

## Directors' Report

### BUSINESS REVIEW

The principal businesses of the Group are described in the review of operations on pages 12 to 39. A review of the development of those businesses in 1999, events affecting the Group since the end of the year and likely future developments are referred to in the Chief Executive's report on pages 8 to 11, in the review of operations and in the financial review on pages 43 to 47.

### AGM

The notice of the annual general meeting to be held on 26 May 2000, together with an explanation of the resolutions to be considered at the meeting, is contained in the AGM circular enclosed with this annual report.

### RETURN OF CAPITAL/DIVIDEND

An important element in GKN's tax planning is to find ways in which value can be released on surplus Advance Corporation Tax (ACT) paid on past years' dividends. Surplus ACT at the end of 1999 amounted to £35 million.

In order to access this surplus and avoid generating shadow ACT, it is proposed that, rather than pay a final dividend, the Company will issue redeemable 'B' shares to ordinary shareholders on the register on 26 May 2000 with a nominal value of 11.7p for each ordinary share held.

Shareholders will be entitled to redeem the new 'B' shares for cash, at their nominal value, on 30 May 2000 and 30 June 2000. The Company may at its discretion redeem the shares at any time after 31 October 2000, but will be obliged to do so no later than 31 October 2002.

The total payment a shareholder will receive in respect of 1999 is 18p per share comprising a 6.3p dividend (1998 – 16.3p), paid in September 1999, and a return of capital through the issue of a 'B' share worth 11.7p if redeemed.

By not paying a final dividend, it is estimated that up to £12 million of ACT previously paid will be recovered.

Full details of the proposed return of capital together with a redemption form will be posted to shareholders on 20 April 2000.

### SHARE CAPITAL

During 1999 the issued ordinary share capital of the Company was increased by the issue of 6,462,845 shares of 50p each in connection with the exercise of options under save as you earn and executive share option schemes. The issued ordinary share capital at the end of the year was 718,291,452 shares of 50p each.

The Company has been informed that at 6 March 2000 The Capital Group Companies Inc had a 3.8% notifiable interest in the issued voting capital of the Company.

### DIRECTORS

The constitution of the Board and of its committees, together with biographical notes on the Directors, are shown on pages 40 and 41.

## Directors' Report (continued)

In November 1999, Kevin Smith joined the Board as Managing Director, GKN Aerospace. In accordance with the articles of association, Mr Smith retires from the Board at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

At the annual general meeting, Sir C K Chow, Chief Executive, and David Wright, Executive Director, together with Baroness Hogg and Sir Bryan Nicholson, non-executive Directors, retire by rotation and, being eligible, offer themselves for re-election.

Details of the executive Directors' service agreements are given on page 91. The non-executive Directors do not have service agreements.

Directors' interests in the shares of the Company are shown on pages 88 to 91.

### LIFE PRESIDENT

Lord Brookes, who was Chairman of the Company from 1965 until 1974, is Life President.

### HONOURS

The Directors record their great pleasure at the honour of Knighthood conferred on C K Chow, Chief Executive, and the award of the CBE to Michael O'Donoghue, Aircrew Training Manager, Aviation Training International Ltd, in the 2000 New Year Honours, and at the award of the CBE to Roy Shelley, Business Group Director, GKN Westland Helicopters, the OBE to John Rosenthal, formerly Chief Executive, GKN Defence, and the MBE to Geoffrey Byham, Chief Engineer, GKN Westland Helicopters, in the 1999 Queen's Birthday Honours.

### DONATIONS

In 1999, donations for charitable purposes made by the Group amounted to £601,000 of which £499,000 was paid in the UK. In addition, a further £333,185 was contributed to community activities in the UK and £102,000 overseas. No political donations were made during the year.

### YEAR 2000 ISSUE

As a result of a well planned and managed Year 2000 programme, the Group has not experienced any significant problems and, at the date of this report, the Directors are not aware of any significant adverse impact of the Year 2000 issue on the Group's business operations.

The Year 2000 issue was largely addressed as a component of the Group's normal systems development programme and, consequently, the Group is now well placed to exploit advances in information technology.

It should be noted that because of the way it was addressed it is not meaningful to attribute a cost specifically to this single issue.

### PAYMENTS TO SUPPLIERS

Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted when they enter into binding purchase contracts. It is Group policy to abide by the payment terms agreed with suppliers, provided that the supplier

has performed its obligations under the contract. Given the nature and diversity of the Group's purchasing arrangements, it is not Group policy to follow any code or standard in relation to payment practice. GKN plc, as a holding company, did not have any amounts owing to trade creditors at 31 December 1999.

#### CORPORATE GOVERNANCE

The Board's statement on corporate governance matters is given on pages 82 to 84, and its report on Directors' remuneration is set out on pages 85 to 91.

#### DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS

At the end of each financial year the Directors are required by the Companies Act 1985 to prepare accounts which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing the accounts for the year ended 31 December 1999, appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been used consistently and UK applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the accounts comply with the Companies Act 1985. In addition, the Directors are responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Group are properly safeguarded and to ensure that reasonable steps are taken to prevent or detect fraud and other irregularities.

#### AUDITORS

Resolutions to reappoint PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration will be proposed at the annual general meeting.

On behalf of the Board

Grey Denham  
Secretary, 7 March 2000