

Registered number: 00121799

GKN Driveline Birmingham Limited

Annual Report and Financial Statements

For the year ended 31 December 2018



GKN Driveline Birmingham Limited

Contents

Company Information	2
Strategic Report	3
Directors' Report	4
Directors' Responsibilities Statement	5
Independent Auditors Report	6 to 7
Income Statement	8 to 9
Statement of Comprehensive Income	9
Statement of Changes in Equity	10
Balance Sheet	11
Notes to financial Statements	12 to 32

GKN Driveline Birmingham Limited

Company Information

Directors	Mark Jeremy Gabriel
	Jonathon Crawford
	Garry Barnes
	Matthew Richards
	Geoffrey Morgan
Company Secretary	Jonathon Crawford
Registered Office	Chester Road Erdington Birmingham, B24 0QY United Kingdom
Auditors	Deloitte LLP Statutory Auditor 4 Brindley Place Birmingham B1 2HZ United Kingdom

GKN Driveline Birmingham Limited

Strategic Report for the year ended 31 December 2018

The Directors present the Strategic Report for the year ended 31 December 2018.

Business Review

The principal activities of GKN Birmingham Driveline Limited (Company) is to manufacture automotive parts and accessories for motor vehicles.

On 19 April 2018, there was a change to the ultimate parent as Melrose Industries Plc acquired GKN plc (GKN plc was a British multinational company which produces automotive and aerospace components).

The company recorded sales of £195,637,000 in 2018 (2017: £211,878,000) which was lower than 2017 by £16,241,000. This was primarily due to lower sales volumes from major customers but includes currency benefits resulting from sterling weakening versus the euro during the year.

Owing to the anticipated volume drop by major customers, the company incurred a redundancy and restructuring cost of £1,337,266 (2017: £nil) during the year.

The company invested £3,684,000 in 2018 to accommodate new vehicle launches in 2019 and to improve production capabilities.

The likely future development for the company is to continue to manufacture and develop parts for the automotive industry.

The strategic outlook for the business over the next five years reflects a reduction of sales which is largely due to lower customer volumes, changes in customer product mix and new vehicle introduction. This outlook follows anticipated trends in the global automotive markets as they affect the sales volumes of vehicles for which the company supplies components. The business continues to look at its operational costs with the aim of mitigating the impact of reducing sales and ultimately improving its trading results. The business continues to invest in capital equipment to drive the reduction in its operational costs.


Principal Risks and Uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Melrose Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 52-58 of the Group's annual report which does not form part of this report.

Key Performance Indicators

The Company's operations are managed on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of GKN Driveline, which includes this Company, is discussed on pages 16-17 of the Melrose Industries PLC annual report which does not form part of this report.

Approved by the Board on 30 September 2019 and signed on its behalf by:



John Harland
Director
Registration number: 00121799

Directors' Report for the year ended 31 December 2018

The Directors present the Directors' Report and the audited Financial Statements for the year ended 31 December 2018.

Directors of the Company

The Directors who held office during the year and up to the date of signing the Financial Statements are as follows:

Mark Jeremy Gabriel
Richard Thomas Heath (Resigned 8 February 2019)
Steven Allen Westwood (Resigned 3 December 2018)
Ian Michael Brindley (Resigned 20 May 2019)
Simon Nicholas Meadows (Resigned 28 September 2018)
John Hickman (Resigned 8 February 2019)
Andrej Poklic (Resigned 24 May 2018)
Jonathon Crawford (Appointed as a director on 4 July 2018)
Garry Barnes
Matthew Richards
Geoffrey Morgan
Wilson Ng Chin Heng (Appointed 8 February 2019, resigned 16 August 2019)
John Robert Harland (Appointed 20 May 2019)

Financial Results

The Income statement of the Company shows a loss for the financial year of £3,567,000 (2017: loss of £17,873,000).

Dividends

No interim dividend was paid for the year ended 31 December 2018 (2017: £nil). The Directors have not proposed a final dividend for the year ended 31 December 2018 (2017: £nil).

Likely Future Developments

The Company's future development position is set out in the Business Review section of the Strategic Report on Page 3.

Research and Development

The Company undertakes research and development work in support of its principal manufacturing activities.

Financial risk management

The Company's operations expose it to a variety of financial risks including the effects of credit risk. As part of Melrose Industries PLC, all the Company's funding is provided through a current account. The overarching 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 Melrose Industries PLC plc Group Treasury function, are set out in the annual report of Melrose plc. The Company does not use derivative financial instruments to manage interest rate costs.

Where the Company enters into transactions with inherent external counter-party risk, exposures are assessed in line with Melrose plc policies and guidance.

Employees

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are considered 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 the company as a whole. Communication with employees is promoted through a variety of means including in-house newsletters, briefing meetings and the GKN intranet which provides access to GKN information, news, policies and procedures.

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.

Going Concern

Despite the net liability position of the entity, the Directors believe that the Company will continue as a going concern and continue to receive support from GKN Industries Ltd, thus they continue to adopt the going concern basis in preparing the annual financial statements.

Directors' Report for the year ended 31 December 2018 (continued)

Directors' Responsibilities Statement as per auditor's report

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 United Kingdom Accounting Standards, including FRS 101 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 and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The auditors' responsibilities in relation to the accounts are set out in their report on page 6.

Disclosure of Information to Auditor

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 auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s148 of the 2006 Companies Act

Auditors

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

Approved by the Board on 30 September 2019 and signed on its behalf by:



John Harland
Director
Registration number: 00121799

Independent Auditors' Report to the members of GKN Driveline Birmingham Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of GKN Driveline Birmingham Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs for the year ended 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

GKN Driveline Birmingham Limited

Independent Auditors' Report to the members of GKN Driveline Birmingham Limited (continued)

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. 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 it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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 and 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 our report and for no other purpose. To the fullest extent permitted by law, we do not accept any 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.


Lee Wilhelm FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Centridge, United Kingdom
30 September 2018

GKN Driveline Birmingham Limited

Income Statement

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	2	195,637	211,878
Cost of sales		(188,885)	(197,761)
Gross profit		6,752	14,117
Other operating income		22,884	-
Administrative expenses		(26,838)	(29,602)
Other operating expenses		(5,148)	(4,248)
Trading loss	3	(2,350)	(19,733)
Change in value of derivative and other financial instruments	14	761	1,312
Operating profit / (loss)		(1,589)	(18,421)
Interest payable	4	(205)	(271)
Interest receivable	4	85	89
Other net financing charges	4	(2,120)	(3,594)
Net financing (costs)		(2,240)	(3,776)
Profit / (Loss) before taxation		(3,829)	(22,197)
Taxation	5	262	4,324
Loss for the financial year		(3,567)	(17,873)

All the results presented are derived from continued operations.

GKN Driveline Birmingham Limited

Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Loss for the financial year		(3,567)	(17,873)
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plans	17	3,683	30,350
Taxation	5	(626)	(5,160)
		3,057	25,190
Total comprehensive income / (expense) for the year		(510)	7,317

GKN Driveline Birmingham Limited

Statement of Changes in Equity

For the year ended 31 December 2018

Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
At 1 January 2018	166,600	75,900	(243,513)	73	(940)
Loss for the year	-	-	(3,567)	-	(3,567)
Other comprehensive income	-	-	3,057	-	3,057
Total comprehensive income	-	-	(510)	-	(510)
Share-based payments	-	-	-	-	-
At 31 December 2018	166,600	75,900	(244,023)	73	(1,450)
At 1 January 2017	166,600	75,900	(250,832)	73	(8,259)
Loss for the year	-	-	(17,873)	-	(17,873)
Other comprehensive loss	-	-	25,190	-	25,190
Total comprehensive loss	-	-	7,317	-	7,317
Share-based payments	-	-	2	-	2
At 31 December 2017	166,600	75,900	(243,513)	73	(940)


GKN Driveline Birmingham Limited

Balance Sheet

As at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Deferred tax assets	5d	26,195	26,499
Property, plant and equipment	9	23,217	23,637
Intangibles	8	1,902	154
Derivative financial instruments	14	68	5
		51,382	50,295
Current assets			
Current tax assets	5b	284	9,176
Inventories	10	10,084	11,987
Trade and other receivables	11	41,567	24,379
Cash and cash equivalents	13	16,414	28,591
Derivative financial instruments	14	104	195
		68,453	74,328
Total assets		119,835	124,623
Liabilities			
Current liabilities			
Trade and other payables	12	(33,327)	(38,112)
Derivative financial instruments	14	(154)	(861)
		(33,481)	(38,973)
Non-current liabilities			
Trade and other payables	12	(969)	(1,035)
Derivative financial instruments	14	(56)	(138)
Provisions	15	(9,010)	(670)
Post-employment obligations	17	(77,769)	(84,747)
		(87,804)	(86,590)
Total liabilities		(121,285)	(125,563)
Net assets		(1,450)	(940)
Shareholders' equity			
Share capital	16	166,600	166,600
Share premium account		75,900	75,900
Retained earnings		(244,023)	(243,513)
Other reserves		73	73
Total equity		(1,450)	(940)

The financial statements on pages 8 to 11 were approved by the Board of Directors and authorised for issue on 30 September 2019. They were signed on its behalf by:


 John Harland
 Director
 Registration number: 00121799

Notes to the Financial Statements

For the year ended 31 December 2018

1 Accounting policies and presentation

GKN Driveline Birmingham Limited is a private company limited by shares and is incorporated and domiciled in the UK and registered in England and Wales with the registered number 00121799. Its registered office is Chester Road, Erdington, Birmingham, B24 0RB. The Company's significant accounting policies, which have been consistently applied, are summarised below.

Basis of preparation

The financial statements (the "statements") of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) under Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101). These statements have been prepared on a going concern basis under the historical cost convention as modified by financial instruments recognised at fair value except where other measurement bases are required to be applied under IFRS as set out below, and in accordance with the Companies Act 2006.

These accounts have been prepared on a going concern basis.

These statements have been prepared using all standards and interpretations required for financial periods beginning 1 January 2018. No standards or interpretations have been adopted before the required implementation date.

Exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101.

The following exemptions have been applied in accordance with FRS 101, as the relevant disclosure is contained in the Group Financial Statements of Melrose Industries Plc (details can be obtained as disclosed in note 21)

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined)
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)

The following exemptions have been applied in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment ;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows)
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for a minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third balance sheet)
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

1 Accounting policies and presentation (continued)

Foreign currencies

Items included in the financial statements of the Company are measured using the currency of the primary economic environment of operation, determined having regard to the currency which mainly influences sales and input costs. The financial statement is presented in "Pounds Sterling" (£), which is also the Company's functional currency.

Transactions are translated at exchange rates approximating to the rate ruling on the date of the transaction except in the case of material transactions when actual spot rate may be used where it more accurately reflects the underlying substance of the transaction. Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Such transactional exchange differences are taken into account in determining profit before tax.

Presentation of the income statement

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

In the prior period the cost categories before Trading Loss were not disclosed in the Income Statement. The Income Statement has been restated for FY17 to disclose Cost of Sales of £197,761,000, Administrative Expenses of £29,602,000 and Other Operating Expenses of £4,248,000.

Operating loss is loss before discontinued operations, taxation and finance costs. In order to achieve consistency and comparability between reporting periods, operating loss is analysed to show separately the results of normal trading performance and individually significant charges and credits. Such items arise because of their size or nature and comprise:

- asset impairment and restructuring charges which arise from events that are significant to the Company;
- changes in the fair value of derivative financial instruments and material currency translation movements arising on intra-group funding;
- the impact of annual impairment review of investments;
- significant pension scheme curtailments and settlements.

Net financing costs are analysed to show separately interest payable, interest receivable and other net financing charges. Other net financing charges include the interest charge on net defined benefit plans and specific changes in fair value on cash flow hedges.

Revenue recognition

Sales

Revenue from the sale of goods and services is measured at the fair value of the consideration receivable which generally equates to the invoiced amount, excluding sales taxes and net of allowances for returns, early settlement discounts and rebates.

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.

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

Other income

Interest income is recognised using the effective interest rate method.

Due to the immaterial impact of IFRS 15 for the year ended 31 December 2018, no further disclosure is provided.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

1 Accounting policies and presentation (continued)

Property, plant and equipment

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

Cost

Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. Where freehold and long leasehold properties were carried at valuation on 23 March 2000, the date of implementation of FRS 15, these values have been retained as book values in accordance with the transitional arrangements of that standard with no subsequent impact of transition to FRS 101 on 1 January 2014.

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

Depreciation

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

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

The range of depreciation lives are:

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

Property, plant and equipment is reviewed at least annually for indications of impairment. Impairments are charged to the income statement. Similarly, where property, plant and equipment has been impaired and subsequent reviews demonstrate the recoverable value is in excess of the impaired value an impairment reversal is recorded. The amount of the reversal cannot exceed the theoretical net book amount at the date of the reversal had the item not been impaired. Impairment reversals are credited to the income statement against the same line item to which the impairment was previously charged.

Financial assets and liabilities

Financial liabilities are recorded in arrangements where payments, or similar transfers of financial resources, are unavoidable or guaranteed.

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

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

Other financial assets and liabilities, including short term receivables and payables, are initially recognised at fair value and subsequently measured at amortised cost less any impairment provision unless the impact of the time value of money is considered to be material.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

1 Accounting policies and presentation (continued)

Derivative financial instruments

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

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

Gains or losses on derivative financial instruments no longer designated as effective hedges are taken directly to the income statement.

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

Intangible assets

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

None of the intangible assets are internally generated.

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised and categorised as intangible assets. Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. Amortisation for computer software is provided on a straight-line basis over its useful economic life which is in the range of 3-5 years.

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

The amortisation of participation fees is recorded as a reduction of revenue over the life of the contract to which it relates. Amortisation is charged from the date that the product commences manufacture and sale. The amortisation for participation fees is charged over the life of the product up to a maximum of seven years.

The range of amortisations are:

	Year
Computer software	3-5
Participation fees	Up to 7

Inventories

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

Taxation

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

1 Accounting policies and presentation (continued)

Pensions and post-employment benefits

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

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

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

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

Share-based payments

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

Provisions

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

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

New Standards and Interpretations affecting amounts, presentation or disclosure reported in the current year

In the current financial year, the company has adopted the following new and revised Standards and Interpretations. Their adoption has not had a significant impact on the comparative amounts reported in these Financial Statements:

- IFRS 9: Financial Instruments (from 1 January 2018) which relates to:
 - a) classification and measurement of financial assets and liabilities
 - b) hedge accounting
- IFRS 15: Revenue from Contracts with Customers (from January 2018) which required contracts to be reviewed to identify each performance obligation and the associated consideration.

New Standards and Interpretations in issue but not yet effective

At 31 December 2018, the following Standard was in issue but not yet effective (and in some cases have not been adopted by the EU):

- IFRS 16: Leases which requires all leases to be recognised on the Balance Sheet.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

1 Accounting policies and presentation (continued)

Significant judgements, key assumptions and estimates

The Company's significant accounting policies are set out above. The preparation of financial statements, in conformity with FRS 101, 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 accounting policies where the Directors consider the more complex judgements and assumptions have to be made are those in respect of post-employment obligations. Estimates are made in relation to the provision for warranty claims and inventory obsolescence. Additional details of the principal estimates, judgements and assumptions made are set out in the related notes.

Returns / Refunds

The company operates a returns/refunds policy which recognises the expenditure when they can be reliably calculated/estimated, and their receipt is reasonably assured. Returns/refunds receivable are not be recognised and or anticipated until the relevant expenditure to which they relate has been incurred. The return/rebate is reported as deductions of the original expenditure incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2 Revenue

The Company derives its sales from the provision of goods which fall within the Company's ordinary activity, that of £195,637,000. An analysis of sales by geographical location by destination is given below:

	United Kingdom £'000	Europe £'000	Other countries £'000	Total £'000
2018 Revenue	164,764	13,182	17,691	195,637
2017 Revenue	184,340	16,755	10,783	211,878

3 Operating loss

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

(a) Trading profit

	2018 £'000	2017 £'000
Sales	195,637	211,878
Operating costs		
Cost of inventory recognised as an expense	(151,693)	(167,017)
Staff costs (note 7)	(36,359)	(39,055)
Share-based payments	-	(2)
Warranty cost	(8,986)	(592)
Depreciation of property, plant and equipment (note 9)	(3,661)	(3,294)
Impairment of fixed assets (note 10)	(478)	-
Operating lease rentals payable:		
Plant and equipment	(397)	(416)
Property	(1,730)	(1,631)
Net exchange differences on foreign currency transactions	(350)	(2,946)
Audit fees payable to the Company's auditor (ii)	(47)	(41)
Other income and costs (iii)	5,714	(16,617)
Trading Loss	(2,350)	(19,733)

- (i) EBITDA is subsidiary trading gain or loss before depreciation, impairment and amortisation charges included in trading gain or loss. EBITDA was (£1,789,000) (2017: (£16,439,000)).
- (ii) All fees payable to the Company's auditors include amounts in respect of expenses. Services provided by the auditors were for the audit of financial services. All fees payable has been charged to the income statement and relates to the auditing of the financial statements.
- (iii) Research and development expenditure included in other costs above was £2,649,000 (2017: £2,868,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3 Operating loss (continued)

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

	2018 £'000	2017 £'000
Forward currency contracts (not hedge accounted)	761	1,312
	761	1,312

IFRS 9 requires derivative financial instruments to be valued at the balance sheet date and any difference between that value and the intrinsic value of the instrument to be reflected in the balance sheet as an asset or liability. Any subsequent change in value is reflected in the income statement unless hedge accounting is achieved. Such movements do not affect cash flow or the economic substance of the underlying transaction.

4 Net financing costs

	2018 £'000	2017 £'000
(a) Interest payable and fee expense		
Other loans	(205)	(271)
	(205)	(271)
Interest receivable – bank interest	85	89
Net interest payable and receivable	(120)	(182)
	2018 £'000	2017 £'000
(b) Other net financing charges		
Interest charge on net defined benefit plans	(2,120)	(3,594)
	(2,120)	(3,594)

5 Taxation

(a) Tax expense

	2018 £'000	2017 £'000
Analysis of credit in year		
Current tax (charge) / credit		
Current year charge	-	4,702
Adjustments in respect of prior years	(60)	(30)
	(60)	4,672
Deferred tax (charge)/credit		
Origination and reversal of temporary differences		
• Current year	320	(400)
• Adjustments in respect of prior years	2	52
	322	(348)
Total tax (charge) / credit for the year	262	4,324

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5 Taxation (continued)
(a) Tax expense

Significant judgements and estimates

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)

Tax reconciliation	2018 £'000	2017 £'000
Loss on ordinary activities before tax	(3,829)	(22,197)
Loss on ordinary activities multiplied by the standard UK corporation rate of 19.00% (2017: 19.25%)	728	4,273
Tax effect of expenditure not deductible/(income not taxable) in determining taxable profits	64	(24)
Group relief at nil rate	(452)	-
Effect of change in corporation tax rate on deferred tax recognition	(20)	53
Adjustment to current tax charge in respect of prior periods	(60)	(30)
Adjustment to deferred tax charge in respect of prior periods	2	52
Total tax credit for the year	262	4,324

The main rate of UK corporation tax reduced to 19.00% with effect from 1 April 2018 and will reduce to 17.00% with effect from 1 April 2020. As the future tax rate reduction was substantially enacted at the balance sheet date, the reduction has been reflected in the financial statements. At the balance sheet date deferred tax assets and liabilities have been measured at the rate at which they are expected to reverse.

(b) Intercompany balance

	2018 £'000	2017 £'000
Tax (payable)/ receivable	(284)	9,176

(c) The Company accounts for its share of the GKN2 defined benefit scheme on its balance sheet and also accounts for derivatives on a fair value basis.

GKN Driveline Birmingham Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5 Taxation (continued)

(d) Recognised deferred tax

The movements in deferred tax assets and liabilities during the year are shown below:

	Post- employment obligation £'000	Fixed asset timing difference £'000	Other £'000	Total
At 1 January 2018	14,407	8,249	3,843	26,499
Included in the income statement	(560)	648	234	322
Included in other comprehensive income	(626)	-	-	(626)
At 31 December 2018	13,221	8,897	4,077	26,195
At 1 January 2017	24,011	7,637	359	32,007
Included in the income statement	(4,444)	612	3,484	(348)
Included in other comprehensive income	(5,160)	-	-	(5,160)
At 31 December 2017	14,407	8,249	3,843	26,499

Deferred tax assets are recognised where management projections indicate the future availability of taxable profits to absorb the deductions.

'Other' deferred tax arises mainly in relation to items that are taxable or tax deductible in a different period than the income or expense is accrued in the accounts.

(e) Statement of comprehensive income

	2018 £'000	2017 £000
Taxation on actuarial pension movement	626	5,160

6 Dividends

No dividend was paid for the year ended 31 December 2018 (2017: £nil) as mentioned on page 4 within the Directors Report.

GKN Driveline Birmingham Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

7 Employees Including Directors

Employee benefit expense

	2018 £'000	2017 £'000
Wages and salaries	27,755	29,463
Social security costs	2,892	3,079
Other pension costs (note 17)	4,649	4,725
Post-employment costs (note 17)	1,063	1,788
	36,359	39,055

The 'Other pension costs' line relates to the Defined Contribution pension scheme expense, and the 'Post-employment costs' line relates to the Defined Benefit pension scheme expense.

Average monthly number of employees (including Executive Directors)

	2018 Number	2017 Number
By activity		
Production	491	543
Non-production and apprentices	217	229
Administration	78	86
	786	858

Directors' emoluments

	2018 £'000	2017 £'000
Aggregate remuneration	274*	198
Aggregate Company contributions to pension schemes	21	21
	295	219

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.

* includes an aggregate amount of £80,640 paid in respect of loss of office.

Number of Directors receiving benefits and share incentives

	2018 Number	2017 Number
Exercised share options	-	-
Accruing benefits under defined benefit pension schemes in respect of qualifying services	-	1
Accruing benefits under money purchase pension schemes in respect of qualifying services	-	2
Received/entitled to receive shares under long term incentive schemes in respect of qualifying services	-	-

GKN Driveline Birmingham Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

7 Employees including Directors (continued)

Pension benefits are provided to Directors through the GKN Group Pension Scheme 2012 (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.

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

	2018 £'000	2017 £'000
Remuneration	191*	117
Company contributions to pension schemes	12	12
Defined benefit accrued pension entitlement at the end of the year	-	-
	203	129

* includes an aggregate amount of £80,640 paid in respect of loss of office.

8 Intangible assets

	Participation fee £'000	Computer software £'000	Total £'000
Cost			
At 1 January 2018	154	23	177
Additions	1,748	-	1,748
Disposals	-	(5)	(5)
At 31 December 2018	1,902	18	1,920
Accumulated amortisation			
At 1 January 2018	-	23	23
Charge for the year	-	(5)	(5)
At 31 December 2018	-	18	18
Net book value at 31 December 2018	1,902	-	1,902
Net book value at 31 December 2017	154	-	154

GKN Driveline Birmingham Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

9 Property, plant and equipment

	Land and buildings £'000	General plant, machinery, fixture and fitting £'000	Computers £'000	Commercial vehicles and cars £'000	Capital work in progress £'000	Total £'000
Cost						
At 1 January 2018	65	74,958	564	164	7,922	83,673
Additions	-	5,304	106	-	3,477	8,887
Disposals	-	(1,999)	(233)	-	-	(2,232)
Transfers	-	1,325	-	-	(5,304)	(3,979)
At 31 December 2018	65	79,588	437	164	6,095	86,349
Accumulated depreciation and impairment						
At 1 January 2018	15	59,466	503	52	-	60,036
Charge for the year						
Depreciation	-	3,577	46	38	-	3,661
Disposals	-	(2,135)	(233)	-	-	(2,368)
Impairment	-	269	-	-	209	478
Transfers	-	1,325	-	-	-	1,325
At 31 December 2018	15	62,502	316	90	209	63,132
Net book value at 31 December 2018	50	17,086	121	74	5,886	23,217
Net book value at 31 December 2017	50	15,492	81	112	7,922	23,637

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

10 Inventories

	2018 £'000	2017 £'000
Raw materials	6,072	8,583
Work in progress	2,131	1,948
Finished goods	1,881	1,456
	10,084	11,987

Inventories of £10,084,000 (2017: £11,987,000) are carried at net realisable value. An obsolescence provision of £2,204,000 is included within Inventories (2017: £1,048,000).

11 Trade and other receivables

	2018 £'000	2017 £'000
External trade and other receivables	18,449	24,025
Amounts owed by group undertakings	23,070	316
Prepayments	48	38
	41,567	24,379

Ageing analysis of external trade receivables and amounts owed by joint ventures past due but not impaired	2018 £'000
Up to 30 days overdue	1,591
31 – 60 days overdue	193
61 – 90 days overdue	84
More than 90 days overdue	410

Amounts owed by subsidiaries are unsecured, interest free, have no fixed date of repayment and are payable on demand.

12 Trade and other payables

	2018		2017	
	Current £'000	Non-current £'000	Current £'000	Non-current £'000
Amounts owed to suppliers	13,653	969	15,406	1,035
Amounts owed to group undertakings	9,726	-	9,537	-
Other taxes and social security	6,460	-	11,274	-
Accruals	3,479	-	1,883	-
Other payables	9	-	12	-
	33,327	969	38,112	1,035

Amounts owed to subsidiaries are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

13 Cash and cash equivalents

	2018 Current £'000	2017 Current £'000
Bank balances and cash	16,414	28,591
Cash and cash equivalents	16,414	28,591

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

14 Derivative financial instruments

	2018					2017				
	Assets		Liabilities		Total	Assets		Liabilities		Total
	Non-current	Current	Non-current	Current		Non-current	Current	Non-current	Current	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Forward currency contracts	68	104	(56)	(154)	(38)	5	195	(138)	(861)	(799)

Significant judgement and estimates

Forward foreign currency contracts, cross currency interest rate swaps and embedded derivatives are marked to market using market observable rates and published prices together with forecast cash flow information where applicable.

15 Provisions

	Warranty £'000	Total £'000
At 1 January 2018	670	670
Net charge for the year:		
Additions	8,986	8,986
Amounts utilised during the year	(646)	(646)
At 31 December 2018	9,010	9,010
Due within one year	3,950	3,950
Due in more than one year	5,060	5,060
	9,010	9,010

Significant estimates and judgement

Whilst estimating provisions requires judgement, the range of reasonably possible outcomes is narrow. After consideration of sensitivity analysis, amounts stated represent management's best estimate of the likely outcome.

It is the Melrose group policy to hold 100% of the last five years warranty charges. The provisions which are due more than one-year total £5,060,000 and which will be released in 2020 (£3,558,000) 2021 (£443,000) 2022 (£487,000) and 2023 (£572,000).

16 Share capital

	Issued and Fully Paid	
	2018 £'000	2017 £'000
Ordinary shares of £1 each	166,600	166,600
	2018 Number 000s	2017 Number 000s
	2018 Number 000s	2017 Number 000s
Ordinary shares of £1 each At 1 January and 31 December	166,600	166,600

GKN Driveline Birmingham Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17 Post-employment obligations

	2018 £'000	2017 £'000
Post-employment obligations as at the year-end comprise:		
Pensions - funded	77,769	84,747

The Company's pension arrangements comprise a defined benefit and defined contribution scheme.

The Company's defined benefit pension scheme is funded, albeit in deficit in common with many other UK pension schemes, with the scheme assets held in trustee administered funds.

The Company's defined benefit pension arrangements provide benefits to members in the form of an assured level of pension payable for life. The level of benefits provided typically depends on length of service and salary levels in the years leading up to retirement. Pensions in payment are generally updated in line with inflation. The schemes are also closed to new entrants.

GKN UK 2012 Pension Plan

The GKN UK 2012 Pension Plan is a funded plan, closed to new members and was closed to future accrual in 2017. The valuation of the plan was based on a full actuarial valuation as of 5 April 2016, updated at 31 December 2018 by independent actuaries.

GKN UK 2016 Pension Plan

The GKN UK 2016 Pension Plan is a funded plan, closed to new members with no active members, containing assets and liabilities in respect of the pension schemes from various legacy GKN businesses. The valuation of the plan was based on a full actuarial valuation as of 5 April 2016, updated to 31 December 2018 by independent actuaries.

Independent actuarial valuations of the defined benefit scheme assets and liabilities were carried out at 31 December 2018. The present value of the defined benefit obligation and the related service cost elements were measured using the projected unit credit method.

(a) Defined benefit schemes – significant judgements, assumptions and estimates

Key assumptions:

	2018 %	2017 %
Rate of increase in pensionable salaries (past service)	3.10	n/a
Rate of increase in payment and deferred pensions	2.10	3.00
Discount rate (past service)	2.90	2.60
Inflation assumption (past service)	2.10	3.20
Rate of increase in medical costs:		
Initial/long term	5.4/5.4	5.4/5.4

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

The UK schemes each use a duration-specific discount rate derived from the LCP Treasury Model, which is based on corporate bonds with two or more AA-ratings.

Mortality assumptions for all UK pension plans as at 31 December 2018 were based on the Self-Administered Pension Scheme ("SAPS") "S2" base tables. The GKN UK 2012 scheme (and the small post-retirement medical plan) use scaling factors of 96% for male and 85% for females. The GKN UK 2016 scheme uses scaling factors of 100% for male and 91% for females.

Future improvements for all UK plans are in line with the 2017 Continuous Mortality Investigation ("CMI") Improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17 Post-employment obligations (continued)

Assumption sensitivity analysis

The base liability is the Defined Benefit Obligation (DBO) as at 31 December 2018 calculated using the assumptions selected by Melrose PLC as at 31 December 2018 for its year end 2018 IAS19 accounting disclosures. The sensitivities show the impact on the DBO of changing the discount rate and inflation assumptions by +/- 10 basis points and the life expectancy assumption by +/- 1 year.

	Liabilities £'000
Discount rate +0.1%	(5.9)
Discount rate -0.1%	6.4
Rate of inflation +0.1%	5.2
Rate of inflation -0.1%	(5.1)
Life expectancy +1 year	14.4
Life expectancy -1 year	(14.2)

Defined benefit schemes – significant judgements, assumptions and estimates

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

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

Significant judgements and estimates

The Company's defined benefit pension scheme obligation arises as a result of its participation in the externally funded defined benefit Group pension arrangements of Melrose plc. The share of the obligation recognised by the Company is based on the benefits accruing to current and historic members of the scheme that have been employed by the Company.

During the year, GKN 2, the UK defined benefit pension scheme in which the Company participates, completed its triennial funding valuation as at 5 April 2018.

The outcome of these discussions resulted in a lump sum contribution of £250 million paid in October 2017 to GKN2, of which the Company's share was £32,523,702. These contributions along with investment outperformance is expected to close the deficit on the Trustee's funding basis by June 2031 for GKN2.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17 Post-employment obligations (continued)

(b) Defined benefit schemes – reporting (continued)

The amounts included in operating losses are:

	Total £'000
2018	
Current service cost	-
Administrative expenses	(1,063)
	(1,063)
2017	
Current service cost	(4,142)
Administrative expenses	(52)
	(4,194)

The amounts recognised in the balance sheet are:

	2018 £'000	2017 £'000
Present value of funded obligations	(330,602)	(347,214)
Fair value of plan assets	252,833	262,467
Net obligations recognised in the balance sheet	(77,769)	(84,747)

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

	2018 £'000	2017 £'000
At 1 January	(3,283)	(33,633)
Remeasurement of defined benefit plans	3,683	30,350
At 31 December	400	(3,283)

Movement in schemes' assets and unfunded liabilities during the year:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2018	262,467	(347,214)	(84,747)
Current service cost	-	-	-
Administrative expenses	-	(1,063)	(1,063)
Interest	6,736	(8,856)	(2,120)
Remeasurement of defined benefit plans	(10,197)	13,880	3,683
Contributions by Group	-	-	-
Benefits and administration expense paid	(6,173)	12,651	6,478
At 31 December 2018	252,833	(330,602)	(77,769)
At 1 January 2017	222,671	(363,910)	(141,239)
Current service cost	-	(4,142)	(4,142)
Administrative expenses	-	(52)	(52)
Interest	5,762	(9,356)	(3,594)
Remeasurement of defined benefit plans	12,337	18,013	30,350
Contributions by Group	2,354	-	2,354
Benefits and administration expense paid	19,343	12,233	31,576
At 31 December 2017	262,467	(347,214)	(84,747)

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17 Post-employment obligations (continued)

	Total
	£'000
2018	
Experience gains and losses	(1,392)
Changes in financial assumptions	14,336
Change in demographic assumptions	936
	13,880
2017	
Experience gains and losses	-
Changes in financial assumptions	7,032
Change in demographic assumptions	10,981
	18,013

The fair values of the assets in the scheme were:

	Total
	£'000
At 31 December 2018	
Equities (inc. hedge funds)	57,912
Diversified growth funds	85,267
Bonds – government	62,230
Bonds – corporate	27,412
Property	16,980
Cash, derivatives and net current assets	-
Other assets	3,032
	252,833
At 31 December 2017	
Equities (inc. hedge funds)	55,572
Diversified growth funds	87,121
Bonds – government	45,273
Bonds – corporate	27,911
Property	15,931
Cash, derivatives and net current assets	27,472
Other assets	3,187
	262,467

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17 Post-employment obligations (continued)

(c) Defined benefit scheme – risk factors

Through its post-employment pension plans, 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 various pension plans place on the Company, rather than balance sheet volatility in its own right. For funded schemes cash requirements are generally determined by funding valuations which are performed on a different basis from accounting valuations.

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

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

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

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

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

The following table shows the future life expectancy of individuals age 65 at the year-end and the future life expectancy of individuals aged 65 in 20 years' time.

	GKN UK 2012 Pension Plan years	GKN UK 2016 Pension Plan years
Male today	22.3	22.0
Female today	25.1	24.6
Male in 20 years' time	23.7	23.4
Female in 20 years' time	26.6	26.1

(d) Defined contribution schemes

The charge to the income statement in the year from the defined contribution scheme was £4,649,000 (2017: £4,725,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

18 Operating leases

(a) Commitments: minimum lease payments

The minimum lease payments which the Company is committed to make at 31 December 2018 are:

	2018		2017	
	Property £'000	Vehicles, plant and equipment £'000	Property £'000	Vehicles, plant and equipment £'000
Payments under non-cancellable operating leases:				
Within one year	886	246	877	262
Later than one year and less than five years	3,633	339	3,597	584
After five years	11,023	-	11,945	-
	15,542	585	16,419	846

19 Capital expenditure

Contracts placed against capital expenditure sanctioned at 31 December 2018 which are not provided amounted to £930,000 property, plant and equipment (2017: £967,131) property, plant and equipment).

20 Related party transactions

In accordance with FRS 101 the Company has taken advantage of the exemption not to disclose the transactions with other Group undertakings. There were no other related party transactions during the year.

21 Controlling parties

The parent of the smallest and largest group in which these Financial Statements are consolidated is Melrose Industries PLC. Consolidated financial statements of Melrose Industries PLC are available from its registered office: 11th Floor, The Colmore Building, 20 Colmore Circus, Queensway, Birmingham, B4 6AT.