

## **Section 172(1) Statement for GKN Driveline Birmingham 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 11 and 11A, Part 4, Schedule 7 of the Large and Medium-sized Companies Regulations 2008 (which requires the directors to summarise how the Company’s actions taken during the Financial Year encouraged employee engagement), and 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 GKN Automotive, 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 is owned by Melrose Industries Plc, an investor in manufacturing businesses, which is headquartered in the UK.

The Company is an assembly plant within GKN Automotive, and carries on the assembly of driveshafts (comprising side shafts and propeller shafts) from its facility in the West Midlands, UK, which it supplies to GKN Automotive customers who are manufacturers of Automotive vehicles, principally located in the UK, although some products are exported. The Company also employs a number of employees that perform regional or global roles within 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 continually reviewed the performance of the GKN Automotive business (and within it the Company) against its competitors and the automotive market generally; (b) continually assessed the likely future development of the automotive market; (c) prepared and agreed a 5 year business plan for the GKN Automotive business.

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 and how the Company's actions taken during the Financial Year encouraged employee engagement**

The Company employs approximately 615 people which are located at its manufacturing facility in the West Midlands. GKN Automotive places the interests of its employees at the heart of its decision making. Reflecting this, the Company continually engages with its employees in order to ensure that their voice is heard.

The Company recognises the trade union Unite, with whom it has a collective agreement. Approximately 75% of the Company's employees are members of and are represented by Unite.

Business updates are provided to the Company's elected Union representatives on a monthly basis, including monthly financial performance, capital investment decisions, new business wins and any key decisions affecting employees. In addition, a number of presentations are delivered to employees throughout the year giving all employees updates of key business decisions as well as an overview of operational performance.

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 held monthly calls with approximately 250 of the most senior employees from across the GKN Automotive business. 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 are able to have regard to the interests of GKN Automotive employees in its decision making.

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 the majority of the directors) during 2019.

In addition to the above, 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; (d) 'town hall' meetings, and (e) line-manager communication and team meetings.

The Company does not have a share-based incentive scheme, but many employees participate in bonus schemes, with the payment and level of any bonus linked to profit and cash performance as well as individual objectives.

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

*Customers*

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. GKN Automotive does this through its dedicated customer account teams, which interface with our customers on a daily basis and are responsible for day to day management.

As the Company operates a manufacturing facility as part of the wider GKN Automotive business, the majority of the key customer relationships are central managed by these account teams which are in part made up of employees of other companies within GKN Automotive. However, the Company's employees and management also have significant interaction with its customers, both at a management level and throughout the workforce.

All material decisions taken by GKN Automotive and by the Company, involve consideration of their impact on relationships with our customers. The Company and its management continually monitors its day-to-day relationships with customers and the impact of decision making on customer relationships. Customer scorecards, which set out our customers' assessment of the Company's performance, are also regularly reviewed and reported on. Customer accreditations and adherence to designated performance targets are communicated by the customer directly to the Company's management team. Improvement plans are drawn up and agreed with the customer. Plant performance against these targets are reviewed on a daily, weekly and monthly basis.

### *Suppliers*

The Company 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 the Company. GKN Automotive builds its relationships with our suppliers on the basis of: (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. The relationship with all major stakeholders is considered as part of each potential decision.

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

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 CSR 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 rearrange of charitable and social initiatives throughout the year, including raising funds to support the family of a Company employee who was seriously injured in an road traffic accident, with the Company matching all funds raised by employees and participation of a GKN Automotive Europe team event which assists a chosen school or hospice local to a GKN business.

## **(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 absolutely 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 particular 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.

The Company ensures that the GKN Automotive requirements are adhered to by way of training and ongoing compliance awareness.

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

The Company has only one member, GKN Automotive 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.