

Chairman's statement



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Results

It is particularly pleasing that for the year 2000, our centenary year, sales exceeded £5 billion for the first time. Profits were again a record, continuing the run of consecutive increases that started seven years ago. This was achieved in economic conditions that for GKN were less benign than in the previous period and particularly so in the final quarter of the year in the North American automotive market. Here demand fell away rapidly and although stability is predicted in the second half of the year that state has not yet been reached.

Pre-tax profits before goodwill amortisation and exceptional items were £528 million (1999 – £513 million) and earnings per share on the same basis were 54.5p (1999 – 52.4p). Cash flow from operations of £365 million was strong and provided a large part of

the funds that enabled us to invest £261 million in fixed assets and £226 million on acquisitions in support of our growth strategy. Our balance sheet remains very sound and with interest cover of more than nine times our finances are in excellent shape.

Dividend

An interim dividend of 6.9p per share has already been declared and paid to shareholders on 29 September 2000. It is proposed to pay a final dividend of 12.9p per share on 18 May 2001 making a total for the year 2000 of 19.8p. Since 1994 the dividend per share has been increased on average by more than 10% each year.

Social responsibility review

We have included in the annual report this year for the first time on pages 28 to 32 a social responsibility review in which we describe our commitment to

our employees, the community, and the environment. It brings together information that was previously to be found in different parts of the annual report and seeks to quantify performance on either a Group or Divisional basis as appropriate. We are particularly encouraged by the positive trends in accident frequency and accident severity rates. Shareholders may also be interested to read about our approach to innovation and learning, described on page 33, where again the early results and trends are encouraging.

The number of employees increased again last year as a direct consequence of our growth strategy. At the end of the year 43,500 were employed in subsidiaries and 17,100 in our joint ventures. As ever the success of the Group depends upon the contribution of our employees and we are most grateful to them for all that they do.

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The Board

At the end of the year Sir Bryan Nicholson retired as a non-executive Director having joined GKN in 1991. Both as Chairman of the Remuneration Committee and as a member of the Board his wise counsel and experience have been of great value to the Group. Sarkis Kalyandjian and David Wright also retired as executive Directors at the end of the year. They have both made significant contributions to the development of the businesses for which they were responsible and to GKN as a whole.

At the beginning of this year we were pleased to announce that Seifi Ghasemi and Ian Griffiths had been appointed to the Board, Seifi as Managing Director Powder Metallurgy and Ian as Managing Director Automotive Driveline.

Achievement of high standards of corporate governance is unlikely without considerable effort on the part of the non-executive Directors. We are well served by our non-executive Directors not only in regard to governance matters but also in the important contributions they make to the development of our strategy.

Strategy

The Chief Executive's report sets out clearly some of the strategic

achievements of last year of which there were many. It is in the nature of strategic planning that some initiatives take longer to develop than others. Some turn out more successfully than expected, others less so. For GKN what matters most is that our strategy should deliver shareholder value. To do so it should be robust, should be centred on growth, should embrace our technical competence and should lead to the establishment or enhancement of strong global market positions in our different businesses. Against these objectives our strategy, which applies equally to our manufacturing and industrial services activities, measures up well.

The discussions concerning a nil premium merger of Brambles Industries Limited with GKN's industrial services activities, utilising a dual listed companies structure, are continuing. These discussions were first announced on 15 January 2000 and expanded upon in a further announcement on 22 February. GKN's industrial services activities comprise its interests in CHEP, CLEANAWAY, Interlake Material Handling, and Meineke.

Under the dual listed companies structure which is being evaluated Brambles would retain its primary listing in Australia. GKN's industrial services activities would be demerged into a

newly formed public company, with its primary listing in the UK, which would issue shares directly to GKN's shareholders. Arrangements would be put in place to ensure that these two companies are operated as though they were a single economic entity under a unified management.

There are a number of complex legal, taxation and regulatory issues still to be resolved on which progress is being made.

The future

For many years now GKN has grown its engineering and industrial services businesses both organically and through acquisition utilising its strong balance sheet and cash flows. It will continue to do so. The immediate outlook is clouded by automotive market conditions in North America and, to a lesser extent, by a weakening agricultural sector in Europe. However the longer term perspective for GKN, as it enters its second century, is very bright indeed.



Sir David Lees
6 March 2001