

Chairman's Statement

RESULTS

For the sixth consecutive year I am able to report record profits and if there is an air of repetition about this part of my statement that hopefully will cause concern to no one. The Chief Executive's Report on the following pages describes in more detail how we have addressed the various challenges and opportunities that GKN faced last year. Pre-tax profits before goodwill amortisation and exceptional items were £513 million and earnings per share on the same basis were 52.4p, increases of 11% and 14% respectively. Cash flow from operations at £391 million was again strong and although £290 million was spent on acquisitions and a further £236 million on capital expenditure the balance sheet remains very robust. Interest cover for the year as a whole was 12 times, considerably in excess of the Group's internal objective.

DIVIDEND

An interim dividend of 6.3p per share has already been declared and paid to shareholders on 29 September 1999. It is possible for up to £12 million of previously paid Advance Corporation Tax to be recovered if, instead of paying a final dividend, there is an issue to shareholders of redeemable 'B' shares. The Board is therefore proposing to make such an issue to ordinary shareholders on the register on 26 May 2000 so that they will receive one redeemable 'B' share with a nominal value of 11.7p for each ordinary share held. These shares, which will carry a fixed rate of dividend, may first be redeemed on 30 May 2000. I will be writing to shareholders in April with further information about these proposals.

The total dividend for the year will therefore be 6.3p. This, together with the return of capital of 11.7p that will take place on redemption of each 'B' share, will result in a payment to shareholders equivalent to 18.0p per ordinary share for 1999 and is an increase of 10.4% on the total payment of 16.3p for the previous year.

EMPLOYEES

After many years in the 1980s and early 1990s when re-construction caused the number of employees to decline, it is good to be able to report that employee numbers increased again last year very much reflecting our growth strategy. As a result we have many new employees in the Group all of whom we welcome. Irrespective of their length of service the contribution of all our employees to the success of the Group is gratefully acknowledged.

THE BOARD

We are delighted that Kevin Smith has joined the Board as Managing Director Aerospace. This currently excludes helicopters for which he will assume responsibility later in the year. Kevin came to us from British Aerospace plc last November and brought with him 20 years of experience in the aerospace industry.

The Chairman's Statement provides an opportunity for thanking the non-executive Directors for their contribution to the Company's success. They are all most generous with their time when it comes to the interests of GKN. The role of the non-executive Director has grown in importance

in recent years. This is not only due to increasing emphasis on corporate governance but also reflects the significant part to be played in the monitoring of performance and the formulation of strategy.

SHARE PRICE

Shareholders may have been concerned at the swings in our share price during the first two months of this year from a high point of 975p on 1 January to a low point of 703p on 14 February recovering to around 800p at the time of writing. Although the movements in our share price might suggest otherwise, GKN in the first two months of 2000 has been essentially the same company, pursuing the same strategy, with the same energy and purpose as it was two months ago. What has occurred in this period has been a general increase in share price volatility which can be worrying for employees and shareholders alike. Our immediate response to these circumstances can only be to press ahead with our growth strategy undistracted, as far as possible, by events over which we have no control.

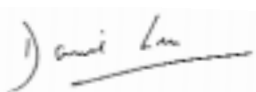
STRATEGY

Almost 100 years ago on 9 July 1900 Guest Keen & Co Limited was incorporated. This company acquired Nettlefolds Limited in 1902 and in that year changed its name to Guest Keen and Nettlefolds Limited, the forerunner of what today is GKN plc.

Companies that survive 100 years do so only if their strategy contains at least three core elements: a positive approach that sees change as an opportunity not a threat; an ever-present recognition of the need to innovate; and a total awareness that it is what the customer wants that matters. These essential elements are what drive our growth strategy today as the following pages make clear. It is why GKN has existed for a century and why we look forward to the next century with confidence.

THE FUTURE

Commentary on the outlook for the Group is contained in the Chief Executive's Report on page 11. Enhancement of shareholder value remains the most important of the Board's objectives. Much of what is contained in this annual report forms the base line for continued achievement of that objective.



Sir David Lees

7 March 2000