

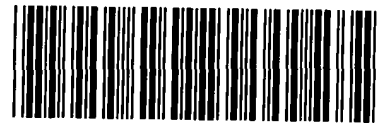
Registered number: 00649576

# GKN Driveline Service Limited

## Annual Report and Financial Statements

For the year ended 31 December 2019

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# GKN Driveline Service Limited

## Strategic Report

For the year ended 31 December 2019

The Directors present the Strategic Report for the year ended 31 December 2019.

In early 2020 we experienced an unprecedented event in the worldwide outbreak of COVID-19. Whilst the full impact of the outbreak continues to unfold, it is clear that this will impact the operations and financial performance of GKN Driveline Service Limited during 2020. At this time, the company cannot quantify fully the impact of the situation but will continue to monitor the impact on its staff, customers and operations regularly.

GKN Driveline Service Limited has taken all necessary actions to protect the health and wellbeing of employees, customers and suppliers and to ensure that the business deals with the crisis in the best manner possible for all stakeholders.

### Business Review

On 1 January 2019 the Company separated its automotive and industrial businesses into separate legal entities to enable the Company to concentrate on its automotive businesses from the Minworth location. From that date the assets for the industrial business are owned by Powertrain Services UK Limited. The Company has chosen not to restate the 2018 results to exclude the impact of the industrial business.

During the year the Company has seen a 32% decrease in turnover. This is due to the separation of the industrial and automotive businesses, as the automotive side of the business has grown by £0.9m. The key driver for this growth has been new motorsport business won in Europe.

The Company has returned to trading profit in the year, improving trading profit by £0.9m resulting in an operating profit of £313,000 for the financial year. The improvement in performance is due to concentrating on automotive business, in addition to not repeating the prior year provisions created in 2018 following the takeover of GKN PLC. These provisions are referenced in note 16 to these accounts.

In July 2019 the GKN UK pension scheme was separated into several different schemes. The pension balance relating to the Company is now held by GKN Automotive Ltd.

The strategic direction for the automotive business is to grow revenues from continued success in winning new business in our key markets and from developing our business with existing customers. However, the Company expects to see a reduction in turnover in 2020 due to reduced demand from our automotive customers as a result of COVID-19.

### 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 Melrose Industries PLC, which include those of the Company, are discussed on pages 48 to 55 of the Group's annual report which does not form part of this report.

The UK's decision to leave the European Union continued to provide economic uncertainty during 2019, resulting in Sterling currency fluctuations around key decision dates in the "Brexit" calendar. We remain vigilant to all developments and continue to prepare for the UK's exit from the European Union in whatever form it may take, seeking advice from customs experts and working closely with HMRC.

In early 2020 we experienced an unprecedented event in the worldwide outbreak of COVID-19. The principal focus of risk mitigation measures has been the safety of the Company's staff. To this effect remote and short time working have been adopted and other control measures have been taken according to advice from the UK Government. In addition, we have implemented cost controls to reflect the expected reduction in automotive demand.

### 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 Automotive, which includes this Company, is discussed on pages 20 to 23 of the Melrose Industries PLC annual report which does not form part of this report.

Approved by the Board on 30 September 2020 and signed on its behalf by:



Daniel Martinez  
Director

Registration number: 00649576

## Directors' Report

For the year ended 31 December 2019

The Directors present the Directors' Report and the audited Financial Statements for the year ended 31 December 2019.

### 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:

Garry Barnes  
Jonathon Crawford  
Andrew Henstock  
Daniel Martinez  
Geoffrey Morgan  
Matthew Richards  
Simon Taylor (resigned 15 March 2019)

### Financial Results

The profit and loss account of the Company shows a loss for the financial year of £699,000 (2018: loss of £838,000).

The Company continues to receive the on-going support of Melrose Industries PLC.

### Dividends

No interim dividend was paid for the year ended 31 December 2019 (2018: £nil). The Directors have not proposed a final dividend for the year ended 31 December 2019 (2018: £nil).

### Likely Future Developments

The Company's future development position is set out in the Business Review section of the Strategic Report on page 1.

### Research and Development

The Company does not undertake research and development work.

### Going Concern

The company generated a pre-tax profit in 2019 and it has net current assets and cash from operations sufficient to operate in the foreseeable future. The company continues to receive the ongoing support of GKN Automotive Ltd. Accordingly, the Board has continued to adopt the going concern basis in preparing the company's financial statements. The business model is based on developing the existing business and the Coronavirus Pandemic is not expected to have a significant impact on bottom line result.

### 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 all the Company's funding is provided through a fellow subsidiary via a current account. The overarching Group 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 Group Treasury function, are set out in the annual report of Melrose Industries 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 Industries PLC policies and guidance.

### Subsequent Events

The Company expects to see a reduction in turnover in 2020 due to reduced demand from our automotive customers as a result of COVID-19. We are in regular contact with all our customers to understand their individual situation to allow us to manage our resources accordingly.

We have looked to reduce our costs in line with the lower sales in part through discretionary cost control and are making use of the UK government furlough scheme. We do not anticipate making any redundancies due to COVID-19. We have also reviewed our fixed assets and have concluded that there is no impairment risk on any asset.

We have and continue to review all material purchase orders and have adjusted stock purchases in line with the changed volumes. There are no changes to the company accounting policies as a result of COVID-19.

**Directors' Report (continued)**

For the year ended 31 December 2019

**Directors' Responsibilities Statement**

The Directors are responsible for preparing the Strategic Report and 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 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;
- 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 financial statements are set out in their report on pages 4 to 5.

**Disclosure of Information to Auditors**

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 s418 of the 2006 Companies Act.

**Directors' Indemnity**

The company has indemnified the directors of the company for costs incurred, in their capacity as a director, for which they may be held personally liable, except where there is a lack of good faith.

**Independent Auditors**

The 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 2020 and signed on its behalf by:



Daniel Martinez  
Director  
Registration number: 00649576

## **Independent auditors' report to the members of GKN Driveline Service Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of GKN Driveline Service Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 of GKN Driveline Service Limited (the 'company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet;
- the statement of accounting policies; and
- the related notes 1 to 24.

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" (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**

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.

#### **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.

**Independent auditors' report to the members of GKN Driveline Services Limited  
(continued)**

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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://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 or the directors' report.

**Matters on which we are required to report by exception**

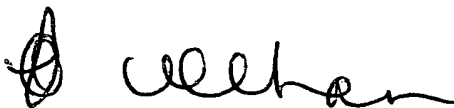
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.



Lee Welham FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom

30 September 2020

# GKN Driveline Service Limited

## Income Statement

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Sales</b>	2	8,086	11,915
Trading profit/(loss)	3	332	(611)
Change in value of derivative and other financial instruments		(19)	5
<b>Operating profit/(loss)</b>		313	(606)
Interest receivable		99	76
Other net financing charges		(68)	(147)
<b>Net financing costs</b>	4	31	(71)
<b>Profit/(Loss) before taxation</b>		344	(677)
<b>Tax charge on profit/(loss)</b>	5	(1,043)	(161)
<b>Loss after taxation for the financial year</b>		(699)	(838)

All results are all derived from continuing operations.

The accompanying notes are an integral part of the Financial Statements.

# GKN Driveline Service Limited

## Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Loss after taxation for the financial year		(699)	(838)
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurement of defined benefit plans	18	(483)	255
Taxation	5	82	(43)
		(401)	212
Total comprehensive expense for the year		(1,100)	(626)

## Statement of Changes in Equity

For the year ended 31 December 2019

Notes	Share capital £'000	Share premium account £'000	Accumulated losses £'000	Other reserves £'000	Total equity £'000
<b>At 1 January 2019</b>	<b>15,113</b>	<b>8,896</b>	<b>(10,111)</b>	<b>70</b>	<b>13,968</b>
Loss for the financial year	-	-	(699)	-	(699)
Other comprehensive expense	-	-	(401)	-	(401)
Total comprehensive expense	-	-	(1,100)	-	(1,100)
Share-based payments 7	-	-	-	-	-
<b>At 31 December 2019</b>	<b>15,113</b>	<b>8,896</b>	<b>(11,211)</b>	<b>70</b>	<b>12,868</b>
<b>At 1 January 2018</b>	<b>15,113</b>	<b>8,896</b>	<b>(9,485)</b>	<b>70</b>	<b>14,594</b>
Loss for the financial year	-	-	(838)	-	(838)
Other comprehensive income	-	-	212	-	212
Total comprehensive expense	-	-	(626)	-	(626)
Share-based payments 7	-	-	-	-	-
<b>At 31 December 2018</b>	<b>15,113</b>	<b>8,896</b>	<b>(10,111)</b>	<b>70</b>	<b>13,968</b>

The accompanying notes are an integral part of the Financial Statements.



# GKN Driveline Service Limited

## Balance Sheet

As at 31 December 2019

	Notes	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	5	10
Property, plant and equipment	9	556	595
Investments in subsidiaries	10	1	1
Deferred tax assets	5	275	1,304
		<b>837</b>	<b>1,910</b>
<b>Current assets</b>			
Derivative financial instruments	15	-	19
Inventories	11	1,198	1,613
Trade and other receivables	12	12,737	17,777
Cash and cash equivalents	14	25	35
		<b>13,960</b>	<b>19,444</b>
<b>Total assets</b>		<b>14,797</b>	<b>21,354</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	(1,575)	(1,652)
Current tax liabilities	5	-	-
Provisions	16	(120)	(113)
		<b>(1,695)</b>	<b>(1,765)</b>
<b>Non-current liabilities</b>			
Trade and other payables	13	(22)	-
Provisions	16	(212)	(227)
Post-employment obligations	18	-	(5,394)
		<b>(234)</b>	<b>(5,621)</b>
<b>Total liabilities</b>		<b>(1,929)</b>	<b>(7,386)</b>
<b>Net assets</b>		<b>12,868</b>	<b>13,968</b>
<b>Shareholders' equity</b>			
Share capital	17	15,113	15,113
Share premium account		8,896	8,896
Accumulated losses		(11,211)	(10,111)
Other reserves		70	70
<b>Total equity</b>		<b>12,868</b>	<b>13,968</b>

The accompanying notes are an integral part of the Financial Statements.

The Financial Statements on pages 6 to 31 were approved by the Board of Directors and authorised for issue on 30 September 2020. They were signed on its behalf by:



Daniel Martinez  
Director  
Registration number: 00649576

## **Notes to the Financial Statements**

For the year ended 31 December 2019

### **1 Accounting policies and presentation**

GKN Driveline Service Limited is a private company limited by shares, incorporated and domiciled in the UK under the Companies Act 2006, and registered in England and Wales with the registration number 00649576. Its registered office is Unit 5 Kingsbury Business Park, Kingsbury Road, Minworth, Sutton Coldfield, B76 9DL. 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 method 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 statements have been prepared using all standards and interpretations required for financial periods beginning 1 January 2019. No standards or interpretations have been adopted before the required implementation date. These financial statements are separate financial statements. The Company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the group accounts of Melrose Industries PLC. The group accounts of Melrose Industries PLC are available to the public and can be obtained as set out in note 22.

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'; and
- 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; and
  - (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); and
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

#### **Exemption from preparing group financial statements**

The Company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 and has not prepared group financial statements.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**1 Accounting policies and presentation (continued)**

**New accounting standards for 2019 and later**

**IFRS 16 – Leases**

**The Company as lessee**

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**1 Accounting policies and presentation (continued)**

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other operating expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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 are presented in "Pounds Sterling" (£), which is also the Company's functional currency.

The following table explains the difference between operating lease commitments disclosed applying IAS 17 at 31 December 2018 and the lease liability recognised on adoption of IFRS 16 at 1 January 2019:

	£'000
Operating lease commitments at 31 December 2018	490
Leases transferred to Powertrain Services UK on 1 January 2019	(278)
Short-term leases and leases of low-value assets	(4)
Impact of discounting lease liability under IFRS 16	(3)
<b>Lease liabilities recognised at 1 January 2019</b>	<b>205</b>

**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 are 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.

Operating profit/(loss) is profit/(loss) before taxation and finance costs. In order to achieve consistency and comparability between reporting periods, operating profit/(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;
- income from investments in subsidiaries;
- income from investments in joint ventures;
- the impact of annual impairment review of investments;
- gains or losses on disposal of investments in subsidiaries; and
- 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, specific changes in fair value on cash flow hedges and unwind of discounts on fair value amounts established on business combinations.

# Notes to the Financial Statements (continued)

For the year ended 31 December 2019

## 1 Accounting policies and presentation (continued)

### 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.

#### Other income

Interest income is recognised using the effective interest rate method.

### Leases

The Company has adopted IFRS16 from 1st January 2019. The standard replaces IAS17 Leases, and for lessees eliminates the classification of operating and finance leases. Except for short term leases and leases of low value assets, right-of-use assets and the corresponding lease liabilities are recognised in the Balance Sheet. Straight line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets and an interest expense on the recognised lease liabilities. In the earlier periods of the lease, the expenses associated with the lease under IFRS16 will be higher when compared to lease expenses under IAS17, however, EBITDA results improve as the operating expense is now replaced by an interest expense and a depreciation charge in profit or loss. Leases ending within twelve months from January 1, 2019 have been treated as short-term leases. This means these leases are not included in the lease liability, but instead have been accounted for as operating leases. The Company has used the cumulative catch-up approach in its transition to IFRS 16. This means that comparative information has not been restated.

### 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 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
Land and buildings	Up to 50
Plant and machinery	6 to 15
Other tangible assets	3 to 8

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**1 Accounting policies and presentation (continued)**

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.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

**Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

## **Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

### **1 Accounting policies and presentation (continued)**

#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

The Company has adopted IFRS 9 Financial Instruments with effect from 1 January 2018. There has been no material impact on the accounts through the adoption of IFRS 9.

#### **Derivative financial instruments**

The Company does not trade in derivative financial instruments. Derivative financial instruments including forward foreign currency contracts and cross currency interest rate swaps are used by the 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.

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

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

#### **Investments in subsidiaries and other undertakings**

Investments in subsidiaries and other undertakings are held at cost less accumulated impairment losses.

#### **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**

The tax expense represents the sum of the tax currently payable and deferred tax.

#### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**1 Accounting policies and presentation (continued)**

***Deferred tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

***Current tax and deferred tax for the year***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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

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.

The Group financial statements 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. In 2019 the main GKN UK pension scheme was split into four new separate schemes with effect from 1 July 2019. Under the new structure the balance for the schemes in which the Company partakes is held by GKN Automotive Ltd

***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. 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.



**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**1 Accounting policies and presentation (continued)**

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

The Company does not intend to adopt any standard, revision or amendment before the required implementation date. At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- None

***Critical accounting judgements and key sources of estimation uncertainty***

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

***Judgements***

In the process of applying the Company's accounting policies, management have made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

- Fixed Assets – Management exercise judgement to determine the useful lives and residual values of tangible assets.
- Investments - Following an annual impairment review, management believe each of the Company's investments is supported by its underlying net assets.

***Estimates and assumptions***

The accounting policies where the Directors consider the more complex estimates and assumptions have to be made are those in respect of post-employment obligations, taxation, provisions and impairment of non-current assets. Estimates are made in relation to the provision for warranty claims, inventory obsolescence and trade receivables. Additional details of the principal estimates and assumptions made are set out in the related notes. The following significant estimates and assumptions have been made in the preparation of these accounts:

- Provision for warranty claims are based upon the historical charges.
- Provision for inventory obsolescence and trade receivables are based upon aging analysis of specific items.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**2 Sales**

The Company derives its sales from the provision of goods which fall within the Company's ordinary activity, that of the sale, manufacture and repair of automotive driveline components. On 1 January 2019 the company separated its automotive and industrial business such that the industrial business is now operated by a separate legal entity. An analysis of sales by geographical location by destination is given below:

	United Kingdom £'000	USA £'000	Europe £'000	Other countries £'000	Total non-UK £'000	Total £'000
<b>2019</b>						
Sale, manufacture and repair	4,557	304	3,037	188	3,529	8,086
Revenue from sales of services	-	-	-	-	-	-
<b>2018</b>						
Sale, manufacture and repair	8,630	239	2,736	292	3,267	11,897
Revenue from sales of services	5	-	13	-	13	18

**3 Operating profit/(loss)**

The analysis of the additional components of operating profit/(loss) is shown below:

**(a) Trading profit/(loss)**

	2019 £'000	2018 £'000
<b>Sales</b>	<b>8,086</b>	<b>11,915</b>
<b>Operating costs</b>		
Change in stocks of finished goods and work in progress	67	(108)
Raw materials and consumables	4,513	6,533
Staff costs (note 6)	1,453	3,229
Reorganisation	84	90
Amortisation of intangible assets	5	5
Depreciation of property, plant and equipment	204	114
Net profits on sale of plant and machinery	-	(1)
Short term and low value lease rentals payable:		
Plant and equipment	21	85
Property	29	226
Net exchange differences on foreign currency transactions	26	8
Audit fees payable to the Company's auditors (i)	10	16
Other costs (ii)	1,382	2,329
Other income (iii)	(40)	-
<b>Trading profit/(loss)</b>	<b>332</b>	<b>(611)</b>

- (i) All fees payable to the Company's auditors include amounts in respect of expenses. All fees payable have been charged to the income statement and relate to the auditing of the financial statements. There were £Nil non-audit services in 2019 (2018: £Nil).
- (ii) Other costs include warranty charges £8k (2018: £57k), legal costs £-k (2018: £68k), dilapidations £-k (2018: £220k) and Group recharges £415k (2018: £433k).
- (iii) Other income represents the additional amount paid by Powertrain Services UK Limited for the net assets of the industrial business.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**3 Operating profit/(loss) (continued)**

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

	2019 £'000	2018 £'000
Forward currency contracts (not hedge accounted)	(19)	5
	(19)	5

IAS 39 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**

	2019 £'000	2018 £'000
<b>(a) Interest receivable</b>		
Interest receivable		
Short term investments, loans and deposits	101	76
Interest on finance lease assets	(2)	-
Net interest receivable	99	76
	2019 £'000	2018 £'000
<b>(b) Other net financing charges</b>		
Interest charge on net defined benefit plans (note 18b)	(68)	(147)
	(68)	(147)

# GKN Driveline Service Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2019

### 5 Taxation

#### (a) Tax expense

	2019 £'000	2018 £'000
<b>Analysis of tax charge/(credit) in year</b>		
Current tax charge/(credit)		
UK corporation tax		
- Current year UK corporation tax charge/(credit)	-	-
- Adjustment in respect of prior years	-	(37)
<b>Total current tax</b>	-	(37)
Deferred tax charge/(credit)		
Origination and reversal of temporary differences		
- Current year	1,116	154
- Adjustment in respect of prior years	(73)	44
<b>Total deferred tax</b>	<b>1,043</b>	<b>198</b>
<b>Total tax charge/(credit) for the year</b>	<b>1,043</b>	<b>161</b>

#### (b) Factors affecting the tax charge/(credit) in the year

The tax assessed for the year is different to (2018: different to) the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019		2018	
	£'000	%	£'000	%
<b>Tax reconciliation</b>				
Profit/(loss) before tax	344		(677)	
Profit/(loss) on ordinary activities multiplied by the standard UK corporation tax rate of 19% (2018: 19%)	65	18.9	(129)	(19.1)
Tax effect of expenditure not deductible/(income not taxable) in determining taxable profits	2	0.7	-	-
Group relief at nil tax rate	170	49.4	298	44.0
Overseas taxation	-	-	-	-
Deferred tax on pension transfer	879	255.5	-	-
Other movements in deferred taxation	24	7.0	-	-
Effect of change in corporation tax rate on deferred tax recognition	(24)	(7.0)	(15)	(2.2)
Adjustment to current tax charge in respect of prior periods	-	-	(37)	(5.4)
Adjustment to deferred tax charge in respect of prior periods	(73)	(21.2)	44	6.5
<b>Tax charge</b>	<b>1,043</b>	<b>303.3</b>	<b>161</b>	<b>23.8</b>
<b>Total tax charge for the year</b>	<b>1,043</b>	<b>303.3</b>	<b>161</b>	<b>23.8</b>

#### (c) Intercompany balance - Current tax

	2019 £'000	2018 £'000
<b>Tax (payable)/receivable</b>	-	-

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**5 Taxation (continued)****(d) Recognised deferred tax**

	2019 £'000	2018 £'000
<b>Assets</b>	<b>275</b>	<b>1,304</b>
	<b>275</b>	<b>1,304</b>

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

	<b>Assets</b>			<b>Liabilities</b>		
	<b>Post-employment obligations</b>	<b>Fixed assets</b>	<b>Other</b>	<b>Fixed assets</b>	<b>Other</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 January 2019</b>	<b>917</b>	<b>228</b>	<b>159</b>	<b>-</b>	<b>-</b>	<b>1,304</b>
Included in the income statement	(999)	64	(108)	-	-	(1,043)
Included in other comprehensive income	82	-	-	-	-	82
Group transfer	-	(65)	(3)	-	-	(68)
<b>At 31 December 2019</b>	<b>-</b>	<b>227</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>275</b>
<b>At 1 January 2018</b>	<b>999</b>	<b>299</b>	<b>247</b>	<b>-</b>	<b>-</b>	<b>1,545</b>
Included in the income statement	(39)	(71)	(88)	-	-	(198)
Included in other comprehensive income	(43)	-	-	-	-	(43)
<b>At 31 December 2018</b>	<b>917</b>	<b>228</b>	<b>159</b>	<b>-</b>	<b>-</b>	<b>1,304</b>

Group transfer represents the transfer of industrial assets to Powertrain Services UK Limited. 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**

	2019 £'000	2018 £'000
Taxation on actuarial pension movement – deferred tax	(82)	43
Current tax on pension movement in other comprehensive income	-	-
<b>Taxation</b>	<b>(82)</b>	<b>43</b>

**(f) Changes in UK tax rate**

The enacted rates of UK corporation tax at 31 December 2019 were 19% for the year ended 31 December 2019, reducing to 17% with effect from 1 April 2020. At the balance sheet date deferred tax assets and liabilities have been measured at the rate at which they are expected to reverse.

The Finance Bill 2020, published on 19 March 2020, has reversed the reduction to 17%, meaning that the UK rate will be maintained at 19%. The effect of this change in rate on the closing balance sheet would increase the deferred tax asset by £32k.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**6 Employees including Directors**

**Employee benefit expense**

	2019 £'000	2018 £000
Wages and salaries	1,178	2,412
Social security costs	123	255
Post-employment costs	152	562
	<b>1,453</b>	<b>3,229</b>

**Average monthly number of employees (including Executive Directors)**

	2019 Number	2018 Number
By activity		
Production	13	35
Selling and distribution	6	15
Administration	14	22
	<b>33</b>	<b>72</b>

The headcount reduction reflects the separation of automotive and industrial businesses.

**Directors' emoluments**

	2019 £'000	2018 £000
Aggregate remuneration	144	143
Aggregate Company contributions to pension schemes	12	12
	<b>156</b>	<b>155</b>

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.

**Number of Directors receiving benefits and share incentives**

	2019 Number	2018 Number
Accrued benefits under defined benefit pension schemes in respect of qualifying services	-	-
Accruing benefits under money purchase pension schemes in respect of qualifying services	2	3
Received/entitled to receive shares under long term incentive schemes in respect of qualifying services	-	-

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.

One Director was entitled to legacy arrangements under the defined benefit section of the Scheme, which closed to future accruals on 30 June 2017. From 1 July 2018 all Directors with qualifying services have accrued benefits under the defined contribution (money purchase) section 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.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**7 Share-based payments**

The total charge for the year relating to share-based payment plans was £nil (2018: £nil) all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £nil (2018: £nil).

The share based payment charge relates to historical matters and no new plans have been awarded.

Liabilities in respect of share-based payments were not material at either 31 December 2019 or 31 December 2018. There were no vested rights to cash or other assets at either 31 December 2019 or 31 December 2018.

**8 Intangible assets**

	<b>Computer software £'000</b>	<b>Total £'000</b>
<b>Cost</b>		
At 1 January 2019	187	187
Additions	-	-
Disposals	-	-
Group transfer	(86)	(86)
<b>At 31 December 2019</b>	<b>101</b>	<b>101</b>
<b>Accumulated amortisation</b>		
At 1 January 2019	177	177
Charge for the year	5	5
Group transfer	(86)	(86)
<b>At 31 December 2019</b>	<b>(96)</b>	<b>(96)</b>
<b>Net book amount at 31 December 2019</b>	<b>5</b>	<b>5</b>
<b>Net book amount at 31 December 2018</b>	<b>10</b>	<b>10</b>

Group transfer represents the transfer of industrial assets to Powertrain Services UK Limited.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**9 Property, plant and equipment**

	Right-of-use Assets* £'000	Land and buildings £'000	Plant and machinery £'000	Other tangible assets £'000	Total £'000
<b>Cost</b>					
At 1 January 2019	-	581	2,540	228	3,349
Additions	244	7	93	52	396
Disposals	-	-	(6)	(15)	(21)
Group transfer	-	(329)	(740)	(78)	(1,147)
<b>At 31 December 2019</b>	<b>244</b>	<b>259</b>	<b>1,887</b>	<b>187</b>	<b>2,577</b>
<b>Accumulated depreciation</b>					
At 1 January 2019	-	581	2,026	147	2,754
Charge for the year	120	4	62	18	204
Disposals	-	-	(6)	(15)	(21)
Group transfer	-	(329)	(547)	(40)	(916)
<b>At 31 December 2019</b>	<b>120</b>	<b>256</b>	<b>1,535</b>	<b>110</b>	<b>2,021</b>
<b>Net book amount at 31 December 2019</b>	<b>124</b>	<b>3</b>	<b>352</b>	<b>77</b>	<b>556</b>
<b>Net book amount at 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>514</b>	<b>81</b>	<b>595</b>

Right-of-use assets are made up of £78k of buildings and £46k of plant and equipment.

Included within other tangible assets at net book amount are fixtures, fittings and computers £81k (2018: £81k) and commercial vehicles and cars £ nil (2018: £nil).

Group transfer represents the transfer of industrial assets to Powertrain Services UK Limited.

**Right-of-use assets**

The Company leases several assets including buildings and vehicles for use in the Company's operations. The average lease term is 2 years. None of the lease contracts expired during the year.

The maturity analysis of lease liabilities is presented in note 19.

**Amounts recognised in profit and loss**

	2019 £'000
Depreciation on right-of-use assets	120
Interest expense on lease liabilities	2
Expense related to short-term and low value leases	50
	<b>172</b>

At 31 December 2019 the Company is committed to £3k for short-term leases.

The total cash outflow for leases amounted to £173,000. At 31 December 2019 the Company had not entered into any new lease contracts which have not yet commenced.



# Notes to the Financial Statements (continued)

For the year ended 31 December 2019

## 10 Investments in subsidiaries and other undertakings

	Investment in subsidiaries £'000	Total £'000
<b>Cost</b>		
At 1 January 2019	1	1
Additions	-	-
Disposals	-	-
<b>At 31 December 2019</b>	<b>1</b>	<b>1</b>
<b>Accumulated impairment</b>		
At 1 January 2019	-	-
Impairment charges	-	-
Disposals	-	-
<b>At 31 December 2019</b>	<b>-</b>	<b>-</b>
<b>Net book amount at 31 December 2019</b>	<b>1</b>	<b>1</b>
<b>Net book amount at 31 December 2018</b>	<b>1</b>	<b>1</b>

The Subsidiary and other undertakings of the Company at 31 December 2019 are disclosed in note 23.

### Significant judgement and estimates

Following an annual impairment review, management believe each of the Company's investments is supported by its underlying net assets.

## 11 Inventories

	2019 £'000	2018 £'000
Raw materials	836	1,184
Work in progress	179	149
Finished goods	183	280
	<b>1,198</b>	<b>1,613</b>

Inventories of £10k (2018: £10k) are carried at net realisable value. The amount of any write down of inventory recognised as an expense in the year was £Nil (2018: £Nil).

# GKN Driveline Service Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2019

### 12 Trade and other receivables

	2019 £'000	2018 £'000
<b>Current</b>		
Trade receivables	912	1,753
Amounts owed by group subsidiaries	23	117
Amounts owed by joint ventures	-	32
Current account with parent	10,714	15,825
Loan account with parent	1,029	-
Prepayments	59	50
	<b>12,737</b>	<b>17,777</b>
Provisions for doubtful debts against trade receivables		
At 1 January	(7)	(14)
Charge for the year		
Additions	4	(4)
Amounts used	-	11
Group Transfer	3	-
<b>At 31 December</b>	<b>-</b>	<b>(7)</b>
Trade receivables subject to provisions for doubtful debts	-	8
Ageing analysis of trade receivables and amounts owed by joint ventures past due but not impaired		
Up to 30 days overdue	66	234
31 – 60 days overdue	2	107
61 – 90 days overdue	-	13
More than 90 days overdue	-	2

There is no provision against other receivable categories.

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

### 13 Trade and other payables

	2019		2018	
	Current £'000	Non-current £'000	Current £'000	Non-current £'000
Amounts owed to suppliers	471	-	690	-
Amounts owed to group subsidiaries	875	-	719	-
Payroll taxes, indirect taxes and audit fees	68	-	95	-
Amounts due to employees and employee benefit plans	27	-	46	-
Customer advances and deferred income	32	-	46	-
Accrual for reorganisation costs	-	-	56	-
Finance lease creditor	102	22	-	-
	<b>1,575</b>	<b>22</b>	<b>1,652</b>	<b>-</b>

Amounts owed to group subsidiaries are unsecured, interest free and are repayable on demand.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**14 Cash and cash equivalents**

	2019		2018	
	Current £'000	Non-current £'000	Current £'000	Non-current £'000
Bank balances and cash	25	-	35	-
<b>Cash and cash equivalents</b>	<b>25</b>	<b>-</b>	<b>35</b>	<b>-</b>

**15 Derivative financial instruments**

	2019					2018				
	Assets		Liabilities		Total	Assets		Liabilities		Total
	Non-current £'000	Current £'000	Non-current £'000	Current £'000		Non-current £'000	Current £'000	Non-current £'000	Current £'000	
Forward currency contracts	-	-	-	-	-	-	19	-	-	19
	-	-	-	-	-	-	19	-	-	19

**16 Provisions**

	Reorganise £'000	Warranty £'000	Litigation £'000	Other £'000	Total £'000
At 1 January 2019	-	52	68	220	340
Net charge for the year:					
Additions	84	8	-	-	92
Unused amounts reversed	-	-	-	-	-
Amounts used	(36)	(4)	-	-	(40)
Group Transfer	-	(40)	-	(20)	(60)
<b>At 31 December 2019</b>	<b>48</b>	<b>16</b>	<b>68</b>	<b>200</b>	<b>332</b>
Due within one year	48	4	68	-	120
Due in more than one year	-	12	-	200	212
	48	16	68	200	332

**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.

The reorganisation provision represents a provision against future leavers.

It is the Melrose Group policy to hold a warranty provision of the last five years warranty charges. The provisions which are due in more than one-year total £12k and represent charges which will be released in 2022.

The litigation provision represents a provision against customer claim.

Other provision is for dilapidation on the leased property in Minworth which will be released on expiration of the leases which currently expires in 2020 (£200k). The dilapidations provision is to make changes to the property to bring it to its original state as part of contracted terms.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**17 Share capital**

	Issued and Fully Paid	
	2019 £'000	2018 £'000
Ordinary shares of £1 each	15,113	15,113
	2019 Number 000s	2018 Number 000s
Ordinary shares of £1 each At 1 January and 31 December	15,113	15,113

**18 Post-employment obligations**

	2019 £'000	2018 £'000
Post-employment obligations as at the year end comprise:		
Pensions - funded	-	(5,394)

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.

The Group financial statements 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. In 2019 the main GKN UK pension scheme was split into four new separate schemes with effect from 1st July 2019. Under the new structure the balance for the schemes in which the Company partakes is held by GKN Automotive Ltd.

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

**Key assumptions:**

	2019 %	2018 %
Rate of increase in pensionable salaries (past/future)	n/a	n/a
Rate of increase in payment and deferred pensions	n/a	3.10
Discount rate (past/future service)	n/a	2.90
Inflation assumption (past/future service)	n/a	2.10
Rate of increase in medical costs:		
Initial/long term	n/a	5.4/5.4

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**18 Post-employment obligations (continued)**

**(b) Defined benefit schemes - reporting**

The amounts included in operating profit are:

	Total £'000
<b>2019</b>	
Current service cost	-
Past service cost	57
Administrative expenses	-
	<b>57</b>
<b>2018</b>	
Current service cost	(74)
Administrative expenses	-
	<b>(74)</b>

The amounts recognised in the balance sheet are:

	2019 £'000	2018 £'000
Present value of funded obligations	-	(22,891)
Fair value of plan assets	-	17,497
Net obligations recognised in the balance sheet	-	(5,394)

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

	2019 £'000	2018 £'000
At 1 January	(1,126)	(1,126)
Remeasurement of defined benefit plans	483	255
At 31 December	(643)	(871)

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

	Assets £'000	Liabilities £'000	Total £'000
<b>At 1 January 2019</b>	<b>17,497</b>	<b>(22,891)</b>	<b>(5,394)</b>
Current service cost	-	-	-
Past service cost	(920)	977	57
Administrative expenses	-	-	-
Interest	257	(325)	(68)
Remeasurement of defined benefit plans	1,902	(2,385)	(483)
Contributions by Group	715	-	715
Benefits paid	(326)	326	-
Group transfer	(19,125)	24,298	5,173
<b>At 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 1 January 2018</b>	<b>18,164</b>	<b>(24,041)</b>	<b>(5,877)</b>
Current service cost	-	-	-
Past service cost	-	(74)	(74)
Administrative expenses	-	-	-
Interest	466	(613)	(147)
Remeasurement of defined benefit plans	(706)	961	255
Contributions by Group	449	-	449
Benefits paid	(876)	876	-
<b>At 31 December 2018</b>	<b>17,497</b>	<b>(22,891)</b>	<b>(5,394)</b>

Group transfer represents the transfer of the scheme deficit to GKN Automotive Ltd from 1 July 2019.

Remeasurement gains and losses in relation to the scheme's obligations are as follows

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**18 Post-employment obligations (continued)**

**(b) Defined benefit schemes – reporting (continued)**

Remeasurement gains and losses in relation to the scheme's obligations are as follows

	<b>Total £'000</b>
<b>2019</b>	
Experience gains and losses	-
Changes in financial assumptions	-
Change in demographic assumptions	-
<b>2018</b>	
Experience gains and losses	(96)
Changes in financial assumptions	992
Change in demographic assumptions	65
	<b>961</b>

The fair values of the assets in the scheme were:

	<b>Total £'000</b>
<b>At 31 December 2019</b>	
Equities (inc. hedge funds)	-
Diversified growth funds	-
Bonds - government	-
Bonds - corporate	-
Property	-
Cash and other assets	-
<b>At 31 December 2018</b>	
Equities (inc. hedge funds)	4,008
Diversified growth funds	5,901
Bonds - government	4,307
Bonds - corporate	1,897
Property	1,175
Cash and other assets	209
	<b>17,497</b>

**(c) Defined benefit scheme – risk factors**

The risk factors associate to the GKN pension scheme are included in the accounts of GKN Automotive Ltd

**(d) Defined contribution schemes**

The charge to the income statement in the year from the defined contribution scheme was £209,000 (2018: £489,000).

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**19 Lease liabilities**

Amounts payable under lease liabilities:

	2019 £'000
<b>Analysed as:</b>	
Non-current	24
Current	100
	<b>124</b>

	2019 £'000
<b>Maturity analysis:</b>	
Year 1	100
Year 2	21
Year 3	3
Onwards	-
	<b>124</b>

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Company's treasury function.  
All lease obligations are denominated in GBP.

**20 Capital expenditure**

Contracts placed against capital expenditure sanctioned at 31 December 2019 which are not provided amounted to £127,000 property, plant and equipment and £Nil intangible assets (2018: £30,000 property, plant and equipment, £Nil intangible assets).

**21 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.

During the year the company made following related party transactions with Shanghai GKN Drive Shaft Company Limited, a Melrose Industries PLC group joint venture.

During the year the Company sold goods to Shanghai GKN Drive Shaft Company Ltd for a value of £6,000 (2018: £115,000). At the balance sheet date the amount due from Shanghai GKN Drive Shaft Company Limited was £Nil (2018: £32,000).

# GKN Driveline Service Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2019

### 22 Controlling parties

The immediate parent is GKN Automotive Ltd. The ultimate parent undertaking and controlling party is Melrose Industries PLC.

The parent of the largest group in which these Financial Statements are consolidated is Melrose Industries PLC. Consolidated financial statements of Melrose Industries PLC are available from 11<sup>th</sup> Floor The Colmore Building, Colmore Circus Queensway, Birmingham, B4 6AT, which is also the registered address of this Company.

The parent of the smallest group in which these results are consolidated is GKN Holdings Limited. Consolidated financial statements of GKN Holdings Limited are available from the address above.

### 23 Subsidiaries and other undertakings

Set out below are a list of the Company's related undertakings as at 31 December 2019. These undertakings were included in the consolidation of Melrose Industries PLC.

<u>Name</u>	<u>Registered office</u>	<u>Interest</u>	<u>Proportion of nominal value</u>
Ball Components Ltd	11 <sup>th</sup> Floor The Colmore Building, Colmore Circus Queensway, Birmingham, B4 6AT	Ordinary shares	100%

The above undertaking is held directly by the Company.

### 24 Post balance sheet events

The Coronavirus Pandemic is expected to have an impact on 2020 results which cannot be quantified currently.