

## Section 172(1) Statement

This is an overview of how the Directors performed their duty to promote the success of the Company under section 172 of the Companies Act 2006.

The principal activities and background of the Company are outlined in the Business Review.

The Directors must act in accordance with a set of general duties detailed in section 172 of the Companies Act 2006. These general duties include a duty to promote the success of the Company, and specifically to act in a way that the Director considers, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, having regard (amongst other matters) to the:

- likely consequences of any decisions in the long-term;
- interests of the Company's employees;
- need to foster the Company's business relationships with customers, suppliers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between shareholders of the Company.

This statement has been prepared in accordance with the requirements of The Companies (Miscellaneous Reporting) Regulations 2018, which require the Company to describe how the Directors have had regard to the matters set out in section 172 of the Companies Act 2006 during the financial year under review. It is noted that the Directors have always acted in accordance with such duties in their decision making and they will continue to do so. In light of the additional disclosure requirements, we have set out below further detail on how the Directors have fulfilled their duties during the course of 2019.

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

The Company operates within the wider management structure of GKN Aerospace. The GKN Aerospace Executive Committee is responsible for the strategic management and oversight of the GKN Aerospace business as a whole and for the taking of decisions which are material to the GKN Aerospace business in the short, medium and long-term.

During 2019, the GKN Aerospace Executive Committee and the Company's directors (a) continually reviewed the performance of GKN Aerospace (and within it the Company) against its competitors and the aerospace market generally; (b) continually assessed the likely future development of the aerospace market; (c) prepared and agreed a 3 year business plan for the GKN Aerospace business which supported (d) the announcement on 3 September 2019 of a worldwide reorganisation of GKN Aerospace (and within it the Company) in order to create a simpler, more competitive, customer-focused business. In the "One Aerospace" operating model, GKN Aerospace will fully integrate as one business, with customer-facing teams and a single, connected network of global sites, all supported by shared services.

The Directors' primary focus is on the creation of long-term value for its ultimate shareholder, Melrose Industries plc ("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 Aerospace 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.

## Section 172(1) Statement (*continued*)

### **(b) The interests of the Company's employees and how the Company's actions taken during 2019 encourage employee engagement**

The Company employs 3,700 people operating from sites in Bristol, Isle of Wight, Luton, Portsmouth and Birmingham. GKN Aerospace 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 collective bargaining agreements by establishment/location. Approximately 60% 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 through our UK Information & Consultation Forum, 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 through local "All Hands" meetings to give all employees updates of key business decisions as well as an overview of operational performance.

GKN Aerospace measures employee engagement through an annual employee engagement survey, the results of which are shared with its 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 by at least +0.2. GKN Aerospace conducts the annual survey to gauge the employee engagement levels within a team, a site, a region and globally. Employee opinions, on their teams and place of work, will be used locally and globally to help determine any positive or negative themes/common trends and indicate to local and global management where our engagement efforts need to focus. These efforts can then take the shape of a number of initiatives/activities to support individual managers or sites in their pursuit of a Great Place to Work for all. The Company's ambition is to become a recognised Gallup World Class Employer by 2025. We also run regular pulse surveys to test employee engagement throughout the year.

The GKN Aerospace CEO and Executive team host quarterly calls with the GKN Aerospace Executive population to update them on the Company's strategic direction and leadership focus. There is an opportunity for questions to be raised and responded to by the Executive team. This is critical to gathering the inputs of Executives into the Company's strategy and decision making. During 2020 the frequency has been increased to weekly leadership calls specifically focussed on our response to the COVID-19 crisis, keeping our employees safe and ensuring we protect the business for the future.

GKN Aerospace has HR representatives on each location, who are responsible for managing interactions between the employees and management of the business. Whilst the Company does not operate a share incentive scheme, employees are encouraged to be involved in business performance through other reward and incentive initiatives that are managed by the HR function on a local basis. Many employees participate in local bonus schemes, with the payment and level of any bonus linked to profit and cash performance as well as individual objectives. The HR function are also managing a talent review process to ensure that GKN Aerospace can support all our employees to grow, develop and bring their best to the business.

GKN Aerospace operates a confidential whistleblowing hotline where employees can report any concerns anonymously. Feedback from this hotline is investigated and actioned accordingly. Usage and calls are regularly reviewed by the GKN Aerospace Executive Committee to identify any trends and to feed into our enterprise risk management process.

In addition to the above, GKN Aerospace employs a number of measures for providing employees systematically with information on matters of concern to them as employees. All GKN Aerospace employees are updated regularly on day to day business matters either through local "town hall" meetings with site leadership teams, newsletter and intranet sites. Globally we use our intranet page to share business updates, challenges facing particular sites or businesses and to share success stories. The GKN Aerospace CEO also produces a regular blog either in video or narrative format to update the employees on where his leadership team are taking the business.

## Section 172(1) Statement (*continued*)

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

#### *Customers*

It is critical to the future success of GKN Aerospace that we build and maintain deep, long-lasting and committed relationships with our customers. GKN Aerospace and as such, the Company works closely with its customers across the aerospace sector in order to form strong relationships that encourage a culture of collaboration in order to drive future opportunity and growth in the aerospace market.

One of GKN Aerospace's core values is enterprise excellence which places an emphasis on GKN Aerospace's ability to deliver quality products and services to its customers to meet their needs. GKN Aerospace and as such, the Company monitors the "voice of the customer" and maintains key performance indicators that support this and ensure strong quality, cost and delivery performance.

GKN Aerospace has developed a Commercial Excellence model that encourages the development of close relationships with its customers to gain deeper insight into customer and market outlook and to drive an alignment between customer needs and GKN Aerospace's strategy for the future.

During 2019, GKN Aerospace announced a worldwide reorganisation. One key driving factor of the reorganisation was to enable GKN Aerospace and therefore the Company to better serve its customers. GKN Aerospace will have a single customer-facing team for each major customer. These teams will manage programmes and act a single point-of-contact for the customer, no matter the product or system we supply, and where we supply it from.

All material decisions taken by GKN Aerospace and by the Company, involve consideration of their impact on relationships with our customers.

#### *Suppliers*

GKN Aerospace has a diverse range of suppliers. Maintaining strong relationships with our suppliers is vital to the future success of GKN Aerospace. We build our relationships with our suppliers on the basis of:

- open dialogue and transparent decision-making;
- setting clear expectations of our suppliers;
- continuous supplier relationship management, through our dedicated Commodity Purchasing Managers;
- regular information exchange through our SOP processes;
- supplier quality reviews and audits; and
- senior management business reviews which enable suppliers to have a greater understanding of GKN Aerospace's future needs and strategy, whilst allowing suppliers to have the confidence to develop new innovations in conjunction with GKN Aerospace.

The Supplier Code of Conduct (the "Supplier Code") sets out the fundamental principles which GKN Aerospace and as such the Company expects of its suppliers. A copy of the Supplier Code can be found on our corporate website (<https://www.gknaerospace.com/globalassets/downloads/aerospace-suppliers-portal/gkn-aerospace-supplier-code-of-conduct.pdf/>).

During 2019, GKN Aerospace:

- embarked on a global programme to build stronger relationships with key indirect materials and services suppliers. This programme offered suppliers opportunities to build, longer term business with GKN Aerospace while delivering leading edge supply solutions to GKN Aerospace; and
- began the process of reviewing and reorganising responsibilities within its organisation to ensure "one voice" to our suppliers improving clarity of understanding, consistency of objectives, and transparency of decisions.

## **Section 172(1) Statement** (*continued*)

### *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**

GKN Aerospace'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 and safety, community volunteering, fundraising activities and sponsorship).

Within the Company, the Directors supported a range of charitable and social initiatives throughout the year, including colleagues:

- raising money for BBC Children in Need, with our Filton site passing the £40,000 mark in total for the charity thanks to annual fund-raising events for the charity;
- donating their time to support the Help Bristol's Homeless project, to build shelters for those in need of temporary accommodation in the city;
- claiming multiple awards in the Bristol & Bath Apprenticeships Awards, as the Company continued to be recognised as a leading large employer of young people in the region; and
- signed up to the UK Armed Forces Covenant during the year, to pledge its support to serving and veteran Armed Forces personnel in the UK.

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

GKN Aerospace has a code of conduct known as the GKN Aerospace Code. The Code is a key part of GKN Aerospace's compliance and governance arrangements and sets out the standards of behaviour expected of the Company and its employees. Together with GKN Aerospace's Culture Principles, we summarise this in our way of working "A Great Place to Work", 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 our 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 GKN Aerospace's 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, Westland Group plc, which is 100% indirectly 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.