

DIRECTORS' REPORT

Business review

The principal businesses of the Group are described on pages 2 and 3 and in the Operating Review on pages 22 to 25. A review of the development of those businesses in 2002, events affecting the Group since the end of the year and likely future developments are referred to in the Chief Executive's review on pages 9 to 11 and in the Operating Review. Reference should also be made to the Financial Review on pages 36 to 39.

Share capital

During 2002, 5,841,627 GKN plc Ordinary Shares of 50p each were issued in connection with the exercise of options under SAYE and Executive share option schemes. The issued share capital at the end of the year was 732,894,028 Ordinary Shares of 50p each and one Special Share of 50p.

The Company has been informed of the following notifiable interests in the issued voting capital of the Company at 28 February 2003:

	% of issued capital
Legal & General Investment Management	3.4%
Franklin Resources Inc	3.3%

Annual General Meeting

The notice of the Annual General Meeting to be held on 15 May 2003, together with an explanation of the resolutions to be considered at the meeting, is contained in the AGM circular enclosed with this annual report.

Dividend

The Directors recommend a final dividend of 7.6p per 50p Ordinary Share for the year ended 31 December 2002 payable on 16 May 2003 to shareholders on the register at the close of business on 14 March 2003. This, together with the interim dividend of 3.7p paid in September 2002, brings the total dividend for the year to 11.3p per share.

Key dates for the dividend reinvestment plan as it will operate in respect of the proposed 2002 final dividend are given on page 93.

Directors

The constitution of the Board and of its Committees, together with biographical notes on the Directors, are shown on page 34.

On 16 May 2002, Sir John Parker, non-executive Director, retired from the Board. On 31 December 2002, Marcus Beresford retired as Chief Executive, having reached his normal retirement date. The Directors wish to record their appreciation of the considerable contribution that each has made to the Group over the years.

On 1 June 2002, Sir Ian Gibson was appointed a non-executive Director. On 19 August 2002, Neal Keating joined the Board as an executive Director. On 1 January 2003, Kevin Smith (previously Managing Director Aerospace) was appointed Chief Executive and Neal Keating became Managing Director Aerospace Services.

As Directors appointed during the year, Sir Ian Gibson and Neal Keating retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with the provisions for retirement by rotation in the articles of association, Sir David Lees, Chairman, Kevin Smith, Chief Executive, and Baroness Hogg, non-executive Director, retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

Details of the executive Directors' service agreements are given on page 84. The non-executive Directors do not have service agreements.

Directors' interests in GKN shares are shown on pages 87 to 89.

Life President

The death in July 2002, at the age of 93, of Lord Brookes, Life President and former Chairman of GKN, is sadly recorded. He was a Director of GKN from 1953, was appointed Managing Director in 1964, became Chairman and Managing Director in 1965 and was Chairman and Chief Executive from 1968 until his retirement in 1974. He was appointed Life President upon his retirement.

Honours

The Directors record their great pleasure at the award of OBE to Timothy Brookman, Marketing Executive, AgustaWestland, in the 2002 Queen's Birthday Honours; and of MBE to Vera Corbett, PA to Richard Clowes (Main Board Director), Denis Evans, Key Account Manager, GKN AutoStructures, Jeremy Tracy, Chief Test Pilot, Westland Helicopters, and of OBE to Roger James, former Head of Region, Westland Helicopters, in the 2003 New Year Honours.

Donations

In 2002, donations made by the Group to registered charities in the UK amounted to £353,000. Further details of contributions made by the Group worldwide are given in the Social Responsibility Review on page 30.

While it is the policy of the Group not to make donations to political organisations, the Group's US aerospace business does have a Political Action Committee (PAC) which is funded entirely by employees and their spouses. No funds are provided to the PAC by GKN and any administrative services provided to the PAC by the US aerospace business are fully charged to and paid for by the PAC, and the Company does not therefore consider these political donations. Employee contributions are entirely voluntary and no pressure is placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company.

Payments to suppliers

It is Group policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract. Given the nature and diversity of the Group's international purchasing arrangements and contracts, it is not Group policy to follow any code or standard in relation to payment practice.

GKN plc, as a holding company, did not have any amounts owing to trade creditors at 31 December 2002.

Corporate governance

The Board's statement on corporate governance matters is given on pages 78 to 80, and its report on Directors' remuneration is set out on pages 81 to 89.

Directors' responsibility for the accounts

At the end of each financial year the Directors are required by the Companies Act 1985 to prepare accounts which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing the accounts for the year ended 31 December 2002, the most appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been used consistently and UK applicable accounting standards have been followed. The Directors are responsible for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the accounts comply with the Companies Act 1985. In addition, the Directors are responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Group are properly safeguarded and to ensure that reasonable steps are taken to prevent or detect fraud and other irregularities.

Auditors

Following a change in the legal status of the auditors to a Limited Liability Partnership (LLP), in January 2003 PricewaterhouseCoopers resigned as auditors of the Company and the Directors appointed PricewaterhouseCoopers LLP in their place. In accordance with the Companies Act 1985, special notice has been received of the resolution to reappoint PricewaterhouseCoopers LLP to be proposed at the Annual General Meeting. A resolution will also be proposed at the meeting to authorise the Directors to fix the remuneration of the auditors.

On behalf of the Board

Grey Denham
Secretary
28 February 2003