Mortality Investigation ("CMI") core projection model (SK = 7.5; A = 0%) with a long-term rate of improvement of 1.25% p.a for both males and females.

Risks and sensitivities
The defined benefit plans expose the Company to actuarial risks, such as longevity risk, inflation risk, interest rate risk and market (investment) risk. A sensitivity analysis on the principal assumptions used to measure the plan liabilities at the yearend was as follows:

	Change in assumption	Decrease/(increase) in plan liabilities £000	Increase/(decrease) in profit before tax £000 %
Discount rate	Increase by 0.5ppts	66,000	(3,600)
	Decrease by 0.5ppts	(72,000)	3,200
Inflation	Increase by 0.5ppts	(39,100)	n/a
	Decrease by 0.5ppts	41,400	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(50,000)	n/a
	Decrease by 1 year	51,000	n/a

The sensitivity analysis above was determined based on reasonably possible changes to the respective assumptions, while holding all other assumptions constant. There has been no change in the methods or assumptions used in preparing the sensitivity analysis from prior years. Sensitivities are based on the relevant assumptions and membership profile as at 31 December 2022 and are applied to obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation to the sensitivity of assumptions shown. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate and the sensitivity analysis presented may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Contributions

The contribution for deficit funding expected to be paid by the Company during 2023 to the UK schemes is £17 million.

Defined contribution plans

The Company operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £18,704,000 (2021: £17,160,000).

Notes *(continued)*

20 Employee benefits – post-employment medical obligations

At 1 January 2022 the Company assumed a £5,336,000 liability regarding a share of the former GKN plc executive post-employment healthcare scheme. The liabilities for the whole scheme were previously held by another Group company, GKN Group Services Limited. The scheme provides post-employment healthcare benefits to former executive employees and their spouses in the form of an assured level of pension payable for life. The level of benefits provided typically depends on length of service and salary levels in the years leading up to retirement. Pensions in payment are generally updated in line with inflation. The schemes are closed to new entrants and the obligations are not funded.

	Post-employment medical obligations £000
At 1 January 2022	-
Liabilities assumed from Group undertaking	(5,336)
Net expense recognised in profit and loss	-
Interest expense	*(108)*
Total net expense recognised in profit or loss	(108)
Re-measurement	957
Benefits paid	459
At 31 December 2022	**(4,028)**

Estimating the retirement benefit obligation involves a assumptions and estimates, the principal actuarial assumptions at the yearend were as follows:

2022: rate of increase in medical costs – initial/long-term: 8.00/4.70

Risk factors
Through its post-employment medical plan, the Company is exposed to a number of risks, the most significant of which are detailed below. The Company's focus is on managing the cash demands which the plans place on the Company, rather than balance sheet volatility in its own right.

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

Inflation risk: As pension obligations are linked to inflation, higher inflation expectations will lead to higher liabilities, although caps are in place to protect against unusually high levels of inflation.

Member longevity: As the Company's retirement benefit obligations are generally to provide benefits for the life of the member, increases in life expectancy will generally result in an increase in plan liabilities (and vice versa).

Notes *(continued)*

21 Capital and reserves

Share capital

	2022	2021
	£000	£000
Allotted, called up and fully paid		
300,202,941 (2020: 300,202,941) ordinary shares of £1 each	**300,203**	300,203

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium account

The share premium account represents shareholder contributions above the nominal value of the shares purchased.

Merger reserve

The merger reserve was established following group re-constructions in which the Company acquired the trade and assets of the Luton and former Kings Norton operations in 2007 and 2006 from fellow group undertakings. The reserve is the difference between the book value of the net assets acquired and the consideration.

Other reserve

The other reserve is a non-distributable reserve created in 1995 following a capital restructuring.

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2022	2021
	£000	£000
Less than one year	**9,429**	11,800
Between one and five years	**26,648**	37,282
More than five years	**43,416**	48,815
	79,493	97,897

23 Guarantees and capital commitments

At 31 December 2022, the Company was a guarantor in respect of the payment obligations owed by Melrose plc under its committed bank facility, comprising a multi-currency denominated term loan of £30 million and US$788 million and a multi-currency denominated revolving credit facility of £1.1 billion, US$2.0 billion and €0.5 billion, both of which had a maturity date of June 2024.

As at 31 December 2022, the Company was also a guarantor in respect of the payment obligations owed under £130 million of notes issued by GKN Holdings Limited, an intermediary holding company. The outstanding notes, maturing in May 2032, are listed on the Professional Securities Market, which is operated by the London Stock Exchange.

The Company's contractual commitments to purchase tangible fixed assets at the year-end were £12,253,000 (2021: £6,458,000).

Notes *(continued)*

24 Related parties

The company has taken advantage of the exemption under paragraph 33.1A from the provisions of FRS 102 Section 33, 'Related Party Disclosures', as it is a wholly owned subsidiary of a group headed by Melrose Industries plc.

25 Post balance sheet events

The Company is a guarantor in respect of the payment obligations owed by Melrose plc under its committed bank facility. On 20 April 2023 a new committed bank facility became effective following the demerger of the Dowlais Group from the Melrose Group. The new facility replaced the facility in place as at 31 December 2022. The new facility has a maturity date of April 2026 and consists of a three-year multi-currency denominated term loan of US$300 million and €100 million, a three-year revolving credit facility of US$250 million and a three-year multi-currency denominated revolving credit facility of US$550 million, £300 million and €300 million, which can be extended by up to two additional one year periods.

On 9 February 2023, the Trustees of GKN Group Pension Scheme 4 ("the Scheme"), sponsored by the Company, signed a contract to fully secure benefits for all members of the Scheme for a cash settlement of approximately £45 million. At 31 December 2022, the Scheme had total liabilities of £433 million (31 December 2021: £628 million) and an accounting surplus of £52 million (31 December 2021: £87 million).

26 Ultimate parent company and parent company of larger group

The immediate parent undertaking is Westland Group plc. The ultimate parent undertaking and controlling party is Melrose Industries plc, a company incorporated in England. The consolidated financial statements of Melrose Industries plc for year ended 31 December 2022, are available from the registered office, 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT or at www.melroseplc.net. Melrose Industries plc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2022.