

## 2001: A YEAR OF TRANSFORMATION FOR GKN

This time last year we were heavily engaged in negotiations involving the demerger of our Industrial Services businesses and their subsequent merger with Brambles Industries Limited of Australia utilising a dual listed companies structure. On 7 August 2001 this complex restructuring was successfully completed and shareholders in GKN also became shareholders in Brambles Industries plc, a newly formed company listed on the London Stock Exchange and currently a constituent of the FTSE 100 index. Those shareholders acquired a 43% economic and voting interest in the combined Brambles Group.

Following the demerger of the Industrial Services businesses, GKN has been transformed into a global engineering company committed to growth. It is now concentrated on the automotive and aerospace markets with a strategic focus that is stronger as a result of the demerger.



## Results

The accounts for the year 2001 include the results of the Industrial Services businesses for the period up to their demerger. Pages 32 to 37 show the results of GKN excluding the demerged businesses on a pro forma basis. On that basis pre-tax profits before goodwill amortisation and exceptional items were £245 million (2000 – £386 million) and earnings per share were 24.7p (2000 – 39.1p). Cash inflow from operating activities was £452 million (2000 – £335 million). Net debt at the end of the year was £885 million (2000 – £601 million) reflecting £246 million of capital expenditure, a net £136 million invested on acquisitions less divestments and £144 million injected into the AgustaWestland joint venture created at the beginning of last year when GKN and Finmeccanica contributed the assets of their Westland and Agusta helicopter businesses to this new partnership. Interest cover was 5.0 times.

The reduced profits in 2001 reflect weaker conditions particularly in our automotive markets exacerbated by the events of 11th September. Disappointing operating performances in some of our newly acquired sinter metals businesses in North America, currently the subject of concentrated management focus, also had an adverse impact on trading results. Interest costs were substantially higher reflecting increased borrowings.

## Dividend

An interim dividend of 7.6p per share has already been declared and paid to shareholders on 28 September 2001. This was in respect of the Group prior to the demerger of our Industrial Services businesses. It is now proposed to pay a final dividend of 7.3p per share on 17 May 2002 making a total dividend for the year of 14.9p.

The proposed final dividend of 7.3p is in respect of the Group following the demerger. On the basis that dividends will normally be split approximately one-third as an interim dividend and two-thirds as a final dividend, the proposed final dividend of 7.3p equates to a total dividend, on a pro forma basis, of 11.0p for 2001.

Looking ahead the Board expects to pursue a progressive dividend policy subject always to prevailing economic conditions.

## Social responsibility review

The social responsibility review can be found on pages 20 to 25. In it we set out some of our values which very much reflect the principles to which we work. The review also sets out our recent safety performance showing further improvements in terms of both accident frequency and accident severity rates. Measurements of environmental performance all show improvements since 1999.

At the end of last year there were 36,300 employees in subsidiaries and 13,500 in joint ventures. 2001 has been a more than usually challenging year for employees with the creation of the AgustaWestland joint venture in the first half of the year, the dislocation caused by the demerger of Industrial Services in the summer and more recently a series of plant and office restructurings that have led to a number of redundancies. In thanking our employees for their contribution to the achievements of GKN we are particularly mindful of the additional pressures that have arisen in the last twelve months.

## The Board

Sir Peter Williams was appointed to the Board as a non-executive Director in June 2001 replacing Sir Bryan Nicholson who retired at the end of the previous year.

As part of the arrangements surrounding the merger of our Industrial Services businesses with Brambles, Sir C K Chow and David Turner resigned as Chief Executive and Finance Director of GKN and were appointed to similar roles in the Brambles dual listed companies. Both have made significant contributions to the development of GKN for which we are grateful and we wish them well in their new appointments.

In place of Sir C K Chow, Marcus Beresford, who has been a Director of GKN since 1992, was appointed Chief Executive in August 2001. At the same time Nigel Stein, who joined GKN in 1994, was appointed to the Board as Finance Director replacing

David Turner. The handover of these two important executive posts has proceeded seamlessly.

In November 2001, Seifi Ghasemi resigned from the Board as Managing Director Powder Metallurgy to take up an appointment outside the Group. Richard Clowes, who joined GKN in 1991 and has previous experience of the powder metallurgy business, was appointed to the Board in his place with the title Managing Director Powder Metallurgy, OffHighway and AutoComponents.

## Auditor independence

In the light of recent well publicised external events, the Board has given further consideration to the issue of auditor independence. Although the Board has no reason to doubt the independence or objectivity of the Company's auditors, it has decided that in future the auditors should be excluded from invitations to undertake assignments of a consultancy nature.

## The future

The Chief Executive in his review addresses both the strategic achievements of last year and some of the opportunities available to the Group going forward. Enhancing shareholder value remains the driving force behind the development and execution of our strategy.

At this time there is considerable uncertainty about trends in demand with particular reference to the extent to which the downturn will continue in 2002, and the timing of recovery. Our response is the same as it has been in other downturns. That is to ensure that our cost base truly reflects a realistic view of the market, to invest for productivity, to manage our cash resources efficiently and to pursue the growth opportunities in our core businesses. We are committed to the discharge of these tasks so that, notwithstanding some short-term weakness in our main markets, the future for GKN will continue to be bright.

