

GKN INDUSTRIES LIMITED

Registered Number: 32262

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

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COMPANIES HOUSE

Directors' Report**Registered Number: 32262**

Directors Mrs J M Felton
 Mr N M Stein
 Mr W C Seeger

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2011.

1. Principal Activities

The Company is an investment holding company

2. Financial Results

The profit and loss account of the Company shows a profit for the financial year of £114,122,000 (2010: £79,390,000). No interim dividend was paid for the year ended 31 December 2011 (2010: £nil). The Directors have not proposed a final dividend for the year ended 31 December 2011 (2010: £nil).

3. Business Review

In line with special provisions relating to small companies within Part 15 of the Companies Act 2006, the Company has chosen not to prepare a Business Review.

4. Directors

The current Directors of the Company are set out above. All Directors served throughout the year.

5. Statement of Directors' Responsibilities

The Directors are responsible for preparing the 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The independent auditors' responsibilities in relation to the financial statements are set out in their report on page 3

Directors' Report (continued)

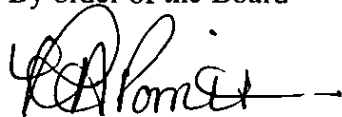
6. Independent Auditors and Disclosure of Information to Auditors

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

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

By order of the Board

A handwritten signature in black ink, appearing to read 'K Porritt', followed by a horizontal line.

K Porritt

Secretary

20 April 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GKN INDUSTRIES LIMITED

We have audited the financial statements of GKN Industries Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 1 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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, or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the Directors' Report.

Jonathan Gilpin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

20 April 2012

Profit and loss account for the year ended 31 December 2011

	<u>Note</u>	<u>2011</u> £'000	<u>2010</u> £'000
OPERATING (LOSS)/PROFIT	2	(7,693)	10,590
Income from shares in group undertakings		118,378	94,969
Income from other fixed asset investments		1,464	313
Interest receivable and similar income	3	8,922	6,204
Amounts written off investments	4	(423)	(18,488)
Interest payable and similar charges	5	(2,646)	(11,205)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>118,002</u>	<u>82,383</u>
Tax on profit on ordinary activities	6	(3,880)	(2,993)
PROFIT FOR THE FINANCIAL YEAR	12	<u>114,122</u>	<u>79,390</u>

The above results have arisen from continuing activities.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial years stated above and their historical cost equivalents

The company has no recognised gains and losses other than those included in the results above and therefore no separate statement of recognised gains and losses has been presented.

Registered Number: 32262**Balance sheet as at 31 December 2011**

	<u>Note</u>	<u>2011</u> £'000	<u>2010</u> £'000
FIXED ASSETS			
Shares in group undertakings	8	2,630,446	3,043,680
Shares in joint ventures	8	8,422	8,422
		<u>2,638,868</u>	<u>3,052,102</u>
CURRENT ASSETS			
Debtors	9	645,221	401,258
Cash at bank and in hand		1	21
		<u>645,222</u>	<u>401,279</u>
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR	10	(147,808)	(431,221)
NET CURRENT ASSETS/(LIABILITIES)		<u>497,414</u>	<u>(29,942)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,136,282</u>	<u>3,022,160</u>
CAPITAL AND RESERVES			
Called up share capital	11	608,829	608,829
Share premium account	12	59,222	59,222
Other reserves	12	(3,232)	(3,232)
Profit and loss account	12	2,471,463	2,357,341
TOTAL EQUITY SHAREHOLDERS' FUNDS	13	<u>3,136,282</u>	<u>3,022,160</u>

The notes on pages 6 to 12 form part of the financial statements.

The financial statements were approved by the Board on 20 April 2012 and were signed on its behalf by.



W C Seeger
Director

Notes to the financial statements for the year ended 31 December 2011**1 Accounting policies**

As the Company is a wholly owned subsidiary of GKN plc, it is exempt under the terms of Financial Reporting Standard No 1 (Revised) from publishing a cash flow statement. A summary of principal accounting policies, which have been consistently applied, is set out below.

a) Basis of accounting

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The Directors have conducted a review of the Company's accounting policies and have confirmed that they are the most appropriate for the purposes of giving a true and fair view of the Company's results and that there have been no changes from last year.

b) Fixed asset investments

Investments in subsidiary companies and joint ventures are valued at historic cost less provision for any impairment in value. Where foreign currency borrowings are used to fund the acquisition of foreign investments, those investments are measured at their foreign currency historical cost and are translated at the exchange rate ruling at the balance sheet date with currency variations being taken directly to reserves. Where such foreign currency borrowings are repaid in the year, the related investments are henceforth measured at their foreign currency historical cost, translated at the exchange rate ruling at the date on which the foreign currency borrowing was repaid.

As the Company is a wholly owned subsidiary of GKN plc which prepares and delivers consolidated financial statements that include the results of the Company, it is exempt under the terms of Financial Reporting Standard No 2 from the requirement to prepare and deliver consolidated financial statements

c) Foreign currencies

Where practicable, transactions involving foreign currencies are protected by forward contracts. Monetary assets and liabilities denominated in foreign currencies are translated at the appropriate forward contract rate or, if not covered, at the exchange rate ruling at the balance sheet date. Differences on foreign currency transactions are dealt with through the profit and loss account.

d) Taxation

Provision is made for deferred tax in so far as a liability or asset arises as a result of transactions that have occurred by the balance sheet date and give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. A deferred tax asset is only recognised to the extent that it may be considered recoverable. Deferred tax assets and liabilities are not discounted.

e) Related party transactions

The Company is a wholly owned subsidiary of GKN plc. The Company has taken advantage of the exemption contained within FRS 8 not to disclose transactions or balances with other wholly owned subsidiaries of GKN plc. The Company has not transacted with other related parties during the year.

Notes to the financial statements for the year ended 31 December 2011 (continued)**2. Operating (loss)/profit**

	<u>2011</u> £'000	<u>2010</u> £'000
Operating (loss)/profit is stated after charging/(crediting):		
Auditors' remuneration Audit services	5	5
Net exchange differences on foreign currency loans	8,740	9,288
Intercompany recharges	<u>(1,123)</u>	<u>(19,726)</u>

3. Interest receivable and similar income

	<u>2011</u> £'000	<u>2010</u> £'000
Interest on loans to Group companies	<u>8,922</u>	<u>6,204</u>

4. Amounts written off investments

	<u>2011</u> £'000	<u>2010</u> £'000
Impairment of investments in subsidiary undertakings	<u>423</u>	<u>18,488</u>

5. Interest payable and similar charges

	<u>2011</u> £'000	<u>2010</u> £'000
Interest on loans from Group companies	2,643	244
Interest on current account with parent	-	10,955
External interest	<u>3</u>	<u>6</u>
	<u><u>2,646</u></u>	<u><u>11,205</u></u>

6. Tax on profit on ordinary activities

	<u>2011</u> £'000	<u>2010</u> £'000
United Kingdom taxation		
Corporation tax at 26.5% (2010: 28%)	(375)	1,938
Adjustment to taxation of earlier years	<u>3,943</u>	<u>866</u>
	<u>3,568</u>	<u>2,804</u>
Overseas tax	<u>312</u>	<u>189</u>
Current tax charge for the year	<u><u>3,880</u></u>	<u><u>2,993</u></u>

Notes to the financial statements for the year ended 31 December 2011 (continued)**6. Tax on profit on ordinary activities (continued)**

The tax assessed for the year is different from the standard rate of corporation tax in the UK (26.5%). The differences are explained below

	<u>2011</u> £'000	<u>2010</u> £'000
Profit on ordinary activities before taxation	118,002	82,383
Tax charge calculated at standard UK tax rate 26.5% (2010: 28%)	31,271	23,067
Non deductible and non taxable items	(31,646)	(21,129)
Overseas taxation - WHT on dividends	312	189
Adjustment to taxation of earlier years - UK	3,943	1,406
Adjustment to taxation of earlier years - Overseas	-	(540)
Current tax charge for the year	<u>3,880</u>	<u>2,993</u>

A reduction in the mainstream rate of UK corporation tax to 26% took effect from 1st April 2011 which gives rise to an effective UK tax rate of 26.5% for the year. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 2014, and at the balance sheet date a reduction to 25% had been substantively enacted, so deferred tax is measured at 25%. Further reductions will cause a corresponding reduction in the value of deferred tax assets but as substantial deferred tax assets are currently unrecognised, no material impact on the company's tax rate is expected.

The adjustment to tax of earlier years principally relates to a decision taken after the financial statements for the year ended 31 December 2010 were approved to carry forward rather than utilise certain losses.

Taxation (repayable)/payable

	<u>2011</u> £'000	<u>2010</u> £'000
Taxation (repayable)/payable -UK	<u>(375)</u>	<u>1,938</u>

Deferred Taxation

	<u>2011</u> £'000	<u>2010</u> £'000
The deferred tax balance comprises:		
Tax losses	22,590	20,550
De- recognition of deferred tax assets	(22,590)	(20,550)
Deferred tax asset	<u>-</u>	<u>-</u>

A deferred tax asset of £22,590,000 (2010 £20,550,000) has not been recognised on the basis that the future recovery of such amounts is uncertain.

Notes to the financial statements for the year ended 31 December 2011 (continued)**7. Employee information and directors' emoluments**

The emoluments of Directors of the Company for their services to the Company amounted to nil (2010. nil). The Company had no other employees during 2011 or 2010

During the year, none (2010: none) of the Directors exercised options over GKN plc shares and no (2010: none) Director received or became entitled to receive shares under the GKN long term incentive plans in connection to their services to the Company.

Retirement benefits are accruing to none (2010. none) of the Directors in respect of their services to the Company.

8. Fixed asset investments

	Shares in group companies £'000	Shares in joint ventures £'000	Total £'000
Cost			
At 1 January 2011	3,123,312	13,768	3,137,080
Additions	209,968	-	209,968
Disposals	(137,793)	-	(137,793)
Return of capital	(484,986)	-	(484,986)
At 31 December 2011	<u>2,710,501</u>	<u>13,768</u>	<u>2,724,269</u>
Accumulated impairment			
At 1 January 2011	79,632	5,346	84,978
Provision for impairment during the year	423	-	423
At 31 December 2011	<u>80,055</u>	<u>5,346</u>	<u>85,401</u>
Net book amount:			
At 31 December 2011	<u>2,630,446</u>	<u>8,422</u>	<u>2,638,868</u>
At 31 December 2010	<u>3,043,680</u>	<u>8,422</u>	<u>3,052,102</u>

In July 2011 the Company invested £29,685,000 in GKN Sweden Holdings AB.

On 5 September 2011 the Company acquired the entire share capital of Stromag Holding GmbH for a total consideration of £142,829,000. In December 2011 the Company sold 90% of its interest in the share capital of Stromag Holdings GmbH to GKN Driveline International GmbH for a total consideration of £123,617,000

On 9 November 2011 the Company invested a total of £14,176,000 in the share capital of Stromag Inc and SIME Corp. The Company subsequently made a capital contribution of the shares in Stromag Inc and SIME Corp to GKN America Corp.

Following a review during the year of current and likely future performance, certain investments in subsidiary undertakings have been written down to their net realisable amount

Notes to the financial statements for the year ended 31 December 2011 (continued)**8. Fixed asset investments (continued)**

The following represent the principal subsidiary undertakings of the Company at 31 December 2011. These subsidiaries were included in the consolidation of GKN plc. The subsidiaries listed below are held indirectly by the Company through intermediate holding companies, with the exception of GKN Driveline Polska Sp. Z.o.o. which is held directly by the Company. The undertakings located overseas operate principally in the country of incorporation. The equity share capital of these undertakings is wholly owned by the Company

A full list of subsidiaries and joint ventures will be attached to the next annual return of the Company

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>Interest</u>
GKN Aerospace Chem-tronics, Inc	USA	Ordinary
GKN Aerospace North America, Inc	USA	Common stock
GKN Aerospace Services Ltd	England	Ordinary shares
GKN do Brasil Ltda	Brazil	Quota capital
GKN Driveline Deutschland GmbH	Germany	Ordinary shares
GKN Driveline Japan Ltd	Japan	Ordinary shares
GKN Driveline Koping AB	Sweden	Ordinary shares
GKN Driveline Newton LLC*	USA	Membership interest (no share capital)
GKN Driveline North America Inc	USA	Common stock
GKN Driveline Polska Sp. Z.o.o	Poland	Ordinary shares
GKN Sinter Metals, LLC**	USA	Membership interest (no share capital)
GKN Sinter Metals SpA	Italy	Ordinary shares
GKN Westland Aerospace, Inc	USA	Common stock
Hoeganaes Corporation	USA	Common stock

* The principal place of business of GKN Driveline Newton LLC is 550 Warrenville Road, Lisle, Illinois, 60532-4311, USA.

** The principal place of business of GKN Sinter Metals LLC is 3300 University Drive, Auburn Hills, Michigan, USA.

Consolidated financial statements are not required as the Company is a wholly owned subsidiary of GKN plc. In the opinion of the directors, the aggregate value of the Company's investments in subsidiary companies and joint ventures, consisting of shares in or amounts owing (whether on account of a loan or otherwise), is not less than the aggregate of the amounts at which these investments are stated in the balance sheet.

Notes to the financial statements for the year ended 31 December 2011 (continued)**9. Debtors**

	<u>2011</u>	<u>2010</u>
	£'000	£'000
Amounts owed by group companies	644,841	401,248
Other debtors	5	10
Corporation tax recoverable - UK	375	-
	<u>645,221</u>	<u>401,258</u>

10 Creditors: amounts falling due within one year

	<u>2011</u>	<u>2010</u>
	£'000	£'000
Amounts owed to group companies	146,326	168,937
Current account with parent undertaking	-	258,861
Corporation tax payable - UK	-	1,938
Other creditors	1,482	1,485
	<u>147,808</u>	<u>431,221</u>

11. Share capital

	<u>2011 and 2010</u>	
	<u>Authorised</u>	Issued, called up and <u>fully paid</u>
	£'000	£'000
Ordinary shares of £1 each	610,000	608,829
60,000,000 6 310% cumulative 'A' preference shares of £1 each	60,000	-
40,000,000 6 143% cumulative 'B' preference shares of £1 each	40,000	-
40,000,000 5 5203% cumulative 'C' preference shares of £1 each	40,000	-
60,000,000 5 4949% cumulative 'D' preference shares of £1 each	60,000	-
100,000,000 5 3991% cumulative 'F' preference shares of £1 each	100,000	-
40,000,000 5 1776p cumulative 'G' preference shares of 1p each	400	-
	<u>910,400</u>	<u>608,829</u>

Notes to the financial statements for the year ended 31 December 2011 (continued)**12. Reserves**

	Share premium <u>account</u> £'000	Other <u>reserves</u> £'000	Profit and loss <u>account</u> £'000	<u>Total</u> £'000
At 1 January 2011	59,222	(3,232)	2,357,341	2,413,331
Profit for the financial year	-	-	114,122	114,122
At 31 December 2011	<u>59,222</u>	<u>(3,232)</u>	<u>2,471,463</u>	<u>2,527,453</u>

13. Reconciliation of movements in shareholders' funds

	<u>2011</u> £'000	<u>2010</u> £'000
At 1 January	3,022,160	2,942,770
Profit for the financial year	114,122	79,390
At 31 December	<u>3,136,282</u>	<u>3,022,160</u>

14. Contingent liabilities

The Company has guaranteed bank and other borrowings of subsidiary undertakings amounting to £5,504,000 (2010: £4,468,000).

15. Ultimate and immediate parent companies

The immediate parent undertaking is GKN (United Kingdom) plc. The ultimate parent undertaking and controlling party is GKN plc, a company incorporated in England. GKN plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2011. The consolidated financial statements of GKN plc are available from PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL

GKN Holdings plc is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of GKN Holdings plc can be obtained from the address above.