

The data set out in this review, which relates to the Automotive and Aerospace subsidiaries, has been the subject of self-certification by Group companies, supported where appropriate by internal audit verification.

The Board views very seriously its responsibility for SEE matters which form part of the initial briefings for Directors on appointment to the Board. Executive Directors are responsible to the Board for the health, safety and environmental performance of their operations. The Human Resources Director has overall responsibility for the Group's Health, Safety and Environmental programme.

Community

The Group aims to enhance the welfare of communities in which it operates through charitable donations and practical assistance. In 2001, charity and community contributions by GKN plc and its subsidiary companies totalled £1.31 million. Each business is free to develop its own programmes. Often, local initiatives are inspired by employees themselves. Here are some examples:

USA Approximately 95% of all employees in GKN Automotive Inc plants participate in or donate to a volunteer organisation. Each driveline facility has a community service team which organises community events and promotes employee participation. The company has received recognition awards from State and Local Government and Chambers of Commerce.

Mexico The Family Development Plan at GKN's joint venture, Velcon in Celaya, is designed to bridge the development and educational gap which can exist between

employees and their families. On Saturdays employees and their families attend sessions on music, cooking, dressmaking, art and remedial education. Most Saturdays see attendances of around 700 people.

Brazil As its contribution to the plant's Environmental Management System, a quality circle at GKN do Brasil Ltda at Porto Alegre proposed that waste wood from pallets and containers could be used to build houses and furniture for a local centre which looks after the elderly, the sick and those suffering from drug addiction. Some of the furniture is also sold to buy items such as wheelchairs and heating systems.

Germany GKN Gellenkwellenwerk GmbH at Mosel has subcontracted assembly work to a local workshop for people with mental and physical disabilities. The project was organised by employees to break down prejudice and allow people with disabilities to become involved in worthwhile work. GKN employees ensure appropriate health and safety and provide training. Quality levels and customer satisfaction have all been maintained.

UK GKN supports a number of education projects including Young Enterprise, the Engineering Education Scheme, Year in Industry and the West Midlands Technology Tree. Income from The GKN Millennium Trust, a charitable trust established in

1995, is used to fund a Chair of Manufacturing Engineering at Cambridge University. GKN's Evergreen Association, set up more than 25 years ago, has established GKN as a UK leader in post-retirement care. Evergreen's 440 volunteers provide support to over 16,000 pensioners. A charitable trust established by employees at GKN Sankey Ltd at Telford in 1989 delivered a cheque for £15,000 to a local children's hospice in March 2001 making a total of £500,000 raised so far.

Loss prevention

GKN has an integrated loss prevention policy which sets out the Group's systematic approach to loss prevention and includes the principles by which health, safety and environmental risk are managed within the Group. Significant incidents are reported to executive Directors within 24 hours and to the next meeting of the Executive Committee. GKN applies the same degree of rigour in the management of all aspects of risk, including loss of reputation resulting from the manner of operation of our businesses and safety issues arising from quality or design of our products, both of which could, potentially, impact shareholder value significantly. In environmental terms, our manufacturing processes are not inherently high risk, however great care is taken to avoid any adverse impact arising.

How GKN manages health and safety

GKN aspires, through continuous improvement, to achieve a world class standard compared with its peers and benchmarks itself against other leading companies. Management of health and

GKN has been an active supporter of The Prince's Trust in the UK. Pictured are six young people who took part in one of The Prince's Trust Volunteer programmes which GKN sponsored in 2001. These programmes enable young people to develop their skills and contribute to the community. Back row: Semarri Wooley, Migelle Patterson, Paul Giles and Martin Drew. Front row: Alex Davies and Chantelle Grant. GKN also sponsored young entrepreneurs as part of The Prince's Trust Business programme.



safety rests with line managers, supported by functional specialists including the Head of Loss Prevention, the Group Safety Adviser and Group Medical Adviser. Employees and their representatives are also actively involved in the development of safe working systems.

Businesses submit reports on health and safety performance every six months. Feedback allows them to benchmark performance and identify good practice. Performance is reported to the Board annually and to the Executive Committee every six months.

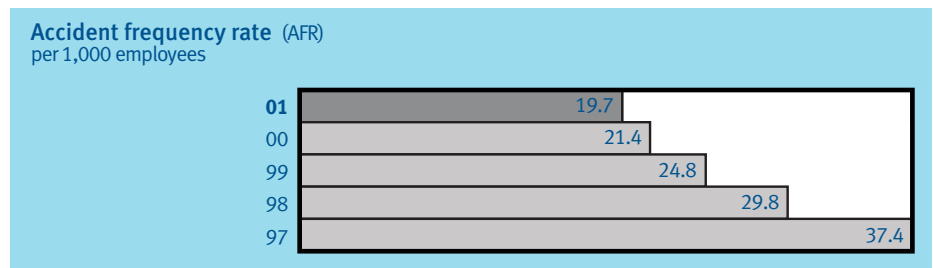
Each business is required to have safety improvement objectives. Where performance does not meet acceptable standards, business managers have to present improvement plans to the Executive Committee. A programme of safety review visits by senior executives and the Group Safety Adviser are part of the arrangements for ensuring the continuous improvement of safety systems and performance. During the year over 240 senior executives, line managers, safety specialists, engineers and employee safety representatives from all major businesses worldwide attended safety seminars and conferences held in the US, UK and Germany. The events focused on the effective management of high severity risks and how a behavioural approach can help maintain continuous improvement in safety performance. To promote safety awareness, GKN runs a Safety Award Scheme. Winner of the 2001 Chief Executive's Safety Shield was GKN Indugasa, which manufactures constant velocity joints in Spain. The whole team demonstrated a sound approach to safety and a consistently excellent performance.

Safety performance

The first chart below shows the accident frequency rate (i.e. the number of incidents resulting in an individual being unable to work for one day or more per 1,000 employees per annum). The second chart shows the accident severity rate (i.e. the number of days lost due to accidents per 1,000 employees per annum). Over the past five years the Group has improved its performance on both measures, by 47% for AFR and 37% for ASR. This reflects increasing management attention, a proactive approach to risk reduction and thorough investigation of accidents to prevent recurrence.

In 2001, the incidence of serious injuries, including those that involved an employee being absent from work for four weeks or more, was 2.4 per 1,000 employees – a 48% improvement over the last five years. GKN was deeply saddened by the deaths of two people in 2001 as a result of injuries incurred while at work, one involving an employee at a subsidiary in the US and the other involving an employee at a joint venture company in Mexico. Both events have been the subject of detailed investigations by internal and external safety experts and action to prevent recurrence has been implemented both locally and across the Group.

In 2001, 11 enforcement actions in relation to plants in the UK, US, Italy and Brazil resulted in five improvement notices and six fines totalling £29,000. There were no statutory prohibition notices issued against Group businesses during the year.



Occupational health

GKN’s concern goes beyond the employee’s physical safety and the prevention of accidents at work to focus heavily on the avoidance of work related ill health.

Occupational health (OH) practitioners work with safety and environmental advisers to create a working environment which minimises the risk to employee health.

The efficiency of work equipment and the use of chemicals and physical agents are important considerations. We utilise risk assessment and safe working systems analysis to define how the job will be done without causing harm. Surveillance programmes enable the detection of any ill effects at the earliest stage so action can be taken to prevent continuing exposure. OH issues are reviewed centrally and regularly discussed, along with safety matters, by the Executive Committee.

How GKN manages environmental issues

The Group environmental management system (EMS) is part of the integrated loss prevention approach and is, in the main, based on the international EMS standard ISO 14001. The core elements of GKN’s EMS are a requirement for continuous improvement driven by measuring and evaluating performance, identifying and implementing action plans and then measuring the results.

In addition to the impact of our own manufacturing activities, the impact of our supply partners and the products we manufacture both during their life and in their end of life phase are becoming increasingly important. We have entered into a dialogue with our key suppliers to

identify where we can usefully support them to our mutual benefit. As a component supplier, the impact of our products has to be addressed in partnership with our customers and suppliers and this will become an increasingly important focus of our activities.

Twenty-one sites have been accredited to ISO 14001 and four to the European EMAS standard. The internal Group environmental auditing programme continues and we are currently considering how the external auditing activities implicit in accreditation to ISO 14001 and EMAS can be incorporated within our own Group environmental management arrangements to avoid duplication and exploit the synergies between the two approaches.

Review and auditing

Group businesses make annual self-assessments of environmental risk, management and performance following agreed Group criteria. Reports are submitted to the Group Environmental Manager and feedback allows each unit to benchmark its performance and to allocate resources to the areas where improvements are most needed.

The particular areas of focus are:

- › energy consumption and equivalent CO₂ emissions;
- › waste generation;
- › water consumption;
- › Volatile Organic Compounds (VOC) use.

Similar to the Safety Award is the annual Green Scheme Award, designed to stimulate and acknowledge ideas and

projects that make a positive contribution to the environment. In 2001, the scheme attracted many entries which demonstrated employee involvement and real environmental improvement delivered with reduced costs. Six companies from across the business portfolios received ‘starred awards’.

Performance

Energy consumption One of the key performance indicators is GKN’s consumption of energy. The reduction in energy usage per £1,000 sales in 2001 compared with 2000 was achieved despite the continued development of more energy intensive businesses (such as Powder Metallurgy) and the transfer of the less energy intensive helicopter business into a joint venture. In addition, the difficult trading conditions in 2001, which caused customers to demand short runs, mitigated against efficient energy usage.

The consumption of energy and the associated emissions of carbon dioxide will continue to be a key focus in the coming years as GKN plays its part in achieving the requirements of the Kyoto Protocol. It is clear that in most countries, economic instruments, such as emission trading and the UK climate change levy, will be used by governments to achieve the Kyoto targets and efficient use of energy will therefore achieve both environmental and financial objectives.

Waste generation After a modest increase in 2000, generation of waste fell significantly in 2001. While there is an obvious environmental and financial benefit in reducing the amount of waste we need to

Group performance: Energy
index is normalised to £1,000 sales with 1999 as 100



Group performance: Waste
index is normalised to £1,000 sales with 1999 as 100



dispose of, there are other benefits in managing waste efficiently. Virtually all the waste we dispose of was purchased at some point and developments, such as the near net casting programme developed by GKN Sheepbridge Stokes, mean that less raw material is used to make the product; the consumption of energy in handling that raw material is also reduced.

Water consumption The consumption of water has fallen in both 2000 and 2001. Although GKN does not have significant operations in areas of critical water shortages, water consumption is used as a proxy for wastewater generation. The reductions in water consumption are matched by reductions in the environmental impact of Group activities caused by the discharge of contaminated wastewater.

Volatile Organic Compounds (VOC) GKN, although not a major user of volatile organic compounds, recognises their environmental impact and closely monitors their use. The principal uses of these materials are as constituents in paint systems and in cleaning solvents used in paint plants. In recent years the introduction of high solids (i.e. low solvent) paints has resulted in a steady reduction in the amounts of these substances used by the Group and the significant reduction from 1999 to 2000 is part of that pattern. However, the reduction in the use of solvents in paint processes has increased the relative importance of other uses such as lubricants in sizing presses used in the sinter metal operations. The increase in VOC use from 2000 to 2001 is the result of changing order patterns in these businesses; plans are in hand to reduce their usage in future years.

GKN is determined to work continuously to minimise its environmental impact both as

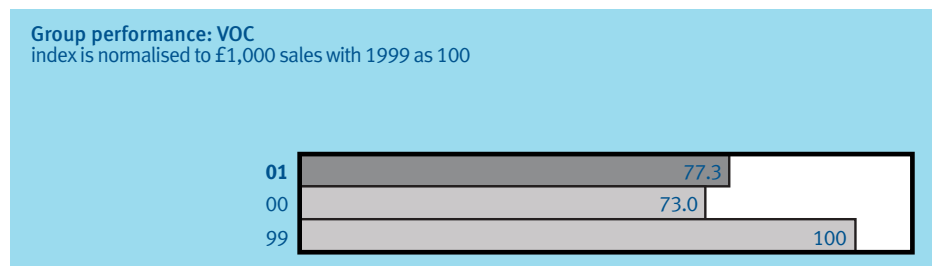
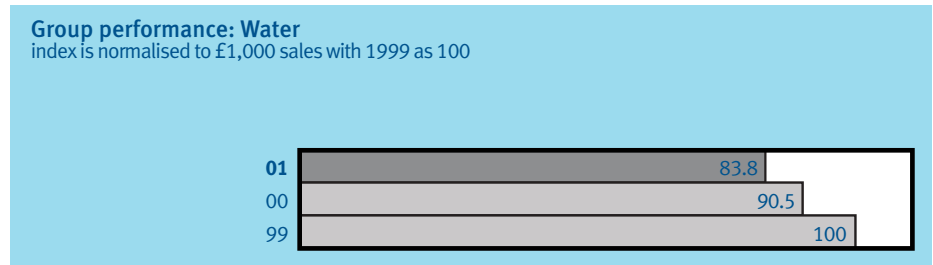
a result of its own activities as well as those of its suppliers. We need to work with our customers and suppliers to ensure that we play our part in reducing the impact of our products during and at the end of their life. Sustainable development will be a major challenge to the Group in future years and, to ensure that we adopt a holistic approach, a group has been set up under the chairmanship of an Executive Director to develop an effective Group strategy to ensure that these vital issues are considered as a fundamental part of our day-to-day operating decisions.

In 2001 there were no instances in which legal action taken by regulators resulted in production stoppages. Of the four cases in which action was taken, two resulted in fines totalling £7,310. In addition, a fine of £10,345 was imposed in respect of an incident that took place in a prior year.

Employment policies

The Group's Employment Law and Practices Policy requires every Group business to adopt employment policies and procedures ensuring that employees and prospective employees are given equal opportunities irrespective of sex, race, sexual orientation, disability, religion or ethnic origin. Wherever it operates, the Group complies with local employment law and practices.

All businesses are required to ensure that employment decisions are based on qualifications and merit. The working environment is required to be free from all forms of discrimination and from any form of conduct, physical or verbal, which could be considered to be harassing (including sexual harassment), coercive or disruptive. Working conditions must be safe and healthy and there are specific requirements in relation to substance abuse and dangerous weapons.



Policies are designed to encourage employees to report and discuss problems on a confidential basis and provide expeditious and confidential grievance procedures.

GKN has established an International Leadership Development Programme that recruits high calibre graduates from many of the world's leading universities. The aim is to create a pool of talent from which senior professional and managerial positions can be filled in accordance with the needs of the business. The programme will ensure that GKN has the right people to lead the business in the future. It exposes individuals to diverse business situations and sectors through demanding value added project work, instils confidence and self-sufficiency through international placements, and develops proficiency in a new language. Currently the programme is recruiting in the UK, Germany, Spain, Italy, France and North America and increasingly reflects the international nature of GKN.

Consultation mechanisms exist across the world to provide open communication between management and representatives of union and non-unionised employees. The European Works Council, which covers all European operations, has been running for six years. Management and employee representatives recognised its worth by agreeing during the year new arrangements for its continuance. GKN is also a member of the Engineering Employers Federation and Confederation of British Industry in the UK and the German Employers Federation.

GKN is committed to achieving the highest standards of performance and ensures through training and development that employees have the skills and experience to perform their roles as effectively as possible.

In the UK, GKN has participated in the Investors In People (IIP) programme. However, given the Group's global growth and the geographic limitations of IIP, the Business Excellence Programme is now the primary route to best-in-class standards in all aspects of managing the business and is being deployed progressively on a worldwide basis across the Group. The programme uses the EFQM and Six Sigma Business Excellence Models to identify opportunities for continuous improvement in many activities including leadership, people development and empowerment, operational processes and customer relationship management. It has a particular focus on knowledge sharing and stimulating innovation to promote a learning culture. These sharing activities have gained significant momentum over the year. In 2001 GKN appointed a senior executive to manage business excellence throughout the Group.

Ethical standards policy

All GKN employees are required to maintain high standards of integrity, honesty and fair dealing. As part of the overall Group Ethical Standards Policy, individual divisional and company policies require compliance with all applicable laws and regulations, and prohibit corrupt practices and the acceptance or making of bribes. All commercial transactions must be properly recorded. Assets and confidential information must be fully protected and used only for the purpose for which they were provided. Employees are also required to avoid conflicts of interest between their business relationships and personal activities. All employees have access to nominated executives for advice, assistance and, where necessary, rulings on ethical issues which may arise.

Competition policy

To ensure that Group companies comply with laws relating to competition and fair trading, the Group has a policy that relevant employees are trained in competition laws applicable to their day-to-day activities. Well over 1,000 employees have been trained through attendance at courses or by interactive CD-ROM training packages developed by the Group.

Data protection policy

The Group's Data Protection Policy is designed to ensure that personal information held throughout the Group is treated with due respect for the privacy of the individual. The policy is applied worldwide and is in some countries more exacting than local legislation.

Compliance with policies

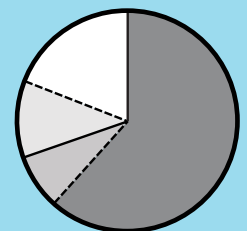
Our internal control procedures (described in the Corporate Governance statement on pages 73 and 74) are designed to identify material breaches of the policies outlined above. No such breaches have been identified in respect of 2001.

Defence industry involvement

GKN's primary interest in defence is through its helicopter joint venture, AgustaWestland. All sales outside domestic markets are in accordance with relevant UK and Italian government export approval procedures. GKN Aerospace Services supplies structures for European and US military aircraft, the export of which is in accordance with government export approval procedures.

Employee numbers
as at 31 December 2001

- Automotive
- Subsidiaries 30,700
- Joint Ventures 4,000
- Aerospace
- Subsidiaries 5,600
- Joint Ventures 9,500



Employee numbers
as at 31 December 2001

- UK 12,900
- Continental Europe 19,600
- Americas 12,900
- Rest of the World 4,400

(including subsidiaries and joint ventures)

