

Review of operations: Automotive

GKN **Automotive** is a global first tier supplier of components and systems to the world's automotive and off-highway vehicle manufacturers. We are the world's leading supplier of constant velocity jointed halfshafts with 41% of the global market in this key component and a major supplier of advanced driveline systems. GKN is the world leader in powdered metal components and one of the world's largest producers of metal powder.

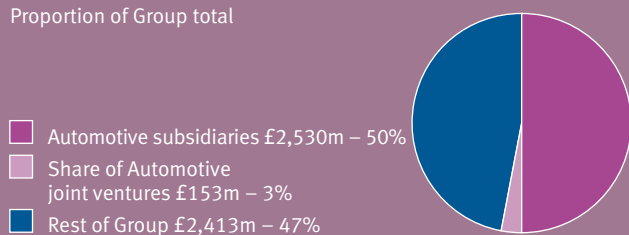
Automotive highlights in 2000

- Strong performance despite downturn in North American market
- Global market share in constant velocity jointed driveshafts grows to 41%
- Strategic outsourcing agreement with Opel in Europe
- First manufacturing presence in Japan following Nissan outsourcing agreement
- Increased shareholding in operations in Brazil, Australia and Mexico
- Major expansion in Hoeganaes to increase US metal powder production capacity
- Sales growth of almost 40% for Emitec
- Increased sales for OffHighway Systems in difficult market

Our Automotive businesses performed well with sales 12% higher and profits up by 13% compared with 1999. Excluding the impact of acquisitions, divestments and currency, sales were 6% ahead and profits up by 10%.

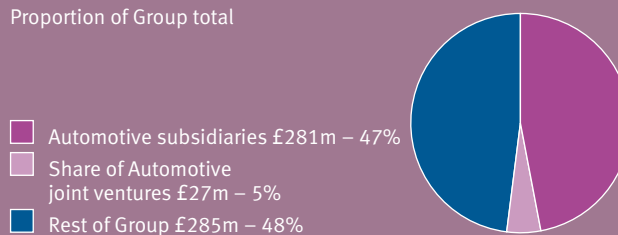
Sales 2000

Proportion of Group total



Operating profit 2000*

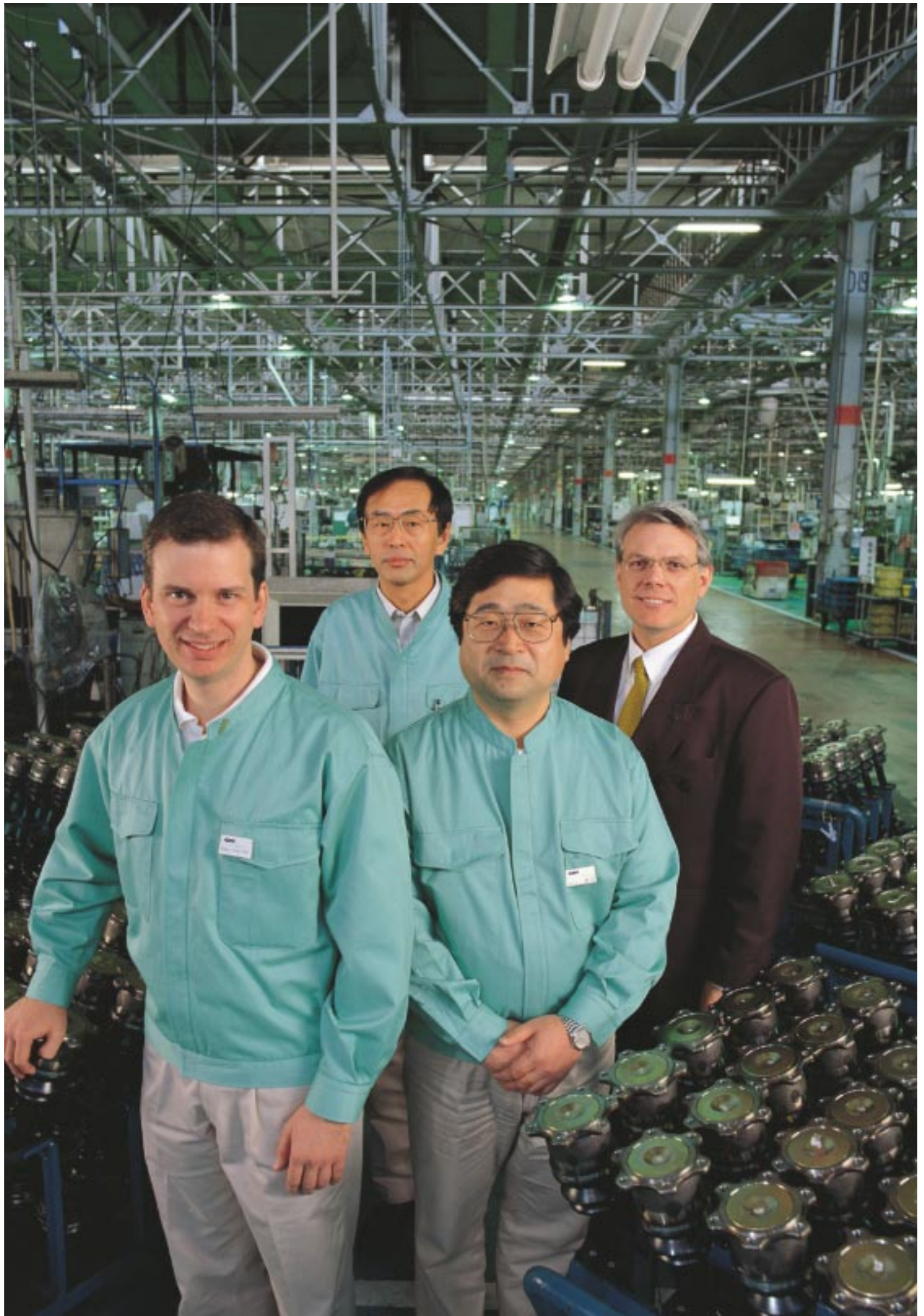
Proportion of Group total



* Before goodwill amortisation and exceptional items

Sales 2000

	By origin £m	By market £m
United Kingdom	332	292
Continental Europe	1,071	1,038
Americas	1,048	1,084
Rest of the World	232	269
Total	2,683	2,683



Review of operations: Automotive continued

“strong technological advances to retain world leadership positions”

Global advantage in Driveline

GKN Automotive Driveline Division (ADD) supports its global customers through advanced engineering collaboration to ensure that future products and services are in alignment with tomorrow's vehicle requirements.

ADD is a world leader in the design and manufacture of driveline system products. It has 41% of the world market for constant velocity jointed (CVJ) halfshafts, employs over 20,000 people and operates 43 manufacturing facilities in Europe, the Americas, Asia-Pacific and Africa. It also provides worldwide driveline system integration support through DriveTek, its 50:50 joint venture with Dana Corporation of the US. Most manufacturers produce vehicles which contain driveline components made by, or under licence from, GKN.

Worldwide vehicle production was a record in 2000. North American light

vehicle sales exceeded those of 1999 by 3% closing at 17.4 million units. However the final weeks of 2000 were marked by a significant downturn in vehicle production which continued into early 2001. Western European light vehicle sales closed the year at 16.4 million vehicles – slightly down on the 1999 record. Within Europe the performance of individual markets was diverse. The German replacement cycle and the growth in stock of nearly new cars had a major impact on new car sales which fell by 10%. Offsetting this decline in Europe's largest market were stronger performances in Italy, France and Spain. Japan continued to suffer from economic difficulties and the only sector which showed any improvement was the cheapest mini car segment which increased by 5% over 1999. ADD sales growth for the period was 11% aided by the impact of acquisitions and vehicle layout changes resulting in increases in CVJ fitment.

ADD focuses its global engineering resources on strong technological advances to retain its world leadership position in CVJs and be the natural choice for OEM (Original Equipment Manufacturers) outsourcing opportunities. This proved to be the case when General Motors outsourced its Opel driveline production at Kaiserslautern in Germany to ADD and Nissan chose ADD to take over its CVJ activities in their facility in Tochigi, Japan. This led to the establishment of GKN Japan Driveshafts in November. The facility produces annually 1.3 million vehicle sets of CVJ halfshafts for Nissan domestic and export supply. GKN already has in place a global network of engineering facilities to support Nissan and this move matches ADD's intention to support all major customers as they extend their own globalisation efforts. The choice of GKN by General Motors and Nissan underlines their confidence in ADD's

Main photo – The senior integration team at the Tochigi plant (left to right): Craig Parr, Kazuo Sakaki, Sadaaki Watanabe, Walter Rohregger



Extending into Japan

2000 was the year when GKN established its first manufacturing presence in Japan following Nissan's decision to outsource CVJ manufacture at its Tochigi plant. Integrating the plant's operations within the global ADD organisation has been a major task for the Asia-Pacific management team.

Pictures this page (left to right): Ryoji Shimizu (foreground) and Yukinobu Maeda, Sadao Murakami and Hiroshi Kubo

Review of operations: Automotive continued

Nissan's choice of GKN to take over its CVJ activities in Japan signalled that GKN has a global network of engineering facilities to support its customers as they pursue their own global strategies. Nissan's choice also confirms GKN's understanding of the cultural demands of running a business on a global scale.

capability to understand the cultural demands of operating manufacturing facilities anywhere in the world. Further progress was made in Japan by GKN Toyota Driveshafts – a joint venture with Toyota affiliate Toyoda Machinery Works. Significant orders have been won and investment is underway to support start of production during 2001.

Following similar initiatives elsewhere in the world in previous years, ATH Albarus in Brazil became a wholly owned subsidiary after GKN acquired the 35% shareholding held by Dana. ADD increased its shareholding in Unidrive in Australia to 60% and in Velcon in Mexico from 39% to 49%.

Drive Tek, which engineers, markets and supplies integrated driveline systems solutions, won its first contract with a major US OEM. Further contracts with European and US customers are expected in 2001.

ADD is leading GKN's involvement in Covisint, the auto industry e-supply portal, as a major development partner. E-capabilities available through Covisint are seen as an extension to ADD's existing commitment to being a full service supplier. This will be achieved by greater integration with customers through electronic data exchange.

Central to our focus on effective implementation of our global plans is the continuous development of our people worldwide. This has been and remains a priority issue for ADD's executive team as it is for all other GKN businesses.

Leadership in Powder Metallurgy

With sales in 2000 of more than £630 million and 7,500 employees, GKN is the world's leading producer of powdered metal components and the only sizeable company to possess both material and component technologies. GKN's powder metallurgy business comprises GKN Sinter Metals and Hoeganaes.

GKN Sinter Metals is the leading global producer of powdered metal components. With 35 production facilities worldwide, the division employs 7,000 people. It is the leading producer of connecting rods, main bearing caps and transmission components, which are growth areas in the application of powder metal technology.

GKN Sinter Metals continued its programme of acquisition, consolidation and integration within the fragmented powdered metal component industry. In addition, it strengthened its technology and product development

and achieved significant organic growth. Sales in 2000 grew by 28%, exceeding 1999 growth of 26%. However GKN Sinter Metals, with its greater exposure to the North American market in general, and the 'big three' domestic car producers in particular, found trading conditions in the last quarter difficult. These conditions continued into early 2001.

As part of its commitment to continuous improvement the division embarked on a global programme to increase productivity, quality and customer service.

Hoeganaes is the US leader in powdered metal production with operations in New Jersey, Pennsylvania and Tennessee. Hoeganaes produces metal powders, utilising direct reduction and atomising technologies. The majority of its products are used by powdered metal component manufacturers. Other uses are in welding, pharmaceuticals and photocopying. In 2000, Hoeganaes completed a US\$100 million expansion which has increased capacity by 30%. Hoeganaes was also adversely affected by the downturn in US vehicle production at the end of 2000, and by a threefold increase in the price of natural gas which is a key material in metal powder production.



GKN AutoStructures is a major supplier to the new Ford Transit range of vans. During 2000, the business opened two new assembly facilities close to the Transit plants at Genk in Belgium and Southampton in the UK (above). Both facilities supply front cross member and corner modules on a 'just in time' basis to the Transit assembly lines. AutoStructures also builds the body shell extension module for an extended variant of the Transit produced in Belgium. Pictures (left to right): Matt Cook, Matt Phillips, Stuart Buckley and Keith Williams.

GKN Sinter Metals launched a global programme to improve manufacturing efficiencies across its plants which has involved employees at all levels. At Radevormwald, Germany, the staff in the Shipping Department identified a number of actions which increased throughput by 20% without any increase in costs. Picture: Aziz Gün.

Market share gains in a difficult year

OffHighway Systems' markets remained depressed. Agriculture worldwide had another difficult year which led to continued reluctance by farmers to invest in equipment. Nevertheless, new projects, particularly in North America, resulted in market share gains and increased sales over 1999.

Following the successful start of new lines supplying chassis components and modules to the new Ford Transit, GKN AutoStructures continued to invest in new products which will impact sales in 2001. GKN Sheepbridge Stokes, the European leader in cylinder liners, had another strong year despite a substantial sales reduction to MG Rover. A US facility was opened to machine cylinder liners to provide support to the North American market which is growing rapidly.

Success for Emitec

More stringent emission legislation led to sales growth of nearly 40%. Major customers include BMW, DaimlerChrysler, VW, Toyota and Ford. A new factory in Germany started high volume production in 2001 and a new test centre together with increased engineering capabilities will reinforce Emitec's competitive advantage.



Connecting rods

GKN Sinter Metals produces connecting rods for most of the major automotive manufacturers. At the forefront of the development of cost-effective and highly reliable powdered metal components for the automotive and other industries, GKN is leading the global consolidation of the powder metallurgy industry.