

## REPORT ON DIRECTORS' REMUNERATION

### Demerger note

As explained in the Directors' Report on page 69, in connection with the GKN scheme of arrangement and the subsequent demerger of GKN's Industrial Services businesses to Brambles Industries plc (the 'Demerger'), on 1 August 2001 GKN plc became the parent company of the former GKN plc which changed its name to GKN Holdings plc. This report covers the calendar year 2001 and includes the remuneration paid to the Directors of GKN Holdings plc until 31 July 2001 and to the Directors of GKN plc from 1 August 2001.

### 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 and during 2001 was approved by the Board without amendment to the Committee's recommendations. The Committee, which consists solely of the non-executive Directors of the Company (whose biographical details are given on pages 26 and 27), 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.

During the year the Committee took advice from independent firms of compensation and benefit consultants in respect of executive Directors' salaries and long-term incentives.

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 multinational 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 Board believes that a significant proportion of each Director's remuneration should be performance-related. Accordingly, the remuneration of the executive Directors comprises basic salary and benefits in kind set at competitive levels, short-term variable

remuneration dependent upon the achievement of performance targets, and longer-term rewards including pension benefits and performance-related long-term incentives. Directors' remuneration is 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.

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 materially unchanged from that considered by shareholders at the 2001 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 2001 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 before exceptional items and goodwill amortisation. For those Directors with responsibility for business operations, payments were also dependent upon the achieved level of operating profit before

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interest of their respective portfolio in 2001. Exceptionally in 2001, due to the rapidly changing economic environment and the anticipated timing of the Demerger, separate profit targets were set for the two halves of the year (1 January to 30 June and 1 July to 31 December). Profit performance equal to budget or forecast levels (as appropriate) would result in payments of between 10% and 20% of salary for the first half of 2001 and 20% of salary for the second half. A further element was related to the achievement of cash flow targets for the Group as a whole and, where appropriate, the cash flow performance of the Director's portfolio for each half of the year. A maximum of 9% of an individual's salary was payable on achievement of all cash flow 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 2001, excluding pension benefits and long-term incentives, was as follows:

	Salary £000	Performance- related £000	Benefits £000	Total 2001 £000	Total 2000 £000
M Beresford <sup>(a)</sup>	431	47	22	500 <sup>(b)</sup>	382
Sir C K Chow <sup>(c)</sup>	384	127	13	524 <sup>(b)</sup>	754
R J Clowes <sup>(d)</sup>	47	26 <sup>(e)</sup>	3	76 <sup>(b)</sup>	–
R W Etches	247	23	16	286 <sup>(b)</sup>	292
S Ghasemi <sup>(f)</sup>	416	–	5	421	–
I R Griffiths <sup>(g)</sup>	295	52	4	351 <sup>(b)</sup>	–
K Smith	327	316	18	661 <sup>(b)</sup>	553
N M Stein <sup>(h)</sup>	112	25	23	160 <sup>(b)</sup>	–
D J Turner <sup>(c)</sup>	207	114	10	331 <sup>(b)</sup>	398
S Kalyandjian <sup>(i)</sup>	–	–	–	–	426
D J Wright <sup>(i)</sup>	–	–	–	–	406
	2,466	730	114	3,310	3,211

(a) Appointed Chief Executive with effect from 7 August 2001 having previously been Managing Director Industrial Services.

(b) 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 77. The allowances, detailed right, have therefore been excluded from the total remuneration shown in the table above although they are part of the Directors' aggregate emoluments for the purpose of disclosure under the Companies Act 1985:

Mr M Beresford – £26,000 (2000 – nil);  
Sir C K Chow – £123,000 (2000 – £215,000);  
Mr R J Clowes – £13,000 (2000 – nil);  
Mr R W Etches – £70,000 (2000 – £66,000);  
Mr I R Griffiths – £83,000 (2000 – nil);  
Mr K Smith – £43,000 (2000 – £39,000);  
Mr N M Stein – £29,000 (2000 – nil);  
Mr D J Turner – £17,000 (2000 – £35,000).

(c) Resigned 6 August 2001.

(d) Appointed 1 November 2001.

(e) Represents performance-related payment accrued in respect of the whole of 2001 (including the period prior to Mr R J Clowes' appointment as a Director).

(f) Appointed 19 January 2001 and resigned 31 October 2001. Mr S Ghasemi was paid in US dollars – for the purpose of this report his emoluments have been translated at US\$1.44/£1.

(g) Appointed 19 January 2001.

(h) Appointed 7 August 2001.

(i) Retired 31 December 2000.

(j) Mr G Denham, Mr M R Layton and Mr R E Richards were Directors of the Company during 2001 but ceased to be Directors prior to the posting of the Company's listing particulars on 22 June 2001. They received no emoluments as Directors of the Company.

### 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, in the case of Richard Clowes, Ian Griffiths and Nigel Stein, 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.

The Executive Scheme provides Directors with a pension of up to two-thirds of basic annual salary (up to the earnings cap) on retirement at age 60 after 20 or more years' service and proportionately less for shorter service or for retirement before pension age. On early retirement with company agreement within five years of pension age the current discretionary practice in the case of all members, and subject to the consent of the Remuneration Committee in the case of Directors, is to pay a pension equal to the proportion of the prospective pension accrued for service completed. The Executive Scheme provides for a surviving spouse's pension of two-thirds of the member's pension and for increases in pensions and deferred pensions equal to price inflation up to 5% per annum (with a minimum increase of 2.5% per annum dependent upon the date of entry to the Executive Scheme). Any additional pension increases are at the discretion of the Board. No allowance is made for discretionary benefits when calculating individual transfer values available to members who leave the Executive Scheme. A member's contribution of 5% is required under the Executive Scheme, except in the case of Ian Griffiths who joined the Executive Scheme prior to 1991 when such contributions were introduced.

On appointment as a Director, contributions continued in respect of Seifi Ghasemi to his existing US defined contribution retirement plan.

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

	Money-purchase contributions and allowances for pension benefit purposes	
	2001 £000	2000 £000
M Beresford	176	116
Sir C K Chow <sup>(a)</sup>	156	243
R J Clowes <sup>(b)</sup>	13	–
R W Etches	100	95
S Ghasemi <sup>(c)</sup>	314	–
I R Griffiths <sup>(d)</sup>	84	–
K Smith	134	126
N M Stein <sup>(e)</sup>	30	–
D J Turner <sup>(a)</sup>	95	148
D J Wright <sup>(f)</sup>	–	79

	Current age	Increase in annual pension <sup>(g)</sup> 2001 £000	Accrued annual pension at end of year 2001 £000
R J Clowes <sup>(b)</sup>	51	5	32
I R Griffiths <sup>(d)</sup>	51	9	36
N M Stein <sup>(e)</sup>	46	5	23

### Long-term incentive arrangements

Long-term incentives which closely link executive rewards to either relative total shareholder return or GKN's earnings performance are an important component in the overall executive remuneration arrangements. During 2001, shareholders approved the introduction of an entirely new performance-related executive share option scheme (the '2001 ESOS') together with a new long-term incentive plan (the '2001 LTIP') based on the Group's existing long-term incentive plans for executive Directors and senior executives (the 'old LTIPs').

### Long Term Incentive Plans

In summary, under the 2001 LTIP each executive Director may be awarded annually a conditional right to acquire a number of GKN plc 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 plc Ordinary Shares during the preceding year. (For awards made in 2001 and 2002 the preceding year's share price is adjusted to reflect the Demerger.) 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 and on satisfaction of a personal shareholding requirement.

Performance 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 on shares of other companies chosen by the Remuneration Committee as an appropriate comparator group. For awards made in 2001 the comparator group is the companies constituting the FTSE 100 Index at the start of the measurement period excluding companies in the telecommunications, media, technology and financial services sectors. If, at the end of the measurement period, GKN ranks in the upper quartile of this comparator group, the executive Director will receive all of the shares conditionally awarded to him. If the ranking is at the median level, he will receive 50% of the shares, with no shares being received for below median. For intermediate rankings between upper quartile and median, the executive Director will receive a proportionate number of shares reducing on a straight-line basis.

Executive Directors must meet a shareholding requirement (for which purpose deferred rights under the LTIPs will be counted as shares) on the third anniversary of the grant of an award. The requirement for awards made in 2001 is GKN plc Ordinary Shares valued at 100% of basic salary measured at the date of award.

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 2001 LTIP. 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.

(a) Resigned 6 August 2001.

(b) From 1 November 2001.

(c) From 19 January 2001 to resignation on 31 October 2001.

(d) From 19 January 2001.

(e) From 7 August 2001.

(f) Retired 31 December 2000.

(g) Increase since appointment in accrued pension in excess of inflation to which each Director would have been entitled on leaving service.

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The old LTIPs, under which conditional share acquisition rights remain outstanding, operate in a manner similar to the 2001 LTIP except that the TSR comparator group is the companies constituting the entire FTSE 100 Index at the start of the measurement period and there is no shareholding requirement. Shareholders approved the following amendments to the old LTIPs during 2001 in connection with the Demerger:

› existing conditional rights became rights to acquire equal numbers of GKN and Brambles Industries plc ("Brambles") shares with a TSR comparison of a bundle of GKN and Brambles shares;

› existing deferred rights became rights to acquire equal numbers of GKN and Brambles shares which were subsequently released to participants under the existing rules of the old LTIPs. <sup>¶</sup>

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
Jan 1999 – Dec 2001	0.67	54	0

Conditional and deferred rights to Ordinary Shares under the LTIPs held by the executive Directors at 31 December 2001 and 1 January 2001 (or, if later, on appointment to the Board of Directors of GKN Holdings plc or GKN plc as appropriate), together with awards made, converted and released during the year, were as follows:

	2001								Awards held 1 January 2001	
	Awards held 31 December 2001		Conditional awards made	Conditional awards converted to deferred	Conditional awards lapsed on conversion	Deferred awards released	Money value of released deferred awards (£000) <sup>(a)</sup>	Conditional	Deferred	
	Conditional	Deferred								
M Beresford	194,470	–	134,270	34,658	5,642	106,758	733	100,500	72,100	
R J Clowes <sup>(b)</sup>	103,890 <sup>(c)</sup>	–	–	–	–	–	–	103,890 <sup>(d)</sup>	–	
R W Etches	116,760	–	64,960	30,788	5,012	38,288	244	87,600	7,500	
I R Griffiths <sup>(e)</sup>	118,140 <sup>(c)</sup>	–	81,840	15,394	2,506	39,494	251	54,200	24,100	
K Smith	117,910	–	86,960	–	–	–	–	30,950	–	
N M Stein <sup>(f)</sup>	70,330	–	70,330	–	–	–	–	–	–	

The aggregate money value (before tax) of the shares received during the year by the Directors under the LTIPs amounted to £3.8 million (2000 – £3.2 million including shares receivable under deferred awards calculated by reference to the closing mid-market share price on 31 December 2000).

In addition Kevin Smith, in respect of the measurement period 1999 to 2001, had a long-term incentive arrangement to be satisfied in cash which in all other respects was equivalent to an award over 26,950 shares made pursuant to the old LTIPs. This was to compensate him 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. The award has lapsed since 31 December 2001. Nigel Stein

has an award from an historical long-term incentive plan operated by GKN Sinter Metals Inc (of which he was Chief Financial Officer prior to his appointment to the Board) under which participants may receive payments based on the increase in value of the GKN Sinter Metals division over the five-year period to 31 December 2002. No entitlements under the plan have arisen to date.

### Executive Share Option Schemes

In summary, under the 2001 ESOS each executive Director may be awarded annually an option to subscribe for a number of GKN plc Ordinary Shares. The Remuneration Committee decides the level of awards in each year (for 2001 the value of the shares granted under option was 1.5 times basic salary). A higher level may be applied in future where required specifically to recruit or retain

(a) Calculated by reference to the closing mid-market price of GKN and Brambles Ordinary Shares on the date of release, stated before tax.

(b) Appointed 1 November 2001.

(c) Includes the following conditional rights to shares relating to awards granted in respect of service prior to appointment as a Director under which the shares will be eligible for release one year after the end of the relevant measurement period:  
Mr R J Clowes – 31,000 GKN and Brambles Ordinary Shares;  
Mr I R Griffiths – 36,300 GKN and Brambles Ordinary Shares.

(d) Rights to GKN plc Ordinary Shares held on appointment.

(e) Appointed 19 January 2001.

(f) Appointed 7 August 2001.

(g) As a result of the Demerger, deferred awards were released during the year in accordance with the rules of the old LTIPs to the following Directors who resigned during the year:  
Sir C K Chow – 229,924 GKN and Brambles Ordinary Shares with a money value of £1,462,000;  
Mr S Ghasemi – 42,656 GKN and Brambles Ordinary Shares with a money value of £271,000;

Mr D J Turner – 124,776 GKN and Brambles Ordinary Shares with a money value of £794,000.

(h) Since 31 December 2001, the following conditional rights to shares in respect of awards granted in relation to the measurement period 1999 to 2001 have lapsed:  
Mr M Beresford – 32,350 GKN and Brambles Ordinary Shares;  
Mr R J Clowes – 16,150 GKN and Brambles Ordinary Shares;  
Mr R W Etches – 28,600 GKN and Brambles Ordinary Shares;  
Mr I R Griffiths – 15,700 GKN and Brambles Ordinary Shares.

an executive. Marcus Beresford is prohibited from being granted options under the rules of the 2001 ESOS as he is within two years of his normal retirement date.

The number of shares that a Director can ultimately acquire upon exercise of the option is dependent upon satisfaction of a performance condition and a personal shareholding requirement, both set by the Remuneration Committee before an option is granted. For options granted in 2001, the performance condition is linked initially to the increase in GKN's earnings per share ('eps') over the period 1 January 2001 to 31 December 2003. 50% of the shares can be acquired if the increase over this period is not less than the increase in the Retail Prices Index ('RPI') plus 9%. The remaining 50% can only be acquired in full if such increase is RPI plus 15% (with a straight-line sliding scale for increases between RPI plus 9% and RPI plus 15%). If the performance condition is not satisfied in full after the first three-year period, so that less than 100% of the shares under option can be acquired, the performance condition will be re-assessed each year up to six years from the date of grant (the RPI plus 9% will be increased by 3% for each year beyond the third year, and the RPI plus 15% will be increased by 5% for each year beyond the third year). At the end of the six-year period, any unvested options will lapse. The shareholding requirement is the same as that for the 2001 LTIP described above.

GKN previously operated executive share option schemes until the introduction of the old LTIPs in 1996. These schemes were not performance-related and had no personal shareholding requirement.

Options granted under the 2001 ESOS together with options outstanding under the earlier executive share option schemes are normally exercisable 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 is fixed at the market price of GKN's shares at the time of grant. The outstanding options held by Directors are exercisable by 2011 at prices between 120p and 242.75p per share.

#### Save As You Earn (SAYE) Share Option Schemes

Outstanding options over GKN plc Ordinary Shares held by Directors under these schemes, which are open to all UK employees with six months' service or more, are exercisable by 2009 at prices between 99.16p and 330.83p 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.

Participants holding options over GKN Holdings plc Ordinary Shares granted under the executive or SAYE share option schemes prior to the Demerger could elect, by 29 January 2002, to exchange these options for options over GKN plc Ordinary Shares in the ratio of 2.4 GKN plc Ordinary Shares for every GKN Holdings plc Ordinary Share under option (with a corresponding adjustment to the option price). Participants not electing to exchange their options had to exercise them by 29 January 2002 or they would lapse. Any GKN Holdings plc Ordinary Shares issued as a result of such exercises were automatically exchanged for GKN plc Ordinary Shares in the above ratio.

Options over GKN plc and GKN Holdings plc Ordinary Shares which were held by Directors under the executive and SAYE share option schemes at relevant dates throughout the year are given below.

#### GKN Holdings plc Ordinary Shares:

	Shares under option 1 January 2001	Exercised 2001	Lapsed 2001	Balance surrendered in exchange for GKN plc options 2001
M Beresford	1,220	–	–	1,220
Sir C K Chow	4,366	3,287	1,079	–
R W Etches	1,538	1,538	–	–
I R Griffiths	15,378	–	800	14,578
K Smith	–	–	–	–
D J Turner	101,465	499	966	100,000 <sup>(a)</sup>

(a) Surrendered in exchange for options over 240,000 GKN plc Ordinary Shares. Mr D J Turner resigned as a Director on 6 August 2001.

(b) The range of mid-market prices of GKN Holdings plc Ordinary Shares on the London Stock Exchange from 1 January 2001 to delisting of the shares on 31 July 2001 was 650p to 843p.

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## GKN plc Ordinary Shares:

	Shares under option 31 December 2001	Exercise price <sup>(a)</sup>	Granted 2001 <sup>(b)</sup>	Granted on exchange of GKN Holdings plc options 2001 <sup>(c)</sup>
M Beresford	2,928	330.83p	–	2,928
R J Clowes	331,811	186.53p	178,211	153,600
R W Etches	161,329	242.05p	161,329	–
I R Griffiths	231,252	226.06p	197,734	34,986
	1,468	275.41p		
K Smith	210,093	242.75p	210,093	–
N M Stein	237,128	211.45p	169,928	70,716
	3,516	275.41p		

Details of the options over GKN Holdings plc Ordinary Shares exercised by Directors during 2001 (which were all granted under the 1995 SAYE Share Option Scheme) are shown below. No options over GKN plc Ordinary Shares were exercised by Directors during the year.

	Shares issued on exercise	Date of grant	Exercise price per share	Price on date of exercise <sup>(e)</sup>	Shares retained on exercise
Sir C K Chow	3,287	15.4.97	395.0p	691p	3,287
R W Etches	1,538	21.4.98	633.5p	682p	1,538
D J Turner	499	13.4.00	661.0p	691p	499

The aggregate of the total theoretical gains on options exercised by Directors during 2001 amounted to £11,000 (2000 – £1.3 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' term of appointment as non-executive Chairman has been extended by mutual agreement until the conclusion of the Company's AGM in 2004. 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.

(a) Being the exercise price per share of options held at 31 December 2001. Where a Director held more than one option, the weighted average exercise price of such options is shown. However, where the exercise price of an option is above the market price of the shares at the end of the year (see note (d) below), the option is shown separately and the exercise price per share of such option is excluded from the weighted average exercise price of the Director's remaining options.

(b) Options were granted under the 2001 ESOS at an option price of 242.75p per share. Mr R J Clowes and Mr R W Etches were additionally granted options under the 2001 SAYE scheme at an option price of 217p per share over 8,283 and 4,377 shares respectively (included in the totals given above).

(c) Includes executive share options in respect of Mr R J Clowes (153,600 shares), Mr I R Griffiths (28,800 shares) and Mr N M Stein (67,200 shares) which are not performance-related.

(d) The closing mid-market price of GKN plc Ordinary Shares on the London Stock Exchange on 31 December 2001 was 265p and the price range since the Demerger on 7 August 2001 to the end of the year was 222p to 325.5p (685p to 703p from 1 August to 6 August 2001).

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

(f) The fees in respect of Mr R D Brown were until 30 June 2001 paid to his former employer, Unilever plc.

(g) Appointed 1 June 2001.

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 conclusion of the Company's forthcoming AGM.

The remuneration of the non-executive Directors for 2001 was as follows:

	Fees £000	Benefits £000	Total 2001 £000	Total 2000 £000
Sir David Lees	250	17	267	266
R D Brown <sup>(f)</sup>	34	–	34	30
The Baroness Hogg	30	–	30	30
Dr K H Murmann	30	–	30	30
Sir John Parker	34	–	34	34
Sir Peter Williams <sup>(g)</sup>	17	–	17	–
Sir Bryan Nicholson <sup>(h)</sup>	–	–	–	34
	395	17	412	424

**Share interests**

The beneficial interests of the Directors, including family interests, in the Ordinary Shares of GKN plc at 31 December 2001 and in the Ordinary Shares of GKN Holdings plc at 1 January 2001 (or, if later, on appointment to the Board of Directors of GKN Holdings plc or GKN plc as appropriate) were as follows:

	31 December 2001	1 January 2001 <sup>(i)</sup>
Sir David Lees	206,034	204,835
M Beresford	128,666	37,892
R D Brown	2,018	2,018
R J Clowes <sup>(j)</sup>	37,892	37,892 <sup>(k)</sup>
R W Etches	27,384	2,076
I R Griffiths <sup>(l)</sup>	41,136	1,642
The Baroness Hogg	893	893
Dr K H Murmann	80,197	80,197
Sir John Parker	3,450	3,299
K Smith	3,000	3,000
N M Stein <sup>(m)</sup>	1,250	–
Sir Peter Williams	5,000	–

(h) Retired 31 December 2000.

(i) Each GKN Holdings plc Ordinary Share held as at 31 July 2001 was exchanged for one GKN plc Ordinary Share on 1 August 2001.

(j) Appointed 1 November 2001.

(k) GKN plc Ordinary Shares held on appointment.

(l) Appointed 19 January 2001.

(m) Appointed 7 August 2001.

(n) None of the Directors held shares in GKN plc upon appointment on 19 June 2001, in advance of the Demerger, to the Board of Directors of that company (then called New GKN plc).

The executive Directors, as potential beneficiaries, are deemed to have an interest in the Ordinary Shares of GKN plc held from time to time by certain discretionary trusts established to facilitate the operation of the GKN long-term incentive arrangements. At 31 December 2001 and 5 March 2002 these trusts held 1,219,238 GKN plc Ordinary Shares (2000 – 3,215,689 GKN Holdings plc Ordinary Shares).

As potential beneficiaries under the discretionary trusts established to facilitate the operation of the GKN SAYE Share Option Schemes, the executive Directors are deemed to have an interest in the Ordinary Shares of GKN plc held by the trusts from time to time. At 31 December 2001 and 5 March 2002 these trusts held nil GKN plc Ordinary Shares (2000 – 999,424 GKN Holdings plc Ordinary Shares).

There were no changes in the Directors' interests in shares or options between 31 December 2001 and 5 March 2002 other than in respect of the lapses of conditional rights to GKN Ordinary Shares under the old LTIPs disclosed on page 78 and in relation to the allotment of shares to and transfer of shares by certain of the discretionary trusts referred to above.

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.

#### **Service agreements**

The executive Directors' service agreements are with GKN Holdings plc. The period of notice required to be given by the employing company to terminate the service agreements of the executive Directors is two years other than in respect of Richard Clowes and Nigel Stein, the most recently appointed Directors, to whom one year's notice is required. 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.

In agreeing termination arrangements with an executive Director who is entitled to two years' notice in circumstances where less than two years' notice of termination is given by the employing 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, termination occurs other than upon due notice within 12 months following a change in control of GKN plc, the Director has the right to claim two years' basic salary without any reduction. In the case of Richard Clowes and Nigel Stein, in the event of a change of control they have the right to claim one year's basic salary plus an amount equal to 75% of basic salary in lieu of pension contributions, benefits in kind and loss of entitlements under short-term performance-related remuneration arrangements. In all other circumstances there is no provision for pre-determined compensation payable upon early termination of a Director's service agreement.

The Remuneration Committee has given careful consideration to the Combined Code on Corporate Governance (see page 72) 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. In the light of developments in market practice, the Board's current policy, adopted during the year and applied to the subsequent appointments of Richard Clowes and Nigel Stein, is that the notice period in the service agreements of all newly appointed executive Directors will be one year. Given this progressive policy and the mitigation arrangements described above, the Committee believes that shareholders' interests would best be served by continuing to honour the existing contractual entitlements of the remaining executive Directors.

#### **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.