

Automotive sales of £2,844 million were £161 million (6%) above 2000. The favourable effect of acquisitions in the year combined with the full year effect of 2000 acquisitions and divestments and currency totalled £193 million. Excluding these factors sales were broadly unchanged.

Operating profit before exceptional items and goodwill amortisation was £187 million compared with £308 million in the previous year. The underlying reduction, after eliminating the effect of both 2001 and 2000 acquisitions, currency and certain one off credits in 2000, was 39%.

Automotive Driveline Division

Automotive Driveline Division (ADD) achieved sales of £1,781 million – a 10% increase over 2000 – and continued to make a very strong contribution to the overall performance of GKN. While demand for existing models reduced from major North American manufacturers, the division launched a number of new programmes, particularly in the growing sports utility vehicle (SUV) sector. The contribution of this new business will naturally increase as the programmes mature.

A number of high profile new models launched in 2001 and early 2002 feature ADD products. They include the Jaguar X-Type which utilises innovative drivetrain components created by GKN, the BMW M3 equipped with an advanced 'Visco-Lok' differential developed in collaboration with ADD and the new Range Rover for which ADD developed a new design of constant velocity jointed (CVJ) driveshaft.

ADD has successfully developed strong, supportive relationships with important Japanese vehicle manufacturers as they have globalised their businesses. This has been a successful strategy for ADD. During 2001, Toyota selected ADD as sole supplier of CVJ halfshafts for the new Camry being marketed in the Asia Pacific region. GKN will supply the components from its plants in Thailand, Malaysia, Taiwan and Australia.

GKN has also maintained technical support for customers' in-house production and in the US this approach resulted in ADD acquiring Ford's in-house CVJ driveshaft production for the Ford Taurus and Mercury Sable models produced in Chicago. GKN already supplies CVJ driveshafts for Taurus and Sable models assembled in Atlanta. Production is being undertaken at GKN's existing North American facilities.

In addition to substantial new business wins, ADD continued to capitalise on a number of strategically important moves made in late 2000. The Kaiserslautern driveline operation outsourced by General Motors' Opel division in Germany and the Tochigi operation outsourced by Nissan in Japan were both successfully integrated within ADD's global organisation and made a positive contribution to the division's performance.

The Nissan transaction provided GKN with its first wholly owned manufacturing presence in Japan. This was followed with another advance in Japan by GKN Toyoda Driveshafts Ltd, a joint venture between GKN and Toyoda Machine Works established in 1999. The joint venture has won significant business from Fuji Heavy Industries (Subaru) and other domestic manufacturers. Production began in December 2001 on a new line in Toyoda's plant at Tadoimsaki. Annual output is expected to reach 500,000 units in 2003.

GKN's global market leadership in driveline is based on its range of CVJ halfshafts, propeller shafts and viscous couplings. The Group is now building on that base to develop other, new driveline products. At the Frankfurt Motor Show in September 2001, GKN unveiled an active, electronic torque management (ETM) device which provides a significant advance over current torque management applications. The new ETM device has been engineered for new vehicles under development by two leading automotive manufacturers.

A VERY STRONG CONTRIBUTION FROM AUTOMOTIVE DRIVELINE DIVISION



Sales 2001	By origin £m	By market £m
Europe	1,502	1,412
Americas	1,036	1,077
Rest of the world	306	355
Total	2,844	2,844



Mark Gabriel (above) is President of GKN's wheels business in Iowa in the US. He joined GKN in 1990. "The global nature of GKN has continued to present me with wide ranging opportunities from identifying business partners in South Africa, running a cab manufacturing company in the UK, working with Group companies across Europe, to my present position. These cross-cultural opportunities provide the catalyst to rapidly develop the skills required of today's managers."

Jason Ching (right) is Quality and Productivity Manager Automotive Driveline Division in Asia Pacific. "Although I'm based in our regional HQ in Singapore I spend most of my time with our 11 line companies in the region. My role is to provide support and transfer best practice between those companies. I also focus on business excellence and integrated loss prevention." Jason joined GKN two years ago from another leading component manufacturer.

Advanced CVJ halfshaft (left) used on VW Lupo features a number of GKN advances such as 'shudderless' plunging joint, high angle fixed joint and monobloc tubular shaft.





Powder Metallurgy Division

GKN has two powder metallurgy businesses. GKN Sinter Metals produces powder metal components and Hoeganaes Corp produces metal powder. 2001 was a particularly difficult year for both businesses and sales fell to £612 million from £638 million in 2000. This was largely a result of significant reductions in production in the first nine months of the year by the 'Big Three' US domestic automotive manufacturers – DaimlerChrysler, Ford and General Motors.

GKN Sinter Metals has grown rapidly since 1997 and has a high percentage of sales in the US. In addition, the world class operational skills in quality and delivery, which are a defining characteristic of GKN's established businesses, have not yet been fully embedded within the Sinter organisation. Significant costs were incurred in tackling delivery and quality issues encountered as the business downsized to meet the volume downturn.

Despite some improvement in the second quarter of 2001 this was not maintained in the second half and led to a disappointing performance for the year as a whole. Recovery actions have been implemented which we are confident will lead to an improved performance in 2002.

In Europe, there was an increase in demand from German automotive manufacturers. To support future growth, capacity has been expanded at GKN Sinter Metals plants at Bad Bruckenau and Radevormwald in Germany and at Milan in Italy. The world's largest mechanical and hydraulic compacting press was installed at the Salem plant in Indiana in the US to meet demand for complex transmission components – a demand which is expected to grow further. There were also significant increases in the level of con rod and bearing cap/insert business won.

GKN Sinter Metals added to its portfolio in January 2001 when PresMet Inc of Worcester, Massachusetts, USA, was acquired. PresMet manufactures complex steering column, engine and transmission parts.

For Hoeganaes, the market downturn and increased energy costs in the US had an adverse effect on performance. Some of this impact was offset by operational improvements which led to a better outcome in the second half.

Hoeganaes opened a new blending facility in Huckeswagen, Germany, as part of its strategy to expand internationally. The new powder production facility at Gallatin in Tennessee, USA, has come on line. It is now the largest plant of its kind in the world, capable of producing 50 tons of atomised powder per hour. Hoeganaes also opened a new stainless steel atomising facility and introduced new powders aimed at malleable and ductile cast iron applications.

GKN Powder Metallurgy is the only truly global business in its sector. Looking beyond the immediate performance difficulties and current market downturn we see Powder Metallurgy as a continuing platform for growth.

OffHighway Systems Division

GKN OffHighway Systems is the world leader in power take off (PTO) systems for agricultural and off-highway vehicles. Despite very poor market conditions due to the impact of BSE and Foot and Mouth Disease on the agricultural industry, the business increased market share. It also achieved significant growth in gearbox sales following the introduction of its DLS concept which provides complete secondary drivetrain systems for agricultural machinery.

GKN Wheels is one of the world's leading suppliers of agricultural, construction and fork lift truck wheels. Operating in depressed markets, GKN Wheels has integrated new facilities in North America and Italy and is extending its global reach through partnership arrangements with wheel manufacturers in Asia, Eastern Europe and Latin America.

AutoComponents Division

GKN's AutoComponents businesses were involved in a number of new programme launches in 2001 and saw sales growth in vehicle structures through the first year of supply for the new Ford Transit van, Jaguar X-Type and Toyota Corolla. The business is also using its expertise to exploit the growing market for high integrity aluminium components.

Emitec

This 50:50 joint venture with Siemens VDO is the world leader in the design and manufacture of metal substrates for catalytic converters. The business achieved 10% sales growth in Germany during the year but had to respond rapidly to a decline in demand during the final quarter. US sales were at the same level as 2000. A significant achievement in 2001 was the successful ramp up of production and the establishment of an engine test facility in the new factory in Thuringia in Germany. Emitec is also advancing its technology with the development of higher specification, higher cell density devices and has announced an innovative development to reduce diesel engine particulate emissions.

WE SEE POWDER METALLURGY AS A CONTINUING GROWTH PLATFORM

Caterpillar is GKN Wheels' major customer and the 988 Wheel Loader is the largest vehicle for which the business produces wheels. Reprinted courtesy of Caterpillar Inc.

Cost effective and highly reliable connecting rods are produced by GKN for most of the major automotive manufacturers.