



Section 172(1) Statement for GKN Driveline Birmingham Limited (the “Company”) for the year ended 31 December 2021

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 2021. 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 2021 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 2021 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 and are principally located in the UK, although some products are exported.

In January 2021, the Company announced its proposal to cease its manufacturing operations and close its plant at Chester Road, Erdington. A final decision to cease these operations was taken in May 2021, following extensive consultation with relevant stakeholders including its recognised trade union Unite and elected employee representatives. The closure is planned to be completed during the second half of 2022.

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 2021, 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) monitored progress against their medium and long term plans 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.

The decision taken during 2021 to close the company's manufacturing operations was taken having had careful regard to the long term consequences of the decision for all relevant stakeholders, as further detailed in this statement.

(b) The interests of the company's employees and how the Company's actions taken during 2021 encouraged employee engagement

The Company's employees are almost all located at its manufacturing facility in the West Midlands and the majority work in production related roles. The Company recognises the trade union Unite the Union, with whom it has a collective agreement for bargaining rights on all Terms and Conditions of Employment. Approximately 86% of the Company's employees are members of and are represented by Unite. The Company is represented at the GKN Automotive European Works Council by a representative for the UK who works at the Company's West Midlands facility.

The proposed cessation of the Company's manufacturing operations and closure of its plant at Chester Road, Erdington dominated the Company's engagement with its employees during 2021. Given the significance of this decision, and in full compliance with its legal obligations, the Company engaged in an extensive period of consultation with all affected employees, both on a collective (with representatives from Unite the Union and elected representatives) and individual basis. This consultation process took place between January and May 2021, following which a final decision to close the plant was taken.

Engagement on such a significant and emotive subject can of course be difficult. However, throughout the consultation process and thereafter, the Company sought to engage as constructively and openly as possible with its employees, including regarding the reasons for the proposal and decision and the potential impact on employees. This included regular briefings and communications to employees directly and via their shop stewards.

Following the final decision to close being taken, the company has provided extensive outplacement support services to those employees who were to be made redundant (being the majority of the Company's employees). This included jobs fairs and training and guidance on financial planning, CV preparation, interviewing and other skills designed to maximize employees' opportunities for re-employment. The directors believe that this has been key in ensuring that the majority of the Company's employees who have been made redundant have been able to find suitable employment with other employers in a relatively short period of time.

In addition to the proposed closure, during 2021 the activities of the Company continued to be affected by the impact of the global Coronavirus pandemic. GKN Automotive's priorities throughout the pandemic have continued to be its employees, its customers and its financial stability. During 2021, extensive measures continued to be taken to protect the Company's employees from the health risks of the pandemic, including the provision of PPE and additional sanitisation and other changes in working practices. All office and shopfloor cells were socially distanced in line with the original 2 metre guidance using Perspex dividers between desks and operating cells where appropriate. Mandatory temperature checking was deployed at the start of each and every shift and the wearing of a facemask was mandatory. As restrictions and government guidance relaxed during 2021, some of these practices were altered accordingly.

GKN Automotive operates a confidential external whistleblowing hotline where employees can report any concerns anonymously. Feedback from this hotline was reviewed by the GKN Automotive Executive Committee (including one of the directors) during 2021.

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 centrally 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.

In connection with the closure of the Company's manufacturing operations, the Company engaged with all affected customers in a pro-active and transparent manner, and suitable arrangements to successfully manage the impact of the closure were agreed with all customers.

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 suppliers; (c) continuous supplier relationship management, through dedicated Commodity Purchasing Managers; (d) regular information exchange through SOP processes; and (e) supplier quality reviews and audits. In connection with the closure of the Company's manufacturing operations, the Company engaged with all affected suppliers and suitable arrangements to were agreed with affected suppliers.

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

Environmental, Social and Governance (ESG) 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 important to our people, and 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.

During 2021, GKN Automotive began developing a new ESG strategy. The key principles of this strategy were finalised during 2021. The strategy comprises 4 strategic pillars. Our People (inspiring our people to reach their full potential in a safe and inclusive environment, developing talent for the next generation); Climate Action (decarbonising our products and operations through innovation, resource efficiency and waste management); Responsible Sourcing (working with our suppliers to uphold our values and adhere to the social and environmental standards required of them, collectively driving positive change); and Our Impact (delivering a positive impact upon society through our products and services and positively contributing to our local communities around the world). These pillars are underpinned by a strong focus on Ethics, Compliance, Safety and Security. This ESG strategy is focused, amongst other things, on ensuring that the activities of GKN Automotive impact positively on the community and the environment. Planning of a range of activities in support of this ESG strategy commenced during 2021, although given the planned closure of the Company's manufacturing operations, the impact of this strategy on the Company will by necessity be limited.

(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.

During 2021, GKN Automotive operated under a code of conduct known as the GKN Automotive Code. The code was a key part of GKN Automotive's compliance and governance arrangements and set 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.