

Review of operations: Industrial Services

GKN has four **Industrial Services** businesses. CHEP is world leader in pallet and container pooling. CLEANAWAY is a European leader in waste management. Interlake Material Handling is US leader in pallet and container racking. Meineke is a leading North American undercar service franchise. CHEP Europe, CHEP Americas, CHEP Asia and CLEANAWAY are 50:50 joint ventures with Brambles of Australia. CHEP South Africa, Interlake Material Handling and Meineke are subsidiaries.

Industrial Services highlights in 2000

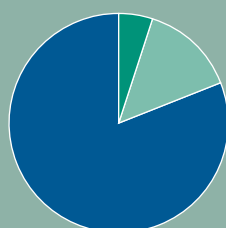
- Major Home Depot programme win in US follows Wal*Mart success in 1999
- More than 500 Wal*Mart suppliers join the CHEP pool
- CHEP returnable crate pools grew strongly in North America and Europe
- UK and German acquisitions strengthen CLEANAWAY market position
- Sales and profit growth for Interlake Material Handling

Sales and profits in Industrial Services were up 19% and 15% respectively and on a like for like basis, excluding the impact of acquisitions and currency, the increases were 16% and 14%. In the combined CHEP and CLEANAWAY joint ventures, both sales and profits were up by 16% on a like for like basis.

Sales 2000

Proportion of Group total

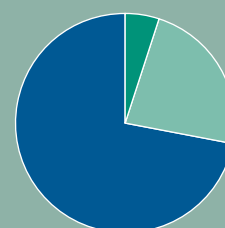
- Industrial Services subsidiaries £232m – 5%
- Share of Industrial Services joint ventures £730m – 14%
- Rest of Group £4,134m – 81%



Operating profit 2000*

Proportion of Group total

- Industrial Services subsidiaries £32m – 5%
- Share of Industrial Services joint ventures £137m – 23%
- Rest of Group £424m – 72%



* Before goodwill amortisation and exceptional items

Sales 2000

	By origin £m	By market £m
United Kingdom	213	210
Continental Europe	306	309
Americas	416	416
Rest of the World	27	27
Total	962	962



Review of operations: Industrial Services continued

“Growth continues to be underpinned by the size and strength of the global market”

The global strength of CHEP

Most of the world's top international FMCG (fast moving consumer goods) companies are CHEP customers. They require fast availability of pallets and other transit packaging and expect the highest quality at competitive prices. The logistics of the business are sophisticated and significant benefits accrue to customers through the improved utilisation of packaging assets that CHEP can deliver. Automotive suppliers also use CHEP containers to deliver components.

Growth continues to be underpinned by the size and strength of the global market for CHEP's pallet and container systems. CHEP now operates in 32 countries and, at the end of 2000, CHEP operations in which GKN has a 50% interest or more controlled 135 million pallets (excluding special stock at retailers). Among CHEP's newer services are returnable transit packaging (RTP)

and plastic pallets. RTP benefits include reduced waste, through elimination of non-returnable cardboard packaging, less product damage in transit and more efficient storage, distribution and merchandising. Plastic pallets are more expensive than wooden pallets but are more durable, can be manufactured with greater precision and perform better in automated systems. They are well suited to use in the ingredient supply chain.

CHEP grew strongly in North America for the tenth consecutive year with sales growth of 29% at constant exchange rates and excluding autocrates revenue. A particular success was the decision by The Home Depot, the world's largest home improvement retailer, to ask its suppliers to begin shipping products to the company's 1,000 stores and distribution centres using CHEP's pool. For The Home Depot CHEP's system is environment-friendly because CHEP pallets are continually recycled and

repaired, reducing wood waste considerably. The Home Depot win followed a major success in 1999 when Wal*Mart, the world's largest retailer, advocated use of CHEP's pallet pooling system to its suppliers. During 2000, over 500 new Wal*Mart suppliers joined the CHEP pool. Both the Wal*Mart and Home Depot programmes will make a major contribution to the growth of CHEP. CHEP businesses in Canada and Mexico continued to perform strongly, and new businesses in Brazil and Argentina made good progress and achieved strong growth in the rapidly developing FMCG markets in those territories.

CHEP's sales in Europe increased by just under 9% at constant exchange rates. It is now clear that Y2K overstocking had a significant effect on 1999 second half revenue which was not repeated in 2000. Growth in Germany and Italy was slower than expected but recent

Main photo (left to right): CHEP's Jim Jacoby, Tom Kirk and Anita Wolfe at The Home Depot, Alafaya Trail, Orlando



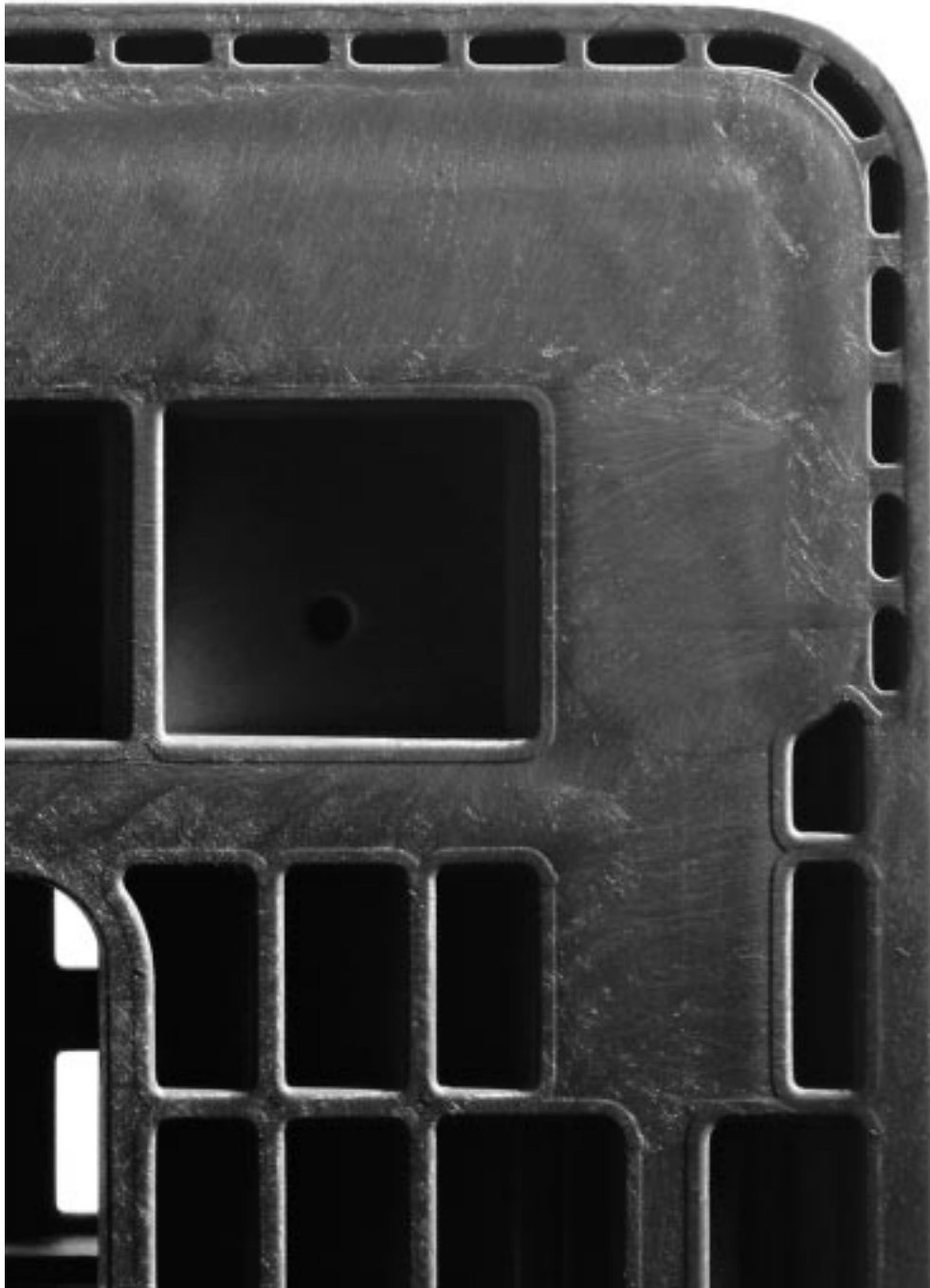
Success with the customer

The Home Depot, the world's largest home improvement retailer, started to ask its suppliers to ship products to it using CHEP pallets, an environmentally sound alternative to non-pooled wooden pallets. The Home Depot said CHEP's system will enable it to avoid discarding more than 18 million pallets per year by the end of 2002, substantially decreasing pressure on forest resources worldwide. CHEP expects that the majority of Home Depot's volume will be shipped on CHEP pallets by the end of 2001.

Review of operations: Industrial Services continued



Interlake Material Handling held the first on-line metals auction in the US to procure hot rolled steel. The Interlake team set out to capitalise on market conditions and to use an e-based technique to drive lowest price and create competition between local and global suppliers. Interlake now expect this e-based technique to deliver a 3% to 5% reduction in price over traditional bidding methods. Picture (left to right): Matt Baker, Bob Rosenbaum and Mark Figura.



Plastic pallet

New product innovation is helping to drive the growth in GKN's Industrial Services portfolio. The plastic pallet, launched in Europe and North America, is one of CHEP's latest innovations. Plastic pallets can be manufactured to greater levels of precision than the traditional wooden pallet and therefore perform better in automated systems.

CHEP continues to develop advanced added value services. Supply Chain Information Services uses a microchip embedded in a pallet to provide identification of the pallet and the goods carried on that pallet. Portfolio is an internet based on-line account management system for CHEP customers.

contracts with Kraft, Nestlé and Reckitt Benckiser will accelerate growth in these pools. The current high strength of sterling is resulting in very high levels of imports in the UK with consequent pressure on pool re-balancing and transportation costs. The RTP services grew by over 50%. The European autocrate business continued to experience an increase in services to General Motors, Ford and automotive component suppliers but low activity levels at major customers reduced demand in the second half.

CHEP in Southern Africa made further progress with increased penetration of the primary market and significant growth in recently introduced services, notably the intercontinental pooling of pallets into Europe and pooling of intermediate bulk containers. CHEP's businesses in Malaysia, Singapore and Hong Kong, though still small, grew steadily. Research continues in other Asian markets to extend CHEP's support to its multi-national customers.

CHEP's investment in a new global IT platform made good progress with the first national implementation going live in December. The costs of running new and legacy systems in parallel impacted the second half and will continue to be a

factor, particularly in Europe, in 2001. CHEP continues to make progress in the development of advanced added value services. Trials continued on Supply Chain Information Services which provide identification of the pallet and therefore of the products carried by using microchip technology embedded in the pallet. In the US, CHEP launched customer trials of Portfolio, its new on-line ordering and reporting service which allows customers to order pallets and containers and monitor their accounts in real-time over the internet.

CLEANAWAY progress continues

CLEANAWAY continued to perform well, particularly in Germany, with progress in trade waste, technical waste and recycling. Progress in the UK was adversely affected by operational problems and rising fuel costs. This is against a background of a highly competitive market with increasing consolidation among major companies. In April, CLEANAWAY acquired WMD Waste Management Deutschland Holding GmbH. WMD has annual revenues of more than DM180 million. This acquisition raises the annual revenue of the CLEANAWAY group in Germany to more than DM1 billion. WMD's primary operations are trade waste collection and recycling which

complement the existing business of SKP in Germany. CLEANAWAY made nine small acquisitions in 2000 and in January 2001 announced the acquisition of Serviceteam, one of the UK's leading municipal contract service providers. Serviceteam holds contracts with more than 80 local authorities and generates annual revenues of approximately £140 million.

Interlake sales growth

Interlake Material Handling is the largest US supplier of storage racking and dynamic storage for warehouses and distribution centres. Sales grew by 18% in 2000 as Interlake continued to support its major FMCG customers such as Wal*Mart, Best Buy, Nestlé and The Home Depot. Interlake also has a small US integrated order fulfilment business which was strengthened by the acquisition of the assets of Control Solutions Inc.

Meineke franchise sales grow

The US aftermarket continues to be impacted by the decline in exhaust replacement sales. However, Meineke's other areas of under car service, notably brakes, continue to grow. Meineke was one of the few US automotive aftermarket businesses to report a growth in same store sales.