

## Report on Directors' Remuneration

### GENERAL POLICY

The remuneration of the executive Directors is set by the Remuneration Committee in accordance with a remuneration policy determined by the Board upon recommendation from the Committee. The policy is reviewed annually. The Committee, which consists solely of the non-executive Directors of the Company (whose biographical details are given on pages 40 and 41), determines the detailed terms of service of the executive Directors, including basic salary, incentives and benefits, and the terms upon which their service may be terminated. It takes advice from a leading independent firm of compensation and benefit consultants.

GKN's remuneration policy for executive Directors is designed to attract, retain and motivate executives of the high calibre required to ensure that the Group is managed successfully to the benefit of shareholders. To achieve this an internationally competitive package of incentives and rewards linked to performance is provided. In setting remuneration levels the Remuneration Committee takes into consideration the remuneration practices found in other UK multinational companies of similar size and also ensures that the remuneration arrangements for executive Directors are compatible with those for executives throughout the GKN Group.

The remuneration of the executive Directors comprises basic salary, benefits in kind and performance-related short-term variable remuneration, together with longer-term rewards including pension benefits and long-term incentives. Salary and short and long-term incentives are closely aligned to the achievement of GKN's strategic objectives.

The fees of the non-executive Directors are set at a level which will attract individuals with the necessary experience and ability to make a substantial contribution to the Group's affairs. The fees paid are commensurate with those paid by other leading UK listed companies.

In accordance with current best practice, shareholders will be given the opportunity to approve the general policy on Directors' remuneration at the forthcoming annual general meeting. The general policy, as set out above, is in substantially the same form as the policy considered by shareholders at the 1999 annual general meeting and which received the support of 98% of the proxy votes lodged in respect of it.

### EXECUTIVE DIRECTORS' REMUNERATION

#### Basic salary

This is based on a number of factors including market rates together with the individual Director's experience, responsibilities and performance. The Remuneration Committee's objective is to maintain salaries at around the median level of the relevant employment market. Individual salaries of Directors are reviewed annually by the Committee.

#### Benefits in kind

These comprise principally car benefits and membership of the Group's healthcare insurance scheme. The level of benefits provided to executive Directors is consistent with that provided by other major companies. These benefits do not form part of pensionable earnings.

## Report on Directors' Remuneration (continued)

### Performance-related short-term variable remuneration

Payments may be made annually under arrangements which link remuneration to the achievement of short-term targets relevant to GKN's long-term strategic objectives. For 1999 these targets comprised a number of elements. For all executive Directors a proportion of their short-term variable remuneration was dependent upon the growth over the year in GKN's earnings per share ('eps'). For those Directors with responsibility for business operations payments were also dependent upon the achieved level of operating profit before interest and tax of their respective portfolio in 1999. Overall, profit performance from the three business segments yielding a 15% growth in eps would result in payments of 50% of salary. A further element was related to the achievement of cash flow targets for the Group as a whole and, where appropriate, the cash flow and stock management performance of the Director's portfolio measured at key dates during the year. A maximum of 10% of an individual's salary was payable on achievement of all cash flow and stock management targets.

The Committee has absolute discretion to alter the targets to reflect changed circumstances such as material changes in accounting standards or changes in the structure of the Group. It may also make discretionary payments in respect of exceptional performance. Payments generally are based upon a percentage of year-end basic salary and do not form part of pensionable earnings under any of the Directors' pension arrangements.

### Total remuneration

The remuneration of the executive Directors for 1999, excluding pension benefits and long-term incentives, was as follows:

|                   | Salary<br>(£000) | Performance-<br>related<br>(£000) | Benefits<br>(£000) | Total 1999<br>(£000) | Total 1998<br>(£000) |
|-------------------|------------------|-----------------------------------|--------------------|----------------------|----------------------|
| Sir C K Chow      | 530              | 266                               | 20                 | <b>816</b> (a)       | 904                  |
| M Beresford       | 255              | 114                               | 13                 | <b>382</b> (a)       | 382                  |
| D J Wright        | 253              | 148                               | 14                 | <b>415</b> (a)       | 404                  |
| S Kalyandjian (b) | 312              | 115 (c)                           | 10                 | <b>437</b>           | 474                  |
| K Smith (d)       | 39               | —                                 | 177 (e)            | <b>216</b> (a)       | —                    |
| R W Etches        | 219              | 107                               | 17                 | <b>343</b> (a)       | 349                  |
| D J Turner        | 290              | 145                               | 15                 | <b>450</b> (a)       | 474                  |
| T C Bonner (f)    | —                | —                                 | —                  | —                    | 491                  |
| B D Insch (g)     | —                | —                                 | —                  | —                    | 435                  |
|                   | <b>1,898</b>     | <b>895</b>                        | <b>266</b>         | <b>3,059</b>         | <b>3,913</b>         |

### Pensions

For all executive Directors other than Mr Kalyandjian, retirement provision is secured by the Company by a combination of amounts paid to individual 'money-purchase' schemes, supplementary allowances paid to each Director and, in the case of Mr Wright, membership of the GKN Group Executive and Senior Staff Pension Scheme (the 'Executive Scheme'). These Directors are subject to the UK restrictions on pensionable earnings in the Finance Act 1989 (the 'earnings cap'). The retirement provisions are made in order to assist each Director

(a) PAYMENTS OF SUPPLEMENTARY ALLOWANCES TO CERTAIN EXECUTIVE DIRECTORS TO ASSIST THEM TOWARDS SECURING RETIREMENT BENEFITS ARE INCLUDED IN THE MONEY-PURCHASE CONTRIBUTIONS AND ALLOWANCES FOR PENSION BENEFIT PURPOSES DISCLOSED IN THE FIRST TABLE ON PAGE 87. THE ALLOWANCES, DETAILED BELOW, HAVE THEREFORE BEEN EXCLUDED FROM THE TOTAL REMUNERATION SHOWN IN THE TABLE OPPOSITE ALTHOUGH THEY ARE PART OF THE DIRECTORS' AGGREGATE EMOLUMENTS FOR THE PURPOSE OF DISCLOSURE UNDER THE COMPANIES ACT 1985:

SIR C K CHOW – £190,000 (1998 – £171,000)  
MR BERESFORD – NIL (1998 – £18,000)  
MR WRIGHT – £19,000 (1998 – £16,000)  
MR SMITH – £3,000 (1998 – NIL)  
MR ETCHES – £60,000 (1998 – £40,000)  
MR TURNER – £31,000 (1998 – £28,000)

(b) MR KALYANDJIAN IS PAID IN GERMAN MARKS – FOR THE PURPOSE OF THE TABLE OPPOSITE THE RELEVANT AMOUNTS HAVE BEEN TRANSLATED AT DM2.97/£1 (1998 – DM2.92/£1).

(c) INCLUDES £24,000 DISCRETIONARY BONUS.  
(d) APPOINTED 22 NOVEMBER 1999.

(e) INCLUDES A BONUS OF £150,000 AGREED WITH MR SMITH UPON HIS APPOINTMENT AS MANAGING DIRECTOR GKN AEROSPACE AS PART COMPENSATION FOR LOSS OF BENEFITS UNDER HIS FORMER EMPLOYER'S LONG-TERM INCENTIVE AND BONUS PLANS AND A PAYMENT OF £25,000 TO COMPENSATE HIM FOR LOSS OF MATCHED SHARES FROM HIS FORMER EMPLOYER.

(f) RETIRED 31 DECEMBER 1998.

(g) RETIRED 30 SEPTEMBER 1998.

towards securing overall retirement benefits compatible in value with those available under the Executive Scheme had it not been for the operation of the earnings cap.

For Mr Wright, the Executive Scheme (which is a defined benefit scheme) would provide on retirement at normal retirement date a pension estimated to amount to 13% of his basic salary over the preceding 12 months. Pension increases are equal to price inflation up to 5% per annum and there is a surviving spouse's pension of two-thirds of the member's pension. In accordance with the rules in force when he joined the Executive Scheme, no member contributions are required. Mr Kalyandjian will be entitled to a pension from his employing company, GKN Automotive International GmbH, on terms similar to those of the Executive Scheme. Upon retirement at the expiry of his current service agreement, his pension would amount to 36% of his basic salary over the preceding 12 months, with a surviving spouse's pension of 60% of his pension.

The first table below shows the amount paid as money-purchase contributions and allowances. The second table below shows pension amounts for those Directors whose pension arrangements are either wholly or partly of the defined benefit type.

|                        | Money-purchase contributions and allowances for pension benefit purposes |                |
|------------------------|--|----------------|
|                        | 1999<br>(£000)   | 1998<br>(£000) |
| Sir C K Chow           | 215  | 196            |
| M Beresford            | 104  | 88             |
| D J Wright             | 70   | 54             |
| K Smith <sup>(a)</sup> | 16   | —              |
| R W Etches             | 89   | 73             |
| D J Turner             | 133  | 123            |

(a) APPOINTED 22 NOVEMBER 1999.

|                              | Current age | Increase in annual pension<br>(a) |                | Accrued annual pension at end<br>of year |                |
|------------------------------|-------------|-----------------------------------|----------------|--|----------------|
|                              |             | 1999<br>(£000)                    | 1998<br>(£000) | 1999<br>(£000)                           | 1998<br>(£000) |
| D J Wright                   | 60          | 3                                 | 3              | 31                                       | 28             |
| S Kalyandjian <sup>(b)</sup> | 60          | 30                                | 20             | 103                                      | 74             |

(a) INCREASE OVER THE YEAR IN ACCRUED PENSION IN EXCESS OF INFLATION TO WHICH EACH DIRECTOR WOULD HAVE BEEN ENTITLED ON LEAVING SERVICE.

(b) AMOUNTS TRANSLATED FROM GERMAN MARKS AT DM2.97/£1 (1998 – DM2.92/£1).

#### Long-term incentive arrangements

Long-term incentives which closely link executive rewards to the return to shareholders on their investment are an important component in the overall executive remuneration arrangements. The Group's current long-term incentive plans for executive Directors and senior executives (the 'Plans'), first introduced in 1996, have been approved by shareholders.

In summary, under the Plans each executive Director may be awarded annually a conditional right to acquire a number of shares equal in value up to a maximum of 100% of his annual basic salary and calculated by reference to the average of the daily closing prices of GKN shares during the preceding year. The number of these shares that he will ultimately receive will depend on the Group's performance during the three years commencing on 1 January in the year of award. This is measured by comparing the Total Shareholder Return (growth in share value assuming

## Report on Directors' Remuneration (continued)

reinvestment of gross dividends), or 'TSR', from GKN shares with the return from shares in the other companies constituting the FTSE 100 Index at the start of the measurement period. If GKN ranks 25th or above in this comparator group the executive Director will receive all of the shares conditionally awarded to him. If the ranking is below 50th (65th for awards made in 1996 and 1997) he will receive no shares. For intermediate positions, he will receive a proportionate number of shares which will reduce (from 100%) by two percentage points for each position below 25th.

At the end of the three year measurement period the conditional award is converted into a deferred right to acquire the appropriate number of shares which will not be released to the Director for at least a further two years other than in the specific circumstances set out in the rules of the Plans. Irrespective of GKN's TSR, before any shares become eligible for release the Remuneration Committee must be satisfied that this is justified by the underlying financial performance of the Group over the measurement period.

For completed measurement periods, GKN's TSR and rank against the TSR of the other FTSE 100 companies together with the percentage of the conditional award converted into a deferred award were as follows:

| Period              | TSR % | FTSE 100 ranking | Deferred award conversion % |
|---------------------|-------|------------------|-----------------------------|
| Jan 1996 – Dec 1998 | 33.19 | 17               | 100                         |
| Jan 1997 – Dec 1999 | 28.30 | 24               | 100                         |

Conditional and deferred rights to shares under the Plans held by the executive Directors at 31 December 1999 and 31 December 1998, together with awards made and converted during the year, were as follows:

|                              | GKN ordinary shares |                         |                         |                         |
|------------------------------|---------------------|-------------------------|-------------------------|-------------------------|
|                              | Awards held 1999    |                         | Conditional awards made | Conditional awards held |
|                              | Conditional         | Deferred <sup>(a)</sup> | 1999                    | 1998                    |
| Sir C K Chow                 | 215,850             | 93,200                  | 67,450                  | 241,600                 |
| M Beresford                  | 103,550             | 41,200                  | 32,350                  | 112,400                 |
| D J Wright                   | 102,000             | 41,200                  | 31,700                  | 111,500                 |
| S Kalyandjian <sup>(b)</sup> | 102,650             | 23,400                  | 32,350                  | 93,700                  |
| R W Etches                   | 71,900              | –                       | 28,600                  | 43,300                  |
| D J Turner                   | 119,650             | 48,800                  | 37,150                  | 131,300                 |

<sup>(a)</sup> CONVERTED TO DEFERRED AWARDS IN 1999, BEING THE FIRST YEAR IN WHICH DEFERRED RIGHTS AROSE.

<sup>(b)</sup> INCLUDES CONDITIONAL AND DEFERRED RIGHTS TO 19,900 AND 23,400 SHARES RESPECTIVELY IN RESPECT OF AWARDS RECEIVED BY MR KALYANDJIAN PRIOR TO HIS APPOINTMENT AS A DIRECTOR. THESE SHARES ARE ELIGIBLE FOR RELEASE ONE YEAR AFTER THE END OF THE RELEVANT MEASUREMENT PERIOD.

The aggregate money value (before tax) of the shares receivable under the deferred awards held by the Directors, calculated by reference to the closing mid-market share price on 30 December 1999, amounted to £2.4 million.

In addition, Mr Smith has a long-term incentive arrangement made in 1999 to be satisfied in cash which in all other respects is equivalent to an award over 26,950 shares made pursuant to the Plans. This is to compensate Mr Smith partly for the loss of benefits under his former employer's long-term incentive plan on joining GKN. The entitlement could not be given in the form of shares due to the timing of his joining.

Executive share option schemes: Following the introduction of the long-term incentive plans, no grants of options have been made under these schemes since 1996 and no further grants will

be made. Outstanding options are normally exercisable between the third and tenth anniversary of the date of grant (between the fifth and tenth anniversary for options granted in 1995 and 1996). The exercise price was fixed at the market price of GKN's shares at the time the option was granted. The outstanding options held by Directors are exercisable by the year 2006 at prices between 288p and 484p per share.

Save as you earn (SAYE) schemes: Outstanding options held by Directors under these schemes, which are open to all UK employees with six months' service or more, are exercisable by the year 2002 at prices between 238p and 794p per share. Participants save a regular monthly sum of up to £250 for three or five years and can use these savings and any bonus payable under the schemes to exercise the options. As permitted by the Finance Act 1989 the exercise price is normally set at 20% below the market price before the start of the savings period.

Options over GKN shares which were held by Directors under the executive and SAYE share option schemes at 31 December 1999 and 31 December 1998 are given below. No options lapsed during the year.

|                | Shares under<br>option<br>1999 | Weighted<br>average price<br>(a) | Granted<br>1999 | Exercised<br>1999 | Shares under<br>option<br>1998 |
|----------------|--------------------------------|----------------------------------|-----------------|-------------------|--------------------------------|
| Sir David Lees | 3,478                          | 238.0p                           | –               | –                 | 3,478                          |
| Sir C K Chow   | 4,366                          | 395.0p                           | –               | –                 | 4,366                          |
| M Beresford    | 65,220                         | 326.4p                           | 1,220           | 7,734             | 71,734                         |
| D J Wright     | 111,172                        | 376.4p                           | –               | –                 | 111,172                        |
| S Kalyandjian  | 62,000                         | 303.2p                           | –               | –                 | 62,000                         |
| K Smith        | –                              | –                                | –               | –                 | –                              |
| R W Etches     | 1,538                          | 633.5p                           | –               | –                 | 1,538                          |
| D J Turner     | 179,250                        | 375.1p                           | –               | –                 | 179,250                        |

(a) WEIGHTED AVERAGE EXERCISE PRICE PER SHARE OF OPTIONS HELD AT 31 DECEMBER 1999. THE CLOSING MID-MARKET PRICE OF GKN SHARES ON THE LONDON STOCK EXCHANGE ON 30 DECEMBER 1999 WAS 975P AND THE PRICE RANGE DURING THE YEAR WAS 727P TO 1,136P.

The option granted to Mr Beresford during 1999 is under the 1995 SAYE share option scheme and has an exercise price of 794p per share. The option exercised by Mr Beresford was granted under the 1991 SAYE share option scheme on 12 April 1994 at an exercise price of 223p per share. The closing mid-market price on the date of exercise was 1,097p per share and the total gain (before tax) on exercise, calculated by reference to the difference between the closing mid-market price of the shares on the date of exercise and the exercise price of the option, was £68,000. Mr Beresford retained the shares on exercise. (For comparative purposes, the aggregate of the total gains on options exercised by Directors during 1998, disregarding whether such shares were sold or retained on exercise, amounted to £295,000.)

#### TERMS OF APPOINTMENT OF CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Sir David Lees was appointed non-executive Chairman for an initial period of three years from 1 January 1997. This appointment has been extended by mutual agreement until the conclusion of the Company's annual general meeting in 2002. His fees are determined by the Board. He is not eligible to participate in GKN's short-term variable remuneration arrangements or long-term incentive plans. Sir David is in receipt of a pension from the Executive Scheme (having retired from executive service within GKN at his normal pensionable age) and has the use of a car the

## Report on Directors' Remuneration (continued)

running and associated costs of which are borne partially by GKN.

The fees received by each of the remaining non-executive Directors are determined by the Board. The fees were increased from £25,000 to £30,000 per annum from 1 July 1999 (the previous increase being in January 1997) and an additional fee was introduced from 1 January 1999 for the Chairmen of the Audit and Remuneration Committees of 12.5% of the basic fee to reflect the significant extra responsibilities attached to these positions. The non-executive Directors do not participate in the Group's short-term variable remuneration or long-term incentive arrangements or in its pension schemes, nor do they receive benefits in kind. Under the terms of their appointment they are usually expected to serve as Directors for between five and eight years. The appointment of Sir Bryan Nicholson, who joined the Board in 1991, has been extended until 31 December 2000.

The remuneration of the non-executive Directors for 1999 was as follows:

|                     | Fees<br>(£000) | Benefits<br>(£000) | Total 1999<br>(£000) | Total 1998<br>(£000) |
|---------------------|----------------|--------------------|----------------------|----------------------|
| Sir David Lees      | 200            | 15                 | 215                  | 223                  |
| R D Brown (a)       | 27             | –                  | 27                   | 25                   |
| The Baroness Hogg   | 27             | –                  | 27                   | 25                   |
| Dr K H Murmann      | 27             | –                  | 27                   | 25                   |
| Sir Bryan Nicholson | 31             | –                  | 31                   | 25                   |
| Dr T J Parker       | 31             | –                  | 31                   | 25                   |
|                     | 343            | 15                 | 358                  | 348                  |

(a) THE FEES IN RESPECT OF MR BROWN ARE PAID TO HIS EMPLOYER, UNILEVER PLC.

### SHARE INTERESTS

The beneficial interests of the Directors, including family interests, in the shares of GKN plc at the relevant dates were as follows:

|                     | GKN ordinary shares |         |
|---------------------|---------------------|---------|
|                     | 1999                | 1998    |
| Sir David Lees      | 201,284             | 201,239 |
| Sir C K Chow        | 10,066              | 10,066  |
| M Beresford         | 57,869              | 50,120  |
| D J Wright          | 52,994              | 79,191  |
| S Kalyandjian       | 2,076               | 2,040   |
| K Smith             | –                   | –       |
| R W Etches          | 2,054               | 2,019   |
| D J Turner          | 15,958              | 15,958  |
| R D Brown           | 2,018               | 2,018   |
| The Baroness Hogg   | 893                 | 584     |
| Dr K H Murmann      | 61,197              | 61,197  |
| Sir Bryan Nicholson | 4,410               | 4,410   |
| Dr T J Parker       | 3,266               | 2,718   |

The executive Directors (other than Mr Kalyandjian), as potential beneficiaries, are deemed to have an interest in the ordinary shares of GKN plc held by the discretionary trust established to facilitate the operation of The GKN Long Term Incentive Plan. At 31 December 1999 the trust held 3,805,990 shares (1998 – 3,514,144).

As potential beneficiaries under the discretionary trust established to facilitate the operation of the GKN SAYE Share Option Schemes, the executive Directors (other than Mr Kalyandjian) together with Sir David Lees are deemed to have an interest in the shares held by the trust from time to time. At 31 December 1999 the trust held 1,892,971 shares (1998 – 2,130) and at 6 March 2000 it held 1,662,753 shares. There were no other changes in the Directors' interests in shares or options between those dates.

The Company's Register of Directors' Interests, which contains full details of the Directors' shareholdings and options to subscribe for shares in GKN plc, is available for inspection by shareholders upon request.

#### SERVICE AGREEMENTS

The period of notice required to be given by the Company to terminate the service agreements of the executive Directors (other than Mr Kalyandjian) is two years. The agreements terminate in any event at the end of the year in which the Director attains the age of 60. Mr Kalyandjian's service agreement is for a fixed period which has been extended by mutual agreement by nine months to expire on 30 September 2000. The non-executive Directors do not have service agreements with the Company.

In agreeing termination arrangements with an executive Director in circumstances where less than two years' notice of termination is given by the Company, the Board has adopted a general policy, which may be varied in individual cases, under which the Director is expected to mitigate his or her loss in the second year following the date of termination. Such mitigation will be taken fully into account in determining any compensatory payments to the Director relating to the second year of the notice period to which the Director would have been entitled under his or her service agreement. If, however, the termination occurs within 12 months following a change in control of the Company, the Director has the right to claim the full two years' salary without any reduction.

The Remuneration Committee has given careful consideration to the Combined Code on Corporate Governance (see page 82) which suggests that notice periods should not generally exceed one year. The Committee reviews regularly both market practice for directors' notice periods and the Company's policy in this regard. It is the Committee's view that a two year notice period is currently appropriate not only to attract new executive Directors of the required calibre but also to provide a level of employment protection commensurate with the responsibilities of such office and the need to focus on the long-term performance of the Group. Taken together with the policy on severance arrangements described above, the Committee currently considers that a reduction in the notice period in the executive Directors' service agreements to one year would not be in the interests of shareholders.

#### EXTERNAL APPOINTMENTS

The Remuneration Committee recognises the benefit which GKN can obtain if executive Directors of GKN serve as non-executive Directors of other companies. Subject to review in each case, the Remuneration Committee's general policy is that each executive Director may accept one non-executive directorship with another company from which the Director may retain the fees.