

## **Section 172(1) Statement for GKN Automotive Limited (the “Company”) for the year ended 31 December 2019**

This statement is made pursuant to sections 414CZA and 426B of The Companies (Miscellaneous Reporting) Regulations 2018, and summarises how the directors of the Company have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 when performing their duties during the year ended 31 December 2019 (the “**Financial Year**”). This statement also contains the information required by paragraphs 11B and 11C, Part 4, Schedule 7, Large and Medium-sized Companies Regulations 2008 (which requires the directors to summarise how the Company’s actions taken during the Financial Year have encouraged engagement with suppliers, customers and others in a business relationship with the Company).

### **Background & Purpose of the Company**

The Company is part of the wider GKN Automotive business, a global tier 1 supplier to the automotive industry. GKN Automotive manufactures and supplies conventional and electrified drivetrain components for the world’s leading vehicle manufacturers. GKN Automotive employs approximately 24,000 people and operates from 20 countries. GKN Automotive is owned by Melrose Industries Plc (“**Melrose**”), an investor in manufacturing businesses, which is headquartered in the UK. The board of directors of the Company is made of five members of the GKN Automotive Executive Committee and four directors appointed by Melrose.

The Company carries on head office and certain central functions for the wider GKN Automotive business, and holds certain intellectual property rights which it licenses to other GKN Automotive companies worldwide. The Company operates from offices in London and the Midlands, UK. To a significant degree, the activities of the Company are inextricably linked to the activities of the wider GKN Automotive business.

### **How the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172 of the Companies Act 2006**

Section 172 of the Companies Act 2006 requires that the directors act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to (a) the likely consequences of any decision in the long term, (b) the interests of the company’s employees, (c) the need to foster the company’s business relationships with suppliers, customers and others, (d) the impact of the company’s operations on the community and the environment, (e) the desirability of the company maintaining a reputation for high standards of business conduct, and (f) the need to act fairly as between members of the company. This statement considers the matter set out in section 172(1)(a) to (f) in turn.

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

The Company operates within the wider management structure of the GKN Automotive business. The GKN Automotive Executive Committee is responsible for the strategic management and oversight of the GKN Automotive business as a whole and for the taking of decisions which are material to the GKN Automotive business in the short, medium and long term. During 2019, the GKN Automotive Executive Committee and the Company’s directors: (a) continually reviewed the performance of the GKN Automotive business against its competitors and the automotive market generally; (b) continually assessed the likely future development of the automotive market, including in particular the impact of electrification and technological disruption; (c) prepared and agreed a 5 year business plan for the GKN Automotive business; and (d) approved a number of significant strategic investments to ensure that the GKN Automotive business remains competitive in the future.

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

## **(b) The interests of the company's employees**

The Company's employees principally work from its offices in London and the West Midlands. They are a small but crucial part of the wider GKN Automotive workforce, of approximately 24,000 employees, based in 20 countries. GKN Automotive places the interests of its employees at the heart of its decision making. Reflecting this, the Company continually engages with its employees and with the employees of the wider GKN Automotive business in order to ensure that their voice is heard. GKN Automotive measures employee engagement through an annual employee engagement survey, the results of which are shared with the GKN Automotive Executive Committee and the Company's directors, and are used to inform decision making. The Company's target is to increase employee engagement year-on-year.

During the year, the GKN Automotive Executive Team, including the majority of the directors, held monthly calls with approximately 250 of the most senior employees from across the GKN Automotive business, including 17 employees of the Company. The purpose of these calls was to cascade information to these employees (including information on the economic factors affecting the performance of GKN Automotive) which is then further cascaded to their teams, and to provide an opportunity for questions and feedback to the GKN Automotive Executive Team. This is a key way in which the directors can have regard to the interests of GKN Automotive employees in its decision making. The GKN Automotive Executive Team, including most of the directors, also visited numerous GKN Automotive plants and facilities and held 'town-hall' meetings which were an opportunity for the views of employees to be heard.

GKN Automotive has a central HR function, who are responsible for managing interactions with GKN Automotive employees, including the employees of the Company. Whilst the Company does not operate a share incentive scheme, employees are encouraged to be involved in GKN Automotive's performance through other reward and incentive initiatives that are managed by the HR function, from long-term incentive plans designed to incentivise long term value creation, to bonus schemes linked to GKN Automotive's annual financial performance. The HR function are also managing a talent review process to ensure that GKN Automotive's and the Company's talented employees are given the support that they need to successfully further their careers.

GKN Automotive operates a confidential external whistleblowing hotline where employees can report any concerns anonymously. Feedback from this hotline was reviewed by the Executive Committee (including most of the directors) during 2019.

The Company engages in specific consultation regarding material decisions affecting its employees. For example, during 2019 the Company relocated its Midlands premises to a new office which was purposely selected to meet the needs of the Company's employees. This relocation had a significant impact on those employees whose principal place of work is in the Midlands, but all affected employees were consulted with throughout the process and their input was reflected in many aspects of the relocation exercise.

GKN Automotive and the Company employ a number of measures for providing employees systematically with information on matters of concern to them as employees. These include: (a) CEO and management conference calls; (b) intranet and e-mail announcements; (c) information placed on notice boards; and (d) line-manager communication and team meetings. Although the Company (as distinct from other parts of GKN Automotive), does not have a unionized workforce or recognise any trade union, the Company is represented by at the GKN Automotive European Works Council by an elected representative for the UK.

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

### *Customers*

Although the Company does not itself manufacture or sell products, its activities include customer relationship management activities for GKN Automotive as a whole. GKN Automotive's customers comprise 90% of the world's vehicle manufacturers and over 50% of new cars feature GKN Automotive systems and solutions.

With such a small concentration of large customers, it is critical to the future success of GKN Automotive that we build and maintain deep, long-lasting and committed relationships with our customers, and maintain a high degree of customer intimacy. We do this through our dedicated customer account teams, which interface with our customers on a daily basis and are responsible for day to day management.

In addition, the directors of the Company including the Chief Executive Officer and the Chief Commercial Officer, regularly meet with GKN Automotive's customers in order to discuss future strategy, commercial opportunities, investment and technology trends.

All material decisions taken by GKN Automotive and by the Company, involve consideration of their impact on relationships with our customers. GKN Automotive's Chief Commercial Officer, who is a director of the Company, is responsible for all customer relationships globally and regularly reports to the GKN Automotive Executive Committee and to the board on the status of day-to-day relationships with customers and the impact of decision making on customer relationships. Customer scorecards, which set out our customers' assessment of our performance, are also regularly reviewed and reported on.

### *Suppliers*

GKN Automotive has a diverse range of indirect suppliers of both direct and indirect goods and services. Maintaining strong relationships with our suppliers is vital to the future success of GKN Automotive. We build our relationships with our suppliers based on: (a) open dialogue and transparent decision-making; (b) setting clear expectations of our suppliers; (c) continuous supplier relationship management, through our dedicated Commodity Purchasing Managers; (d) regular information exchange through our SOP processes; and (e) supplier quality reviews and audits.

### *Other Stakeholders*

In addition to the stakeholders considered elsewhere in this statement, the directors also have regard to the impact of their decisions on other stakeholders, including government and regulators, third parties with whom the Company deals, and potential future employees and students.

## **(d) The impact of the company's operations on the community and the environment**

Corporate social responsibility is a key strategic focus for GKN Automotive. Our focus derives from the fact that not only is it the right thing to do, but also because it is increasingly a consideration for GKN Automotive's customers when they are awarding business. Both our customer scorecards, and our customer sourcing decisions, increasingly include environmental and social considerations in their assessment. That continues to inform decision making throughout GKN Automotive and within the Company.

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

Within the Company, we supported a range of charitable and social initiatives throughout the year, including raising funds to support the family of a GKN Automotive employee who was seriously injured in an road traffic accident, with the Company matching all funds raised by employees.

## **(e) The desirability of the company maintaining a reputation for high standards of business conduct**

GKN Automotive's reputation as an honest and ethical supplier is crucial to our future success. Our customers' policies require that they only source from suppliers which have the highest ethical standards, and failing to meet those standards could severely damage our business. The directors therefore continually have regard to this in their decision making. Specifically, it informs decisions as to how we manage and train our employees, whether to enter into new markets, deal with customers or suppliers, or employ (or retain the employment of) certain individuals.

GKN Automotive has a code of conduct known as the GKN Automotive Code. The code is a key part of GKN Automotive's compliance and governance arrangements and sets out the standards of behaviour expected of the Company and its employees. We summarise this behaviour as 'Doing the Right Thing', which includes treating people with dignity, respecting the rights of others, speaking up when we see behaviour which is wrong, and promoting honest and proper conduct. We also cascade our ethical standards to our suppliers, via

our Supplier Code of Conduct, which sets out the minimum ethical standards expected from all GKN Automotive suppliers. The Supplier Code of Conduct forms part of our terms and conditions with our suppliers and requires that they maintain high ethical standards, refrain from engaging in any bribery and corruption, engaging in forced or bonded labour, comply with health and safety laws and all laws and regulations in the countries in which they operate.

GKN Automotive engages external audit firms to monitor and verify both financial and non-financial performance and controls. This includes a range of audits, including health and safety audits, to which the Company is subject.

During the year the directors also improved the investment in new online training packages covering Competition Law Compliance and Anti-Bribery & Corruption, to maintain the high standards of employee training in these areas.

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

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