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 34 and 35), 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 multi-national 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 AGM. The general policy, as set out above, has remained unchanged from that considered by shareholders at the 2000 AGM and which received the support of 97.5% 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.

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 2000 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 2000. 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 2000, excluding pension benefits and long-term incentives, was as follows:

	Salary £000	Performance-related £000	Benefits £000	**Total 2000 £000**	Total 1999 £000
Sir C K Chow	595	135	24	**754**(a)	816
M Beresford	285	77	20	**382**	382
R W Etches	232	42	18	**292**(a)	343
S Kalyandjian (b)	342	73	11	**426**	437
K Smith (c)	308	158(d)	87(e)	**553**(a)	216
D J Turner	323	59	16	**398**(a)	450
D J Wright (f)	276	114	16	**406**(a)	415
	2,361	658	192	**3,211**	3,059

(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 82. 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 – £215,000 (1999 – £190,000)

Mr Etches – £66,000 (1999 – £60,000)

Mr Smith – £39,000 (1999 – £3,000)

Mr Turner – £35,000 (1999 – £31,000)

Mr Wright – £11,000 (1999 – £19,000)

(b) Retired 31 December 2000. Mr Kalyandjian was paid in German marks – for the purpose of the table opposite the relevant amounts have been translated at DM3.21/£1 (1999 – DM2.97/£1).

(c) Appointed 22 November 1999.

(d) Being the minimum amount agreed with Mr Smith upon his appointment as Managing Director Aerospace as the final part of his compensation for loss of benefits under his former employer's long-term incentive and bonus plans.

(e) Includes relocation expenses.

(f) Retired 31 December 2000.

Pensions

For executive Directors subject to the UK restrictions on pensionable earnings in the Finance Act 1989 (the 'earnings cap'), 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, where appropriate, membership of the GKN Group Executive and Senior Staff Pension Scheme (the 'Executive Scheme'). The retirement provisions are made in order to assist each Director 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.

Mr Wright, who was subject to the earnings cap, became entitled on retirement on his normal retirement date of 31 December 2000 to a pension of 12.6% of his basic salary over the preceding 12 months. Part of the pension is payable from the Executive Scheme and the balance payable from the Company on the same terms as apply under the Executive Scheme (which is a defined benefit scheme). 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 were required. Mr Kalyandjian on his retirement on 31 December 2000 became entitled to a pension from his employing company, GKN Automotive International GmbH, on terms similar to those of the Executive Scheme. The pension amounted to 37.1% of his basic salary over the preceding 12 months, with a surviving spouse's pension of 60% of his pension.

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

Report on Directors' remuneration continued

	Money-purchase contributions and allowances for pension benefit purposes 2000 £000	1999 £000
Sir C K Chow	**243**	215
M Beresford	**116**	104
R W Etches	**95**	89
K Smith (a)	**126**	16
D J Turner	**148**	133
D J Wright	**79**	70

(a) Appointed 22 November 1999.

	Age at retirement	Increase in annual pension (a) 2000 £000	1999 £000	Accrued annual pension at end of year 2000 £000	1999 £000
S Kalyandjian (b)	61	**11**	30	**114**	103
D J Wright	60	**3**	3	**35**	31

(a) Increase over the year in accrued pension in excess of inflation to which each Director was entitled on leaving service.

(b) Amounts translated from German marks at DM3.21/£1 (1999 – DM2.97/£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 Ordinary 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 Ordinary 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 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
Jan 1998 – Dec 2000	16.48	32	86

Conditional and deferred rights to Ordinary Shares under the Plans held by the executive Directors at 31 December 2000 and 31 December 1999, together with awards made and converted during the year, were as follows:

	2000					
	Awards held 2000		Conditional awards made	Conditional awards converted to deferred	Awards held 1999	
	Conditional	**Deferred**			Conditional	Deferred
Sir C K Chow	**208,650**	**158,200**	57,800	65,000	215,850	93,200
M Beresford	**100,500**	**72,100**	27,850	30,900	103,550	41,200
R W Etches	**87,600**	**7,500**	23,200	7,500	71,900	–
S Kalyandjian (a)	**60,966**	**54,300**	–	30,900	102,650	23,400
K Smith	**30,950**	**–**	30,950	–	–	–
D J Turner	**115,200**	**84,700**	31,450	35,900	119,650	48,800
D J Wright (a)	**60,533**	**72,100**	–	30,900	102,000	41,200

(a) Mr Kalyandjian and Mr Wright retired on 31 December 2000. Under the rules of the Plans the shares the subject of their conditional awards are eligible for release at the end of the relevant measurement period and the shares the subject of their deferred awards are eligible for release immediately following retirement. The number of shares the subject of their 1999 awards have been reduced pursuant to the rules of the Plans to reflect their retirements during the course 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 29 December 2000, amounted to £3.2 million (1999 – £2.4 million).

In addition Mr Smith, in respect of the measurement period 1999 to 2001, has a long-term incentive arrangement 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. Options outstanding under the executive share option schemes are normally exerciseable 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 exerciseable 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 exerciseable by the year 2003 at prices between 395p 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 Ordinary Shares which were held by Directors under the executive and SAYE share option schemes at 31 December 2000 and 31 December 1999 are given overleaf. No options were granted to Directors during the year other than under the 1995 SAYE scheme to Mr Turner over 1,465 shares at an option price of 661p per share. No options lapsed during the year.

Report on Directors' remuneration continued

	Shares under option 2000	Exercise price	Exercised 2000 Executive	Exercised 2000 SAYE	Shares under option 1999
Sir David Lees	**–**	–	–	3,478	3,478
Sir C K Chow	**4,366**	395.0p(a)	–	–	4,366
M Beresford	**1,220**	794.0p(a)	64,000	–	65,220
R W Etches	**1,538**	633.5p(a)	–	–	1,538
S Kalyandjian	**61,000**	303.5p(b)	1,000	–	62,000
K Smith	**–**	–	–	–	–
D J Turner	**101,465**	433.1p(b)	72,406	6,844	179,250
D J Wright	**41,172**	476.4p(b)	70,000	–	111,172

(a) Exercise price per share of option held at 31 December 2000.

(b) Weighted average exercise price per share of options held at 31 December 2000.

(c) The closing mid-market price of GKN Ordinary Shares on the London Stock Exchange on 29 December 2000 was 707p and the price range during the year was 662.5p to 966.5p.

Details of options exercised under the executive and SAYE share option schemes during 2000 were as follows:

	Shares issued on exercise	Date of grant	Exercise price per share	Price on date of exercise (a)	Shares retained on exercise
Sir David Lees	**3,478**	18.4.95	238.0p	865.0p	3,478
M Beresford	**64,000**	6.4.95	317.5p	911.0p	–
S Kalyandjian	**1,000**	8.4.94	288.0p	794.0p	1,000
D J Turner	**6,844**	28.9.94	252.0p	761.5p	6,844
	15,000	8.4.94	288.0p	893.5p	15,000
	57,406	6.4.95	317.5p	893.5p	15,000
D J Wright	**70,000**	6.4.95	317.5p	911.0p	–

(a) The closing mid-market price per share on date of exercise.

The aggregate of the total gains on options exercised by Directors during 2000 amounted to £1.3 million (1999 – £0.1 million). This is 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 options, disregarding whether such shares were sold or retained on exercise, and is stated before tax.

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 AGM 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 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 chairmen of the Audit and Remuneration Committees receive an additional fee 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 John Parker, who joined the Board in 1993, has been extended until the Company's AGM in 2002.

The remuneration of the non-executive Directors for 2000 was as follows:

	Fees £000	Benefits £000	**Total 2000 £000**	Total 1999 £000
Sir David Lees	250	16	**266**	215
R D Brown (a)	30	–	**30**	27
The Baroness Hogg	30	–	**30**	27
Dr K H Murmann	30	–	**30**	27
Sir Bryan Nicholson (b)	34	–	**34**	31
Sir John Parker	34	–	**34**	31
	408	16	**424**	358

(a) The fees in respect of Mr Brown are paid to his employer, Unilever plc.

(b) Retired 31 December 2000.

Share interests

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

	2000	1999
Sir David Lees	**204,835**	201,284
Sir C K Chow	**20,066**	10,066
M Beresford	**37,892**	57,869
R D Brown	**2,018**	2,018
R W Etches	**2,076**	2,054
The Baroness Hogg	**893**	893
S Kalyandjian	**3,097**	2,076
Dr K H Murmann	**80,197**	61,197
Sir Bryan Nicholson	**4,410**	4,410
Sir John Parker	**3,299**	3,266
K Smith	**3,000**	–
D J Turner	**50,302**	15,958
D J Wright	**3,994**	52,994

The UK-employed executive Directors, as potential beneficiaries, are deemed to have an interest in the Ordinary Shares of GKN plc held from time to time by the discretionary trust established to facilitate the operation of the Directors and Senior Executive Long Term Incentive Plan. At 31 December 2000 the trust held 3,215,689 Ordinary Shares (1999 – 3,805,990).

As potential beneficiaries under the discretionary trust established to facilitate the operation of the GKN SAYE Share Option Schemes, the UK-employed executive Directors are deemed to have an interest in the Ordinary Shares of GKN plc held by the trust from time to time. At 31 December 2000 the trust held 999,424 Ordinary Shares (1999 – 1,892,971) and at 5 March 2001 it held 975,927 Ordinary 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, long-term incentive plan awards and options to subscribe for shares in GKN plc, is available for inspection by shareholders upon request.

Report on Directors' remuneration continued

Service agreements

The period of notice required to be given by the Company to terminate the service agreements of the executive Directors is two years. The agreements terminate in any event at the end of the year in which the Director attains the age of 60. 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 other than upon due notice within 12 months following a change in control of the Company, the Director has the right to claim two years' basic salary without any reduction.

The Remuneration Committee has given careful consideration to the Combined Code on Corporate Governance (see page 76) 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 Board 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.