REPORT ON DIRECTORS' REMUNERATION

Role of the Remuneration Committee

The Board's Remuneration Committee is responsible for formulating the Group's policy for the remuneration of the executive Directors of GKN plc. The Committee reviews the policy annually and recommends any changes to the Board as a whole for formal approval.

Within the framework of the agreed policy, the Committee 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. The Committee also determines the fees of the Chairman and is responsible for recommending to the Chief Executive and monitoring the level and structure of remuneration for the most senior managers below Board level. The Committee's full terms of reference are available on GKN's website at www.gknplc.com.

Baroness Hogg has chaired the Committee since May 2002. The other members of the Committee are currently Roy Brown, Sir Ian Gibson, Helmut Mamsch, Sir Christopher Meyer, Dr Klaus Murmann and Sir Peter Williams. Sir David Lees was a member of the Committee until 27 February 2003. The Chairman of the Board is no longer a member of the Committee which, under its recently revised constitution, is comprised solely of independent non-executive Directors. Members' attendance at meetings of the Committee in 2003 is summarised on page 78.

The Remuneration Committee is responsible for appointing external independent consultants to advise on executive remuneration matters and has adopted a policy under which an individual external consultant appointed by it to advise on the determination of Board level remuneration shall not also act as consultant to any company in the GKN Group. The Committee has appointed, and received advice during 2003 from, Kepler Associates in relation to incentive plan structure and Towers Perrin in relation to executive Director salary levels. During 2003, Towers Perrin were also appointed by the Group, at the instigation of the Chairman, to provide advice to the Board on non-executive Director fee levels and structure. Towers Perrin consultants (different from the consultant who provided the advice to the Remuneration Committee and the Board) were also appointed by the Group to provide advice during the year to GKN subsidiaries in Brazil, Japan and the US on pensions and administration systems. Towers Perrin did not provide any other services directly to the Group during the year (although from time to time, GKN's management inputs data into a senior executive salary survey administered by Towers Perrin, the results of which GKN finds useful in determining executive salary levels below Board level) and Kepler Associates did not provide any services directly to the Group during the year.

The Committee also receives input from the Group's Chief Executive when considering the remuneration of the other executive Directors.

The Committee has reviewed its terms of reference and procedures in the light of the publication in July 2003 of the new Combined Code on Corporate Governance to ensure that it complies with the Code's best practice provisions. (The Board's statement of compliance with the June 1998 Combined Code generally is given on page 74.)

Remuneration policy

This section describes GKN's policy for the remuneration of its executive and non-executive Directors as at the date of this report. At the Company's forthcoming Annual General Meeting shareholders will be asked to approve certain changes to the operation of the Group's long-term incentive arrangements in which the executive Directors participate. In all other respects the remuneration policy described here remains the policy for the foreseeable future.

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 Group. It also considers the most recent pay awards in the Group generally when reviewing the basic salaries of the executive Directors.

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 retirement benefits and performance-related long-term incentives. Further details of each of these elements are given in the following paragraphs. On the basis of the expected value of long-term incentives and achievement of on-target performance for the purposes of the short-term variable remuneration scheme, the total annual remuneration (excluding pension benefits) of an executive Director under the Group's remuneration policy is weighted approximately 50% performance-related and 50% non performance-related, valued as at the time of award of long-term incentives, with flexibility to change the balance between the performance-related and non performance-related elements when the Remuneration Committee considers it appropriate. The Remuneration Committee believes that these proportions represent an appropriate balance between certainty of income and incentive-based remuneration linked to the achievement of GKN's operational and 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.

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 and in this connection it reviews annually data drawn from an analysis of senior executive salary levels in approximately 100 major UK companies. Individual salaries of Directors are reviewed annually by the Committee with any increase usually being effective from 1 July.

Benefits in kind

These comprise principally car and health care benefits and premiums paid on additional life assurance policies in connection with pension arrangements. 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 operational targets relevant to GKN's long-term strategic objectives. These targets, which may include some key personal objectives, will typically relate to a combination of corporate and, where appropriate, individual portfolio profit and cash flow performance. Achievement of on-target performance will result in payments of approximately 45% of an executive Director's salary and payments are normally capped at around 100% of salary. Details of the targets and cap for 2003 are given below in the section 'Directors' remuneration 2003'.

The Remuneration Committee has absolute discretion to alter 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 Directors' pension arrangements.

Long-term incentive arrangements

The Remuneration Committee believes that performance-related long-term incentives which closely align executive rewards with shareholders' interests are an important component of overall executive remuneration arrangements. In 2001 shareholders approved both elements of GKN's current long-term incentive arrangements for executive Directors and other senior executives – the GKN Long Term Incentive Plan and the GKN Executive Share Option Scheme. Proposals for revisions to these arrangements are set out in the AGM circular being sent to shareholders with this annual report – the substantive differences from the current arrangements are referred to below.

Award levels under each of the Long Term Incentive Plan and the Executive Share Option Scheme are set such that the combined rewards available to an individual Director, assuming full vesting, are no greater than they would have been had the Group's long-term incentive arrangements comprised only a single element and this will remain the case under the proposed revised arrangements.

GKN Long Term Incentive Plan (the 'LTIP')

In summary, under the LTIP as it currently operates, each executive Director may be awarded annually a conditional right to receive a number of GKN plc Ordinary Shares equal in value up to a maximum of 100% of 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 was adjusted to reflect the demerger of GKN's Industrial Services businesses to Brambles Industries plc in August 2001.) The combined maximum potential award under both elements of the revised long-term incentive arrangements will remain, in line with the existing arrangements, at 250% of basic salary or such higher overall percentage which may be applied where necessary specifically to recruit or retain an individual. However, within this overall amount, the maximum award under the LTIP will be increased to 150% of salary. The number of shares that the Director 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 (see pages 84 and 85).

Performance is measured by comparing the total shareholder return (i.e. the internal rate of return from the cash flows arising from buying, owning and selling a company's shares), or 'TSR', from GKN shares with the return on shares of other companies chosen by the Remuneration Committee as an appropriate comparator group. The Committee considers relative TSR to be an appropriate performance criterion as it represents the investment return received by GKN's shareholders over the measurement period compared to the return investors could have received by investing in alternative stocks over the same period. This incentive arrangement is therefore less affected by changes in economic conditions and short-term stock market sentiment than plans based on certain other measures. For awards made from 2001 to 2003 inclusive, 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. It was thought appropriate to strip out certain non-manufacturing sectors, some of which have in recent years contributed significantly to the volatility of the FTSE 100 Index. As explained in the AGM circular, the Remuneration Committee now believes it appropriate to use a tailored peer group representing GKN's major competitors and customers worldwide which will, under the proposed revised LTIP, provide a more meaningful comparator group going forward.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Under the present arrangements if, at the end of the three-year measurement period, GKN ranks in the upper quartile of the comparator group, the conditional award is converted into a deferred right to receive all of the 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 LTIP. (Under the revised arrangements for the LTIP, this deferment period would be one year.) If the ranking is at the median level, 50% of the shares will be received at the end of the deferment period, 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. Under the proposed revised arrangements for the LTIP, 30% of the shares will be received if the ranking is at the median level rising on a straight-line basis to 100% at the 75th percentile and above. Under these revised arrangements dividends will be treated as having accrued from the beginning of the third year of the measurement period on any shares that vest and the equivalent cash amount will be paid to the Director on release of such shares (no dividends accrue on either vested or unvested shares under the present arrangements).

GKN obtains the required TSR data and ranking information from an external consultant which ensures that the comparative performance is independently verified. However, 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.

Prior to the introduction of the LTIP in 2001, GKN operated a similar plan which was essentially the same as the current LTIP except that the TSR comparator group was the companies constituting the entire FTSE 100 Index at the start of the measurement period and there was no shareholding requirement. All remaining rights granted under this former LTIP lapsed during 2003.

GKN Executive Share Option Scheme (the 'ESOS')

In summary, under the 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 awards made since 2001, the value of the shares granted under option to each executive Director below Chief Executive level has been 1.5 times basic salary. Kevin Smith, who was appointed Chief Executive with effect from 1 January 2003, received an award in 2003 of 2.25 times his basic salary.

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 (see pages 84 and 85), set by the Remuneration Committee before an option is granted. For options granted under the ESOS as it currently operates, the performance condition is linked to the increase in GKN's earnings per share, or 'EPS', (calculated in accordance with UK Financial Reporting Standard 14, adjusted to exclude goodwill amortisation and impairment together with any exceptional items as disclosed in the Group's financial statements and the tax thereon) over the three years commencing on 1 January in the year of grant. 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 reassessed 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.

Historically, EPS has been regarded as a true measure of the underlying profitability of a company and the Committee therefore considered it an appropriate means of linking executive rewards with shareholders' interests. The Remuneration Committee believes that real growth in EPS of between 9% and 15% is a stretching target of direct relevance to shareholders. The RPI data used to assess the extent to which an option is capable of being exercised is obtained from public sources and GKN's EPS amount is extracted from the Group's audited financial statements. However, as explained in the AGM circular, the requirement for all publicly quoted companies in the EU to report under International Financial Reporting Standards from 2005 is likely to introduce a far greater level of volatility into reported earnings figures making short-term comparison difficult. Although it may be possible to make a series of adjustments to reported EPS figures to remove volatility, this is likely to detract from transparency. For this reason the Remuneration Committee believes that EPS will prove unsuitable for use as a performance measure in long-term incentive schemes. It is therefore proposed that going forward the ESOS will use a relative total shareholder return criterion rather than an EPS based criterion although the comparator group chosen will be a different one from that used in the LTIP.

Performance under the proposed revised ESOS will be measured by comparing the TSR from GKN shares to the TSR from shares of companies in a comparator group comprising the constituents of the FTSE 350 Index at the start of the three-year measurement period. The Remuneration Committee believes the FTSE 350 Index to be appropriate as it is a broadly based index which contains more manufacturing and engineering companies than the FTSE 100 Index.

Under the proposals, 50% of the shares under option can be acquired by the Director if GKN ranks at the median level in the comparator group with no shares being receivable for below median. 100% of the shares can only be acquired if GKN ranks in the upper quartile of the comparator group, with a straight-line sliding scale for rankings between upper quartile and median. Unlike the current ESOS, there will be no retesting of the performance condition after the end of the measurement period.

As with the LTIP, the TSR information for the revised ESOS will be obtained from an external consultant to ensure that the performance is independently verified. In addition, the provisions of the ESOS will be brought into line with those of the LTIP in requiring that, notwithstanding GKN's TSR, the Remuneration Committee must be satisfied that the vesting of an option is justified by the underlying financial performance of the Group over the measurement period.

There remain outstanding a number of options granted under earlier executive share option schemes which were in operation until 1996. These schemes were not performance-related and had no personal shareholding requirement in common with most other companies' schemes in operation at the time.

Options granted under the 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.

Retirement benefits

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 and supplementary allowances paid to each Director. In certain cases, dependent in part upon the individual's salary level at commencement of employment, retirement benefits are also provided through membership of the Executive section of the GKN Group Pension Scheme, which is a defined benefit scheme. The retirement provisions are made in order to assist each Director towards securing overall retirement benefits comparable in value with those available under the pension scheme had it not been for the operation of the earnings cap.

GKN's pension 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. A standard employee contribution of 5% of gross salary is required under the scheme, except in the case of members who joined it prior to 1991 when such contributions were introduced. In addition, from 1 October 2003 all executive Directors, in common with other members, have been required to pay a further 1% (which will rise to 2% from April 2004).

Executive Directors employed outside the UK typically receive retirement benefits consistent with local practice. In particular, in accordance with standard practice in the US, GKN contributes an amount equivalent to 11% of Neal Keating's basic salary and annual performance-related short-term variable remuneration to his defined contribution pension arrangement.

Service agreements

The service agreements of executive Directors employed in the UK are with GKN Holdings plc, the parent company of the GKN Group prior to the Industrial Services demerger in 2001 and now a wholly-owned subsidiary of GKN plc. Executive Directors employed overseas have their service agreements with an appropriate overseas subsidiary. The non-executive Directors do not have service agreements, their terms of service being contained in letters of appointment.

The Board's current policy is that, unless local employment practice requires otherwise, the service agreements of its executive Directors will be terminable by the employing company on one year's notice. Neal Keating has a US-style service agreement with GKN North America Services Inc which can be terminated by GKN without notice, although for termination without cause an amount approximately equal to one year's basic salary and benefits would be payable to him. The agreements terminate in any event at the end of the year in which the Director attains the age of 60.

Other than in the event of early termination following a change of control of GKN plc, there is no contractual provision for predetermined compensation payable upon early termination of an executive Director's service agreement. In the event of early termination (other than on a change of control) the Remuneration Committee would apply the principles of the severance policy adopted by the Board. Under this policy, which may be varied in individual cases, an immediate lump sum severance payment will be made to the Director equivalent to one year's basic salary plus one year's pension contributions. Consideration would be given to the inclusion in the severance payment of additional elements relating to short-term variable remuneration and major benefits in kind. However, such additional elements will not normally be included where the termination is as a result of underperformance. Consideration would also be given to paying the severance payment in 12 equal instalments which will only be paid to the extent that the Director has not been able to mitigate his or her loss by the date of the relevant payment.

As permitted by the Combined Code on Corporate Governance, if termination of a Director's service agreement occurs on less than due notice within 12 months following a change in control of

REPORT ON DIRECTORS' REMUNERATION CONTINUED

GKN plc, a predetermined amount is payable to the Director equivalent to one year's basic salary, pension contributions, benefits in kind and loss of entitlements under short-term performance-related remuneration arrangements.

An enhancement to the pension rights of an executive Director upon early retirement will only be considered in exceptional cases and a full costing would be provided to the Remuneration Committee at the time of its deliberations. In any event, such enhancement would not be considered unless objectives set for the Director had been met or it was otherwise merited in the opinion of the Remuneration Committee.

It is also the Board's policy that, at the time of consideration of a proposed appointment of an executive Director, the Remuneration Committee will take into account the likely cost of severance in determining the appropriateness of the proposed terms of appointment.

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 Board's general policy is that each executive Director may accept one non-executive directorship with another company (but not the chairmanship of a FTSE 100 company) from which the Director may retain the fees.

Since April 2003 Ian Griffiths has been a non-executive Director of Ultra Electronics Holdings plc. He retains the fees payable in respect of this appointment (currently £25,000 per annum). Nigel Stein has been a non-executive Director of Wolseley plc since December 2003. He retains the fees payable in respect of this appointment (currently £33,000 per annum).

Terms of appointment of Chairman and non-executive Directors

Sir David Lees will retire as Chairman at the conclusion of the Company's Annual General Meeting in 2004. He is not eligible to participate in GKN's short-term variable remuneration or long-term incentive arrangements. Sir David is in receipt of a pension from the GKN pension 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.

Roy Brown will become Chairman with effect from Sir David's retirement. He will receive a fee, determined by the Remuneration Committee, of £240,000 per annum. He will not participate in the Group's short-term variable remuneration or long-term incentive arrangements or in its pension scheme.

The fees received by each of the remaining non-executive Directors, including the Deputy Chairman, are determined by the Board upon the recommendation of the Chairman and the Chief Executive. Baroness Hogg was appointed Deputy Chairman and Senior Independent Director with effect from 1 December 2003 at an annual fee of £55,000. The chairmen of the Audit and Remuneration Committees receive an amount in addition to the basic non-executive Directors' fee (see below) to reflect the significant extra responsibilities attached to these positions. Until 31 December 2003 this additional fee was set at 12.5% of the basic fee. From 1 January 2004 the additional amount has been set at £7,000 per annum for the Chairman of the Audit Committee and £5,000 per annum for the Chairman of the Remuneration Committee. As chairman of the Remuneration Committee, Baroness Hogg will continue to receive the additional fee. The basic fee received by the other non-executive Directors has been increased from £35,000 to £40,000 per annum from 1 January 2004, the previous increase having been in April 2002. The non-executive Directors do not participate in the Group's short-term variable remuneration or long-term incentive arrangements or in its pension scheme, nor do they receive benefits in kind. The current policy is for non-executive Directors to serve on the Board for a total of nine years with interim renewals after three and six years, subject to mutual agreement and annual performance reviews.

Shareholding requirement

In order to reinforce the alignment of their interests with those of shareholders generally, all Directors are subject to a shareholding requirement.

Under a policy adopted by the Remuneration Committee, executive Directors are required to establish and maintain an investment in GKN plc Ordinary Shares equivalent to at least 100% of their basic salary. The receipt of any shares by a Director from an award made under the LTIP and ESOS is conditional upon the shareholding requirement being met on the third anniversary of the grant of the award. For these purposes any deferred rights under the LTIP will be counted as shares.

In respect of the awards made in 2002, if insufficient shares vest from the award to enable an executive Director to satisfy the shareholding requirement, the requirement is deemed to be satisfied for the purpose of that award. However, once the requirement is met in respect of the award the Director is expected to retain sufficient of the shares ultimately received from it towards the satisfaction of the requirement for future awards.

For awards made since 2003, each executive Director must acquire the minimum required shareholding by adding to any existing shareholding using performance-related rewards which may be received under the GKN short-term variable remuneration and long-term incentive arrangements. Until the required shareholding level is reached, an executive Director must apply, in the purchase of GKN shares, 30% of that amount of the gross (i.e. before tax) payment under the short-term (annual) variable remuneration scheme which exceeds 50% of the Director's gross basic salary at that time, and must retain such number of shares received under the LTIP and ESOS as represents at least 30% of the gross gain which the Director would have realised on the exercise of such an award had the shares been sold on the day of exercise.

It is the Board's policy that non-executive Directors will normally be expected to acquire a holding of GKN plc Ordinary Shares of a value equivalent to 30% of one year's basic fee within three years of appointment.

Total Shareholder Return performance

The chart below (left) illustrates the TSR performance (based on an initial investment of £100) of GKN plc Ordinary Shares over the period from the Industrial Services demerger in 2001 until the end of 2003 compared to the TSR that would have been obtained over the same period from a hypothetical investment in the companies constituting the FTSE 100 Index. The interim points show the cumulative TSR at each calendar quarter-end date. (As GKN plc was incorporated during the course of 2001, the Directors' Remuneration Report Regulations 2002 (the 'disclosure regulations') only require the comparative TSR performance of the Company's shares to be shown since 1 August 2001 when the Company became the listed parent company of the GKN Group just prior to the demerger.)

The Committee considers it appropriate to represent GKN's TSR performance against the TSR of the FTSE 100 Index for the purpose of the chart as this index is a readily available broad equity market index (as required by the disclosure regulations) of which the Company is a constituent.

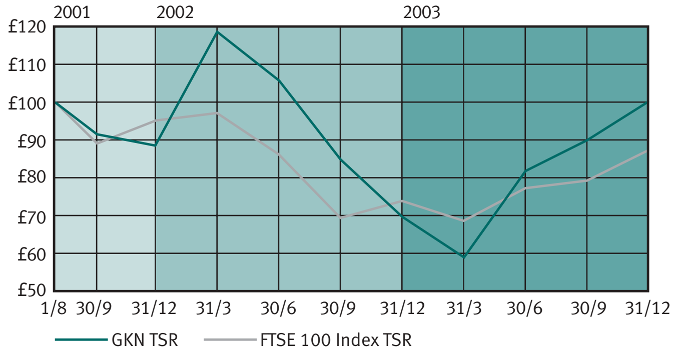
The TSR information presented in the chart in accordance with the disclosure regulations differs from the TSR data computed for the purposes of the current GKN Long Term Incentive Plan both in terms of the constituent companies involved (see page 81) and the TSR calculation methodology. Given these differences, presented below is GKN's TSR and rank against the TSR of the relevant comparator group, together with the percentage of the conditional award converted into a deferred award, for completed measurement periods as computed under the terms of the Plan. The chart below (right) illustrates GKN's TSR compared to the average TSR of the relevant comparator group for such periods.

Period	TSR %	Percentile ranking in comparator group (rank no.1 = 100)(a)	Deferred award conversion %
Jan 1996–Dec 1998	33.19	83	100
Jan 1997–Dec 1999	28.30	76	100
Jan 1998–Dec 2000	16.48	68	86
Jan 1999–Dec 2001(b)	0.67	46	0
Jan 2000–Dec 2002(b)	(14.97)	23	0
Jan 2001–Dec 2003	(13.26)	25	0

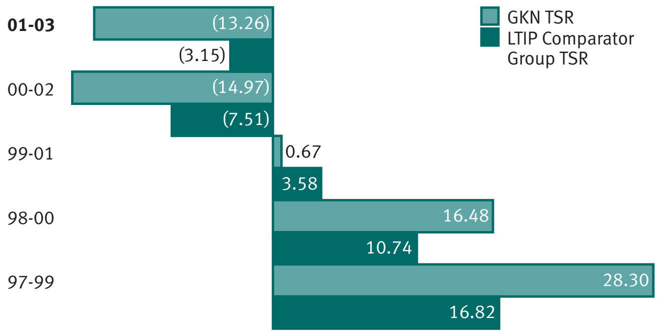
(a) For measurement periods ending before or on 31 December 2002, the comparator group was based on the entire FTSE 100 Index. For the subsequent measurement period it was based on the FTSE 100 Index less the telecommunications, media, technology and financial services sectors and comprised 57 companies (including GKN).

(b) Comparative TSR performance for these awards post the Industrial Services demerger in 2001 was based on a bundle of GKN plc and Brambles Industries plc Ordinary Shares.

TOTAL SHAREHOLDER RETURN GKN and FTSE 100 Index 2001-2003



TOTAL SHAREHOLDER RETURN % GKN and average for LTIP comparator group for completed three-year measurement periods under the GKN LTIP



REPORT ON DIRECTORS' REMUNERATION CONTINUED

Directors' remuneration 2003

With the exception of the dates of the executive Directors' service agreements shown in the table below, note (a) to the tables below and note (i) to the tables on page 87, the information set out on pages 86 to 88 represents the auditable disclosures required by Part 3 of Schedule 7A to the Companies Act 1985.

The remuneration of the executive Directors in 2003, excluding pension benefits and long-term incentives, was as follows:

	Date of service agreement	Salary[a] £000	Performance-related £000	Benefits £000	**Total 2003 £000**	Total 2002 £000
K Smith	24.1.03	592	208	16	**816[b]**	605
R J Clowes	14.11.01	337	80	11	**428[b]**	467
R W Etches	24.1.03	270	66	36[c]	**372[b]**	562
I R Griffiths	24.1.03	395	266	17	**678[b]**	759
C J Keating[d]	19.8.02	280	100	18	**398**	219
N M Stein	22.8.01	340	111	11	**462[b]**	728
M Beresford[e]		–	–	–	**–**	1,231
		2,214	831	109	**3,154**	4,571

The 2003 performance-related payments were triggered by the achievement of a number of operational targets. For all executive Directors, a proportion of such payments was dependent upon the achieved level of GKN's 2003 earnings before tax, goodwill amortisation and impairment and exceptional items. For those Directors with responsibility for business operations, payments were also dependent upon the achieved level of operating profit of their respective portfolio in 2003. Profit performance equal to target would have resulted in payments of 35% of salary. The maximum amount that an individual could receive under the profit element was 90% of salary. In addition, cash flow targets were set 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 total of 10% of salary was payable on achievement of all cash flow targets, all of which were met in full. Actual total payments to executive Directors under the 2003 short-term variable remuneration scheme varied between 23.2% and 65.9% of year-end salary.

The remuneration of the non-executive Directors in 2003 was as follows:

	Fees £000	Benefits £000	**Total 2003 £000**	Total 2002 £000
Sir David Lees	280	18	**298**	299
Baroness Hogg[f]	41	–	**41**	36
R D Brown	39	–	**39**	38
Sir Ian Gibson[g]	35	–	**35**	20
H C-J Mamsch[h]	3	–	**3**	–
Sir Christopher Meyer[i]	15	–	**15**	–
Dr K H Murmann	35	–	**35**	34
Sir Peter Williams	35	–	**35**	34
Sir John Parker[j]	–	–	**–**	15
	483	18	**501**	476

Directors' aggregate emoluments for 2003 amounted to £4.2 million (2002 – £5.4 million).

(a) The executive Directors' basic salaries at the end of the year were: Mr K Smith – £609,500; Mr R J Clowes – £343,200; Mr R W Etches – £275,600; Mr I R Griffiths – £404,250; Mr C J Keating – US$468,000; Mr N M Stein – £349,800.

(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 second table on page 88. The allowances, detailed below, 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 K Smith – £135,000 (2002 – £45,000);
Mr R J Clowes – £95,000 (2002 – £79,000);
Mr R W Etches – £74,000 (2002 – £70,000);
Mr I R Griffiths – £118,000 (2002 – £103,000);
Mr N M Stein – £97,000 (2002 – £85,000).

(c) Includes discretionary bonus of £20,000.

(d) Appointed 19 August 2002. Mr Keating is paid in US$ – for the purpose of this report his emoluments have been translated at US$1.64/£1.

(e) Retired as Chief Executive 31 December 2002.

(f) Appointed Chairman of the Remuneration Committee May 2002 and Deputy Chairman and Senior Independent Director 1 December 2003.

(g) Appointed 1 June 2002.

(h) Appointed 1 December 2003.

(i) Appointed 1 August 2003.

(j) Retired 16 May 2002.

Options over GKN plc Ordinary Shares granted under the Executive and Save As You Earn (SAYE) share option schemes and held by the executive Directors at 31 December 2003 and 1 January 2003 were as follows:

		Exercisable[(a)]		**Shares under option 31 December 2003**		2003			Shares under option 1 January 2003
	Scheme	From	To		Exercise price	Granted	Exercised	Lapsed	
K Smith	Executive	21.9.04	20.9.11	**210,093**	242.75p	–	–	–	210,093
	Executive	15.3.05	14.3.12	**165,584**	308p	–	–	–	165,584
	Executive	19.3.06	18.3.13	**793,468**	163.05p	793,468	–	–	–
	SAYE	–	–	**–**	–	–	–	–	–
R J Clowes	Executive[(b)]	8.4.97	8.4.04	**120,000**	120p	–	–	–	120,000
	Executive[(b)]	6.4.00	6.4.05	**33,600**	132.29p	–	–	–	33,600
	Executive	21.9.04	20.9.11	**169,928**	242.75p	–	–	–	169,928
	Executive	15.3.05	14.3.12	**138,798**	308p	–	–	–	138,798
	Executive	19.3.06	18.3.13	**294,388**	163.05p	294,388	–	–	–
	SAYE	1.2.09	31.7.09	**8,283**	217p	–	–	–	8,283
R W Etches	Executive	21.9.04	20.9.11	**156,952**	242.75p	–	–	–	156,952
	Executive	15.3.05	14.3.12	**123,701**	308p	–	–	–	123,701
	Executive	19.3.06	18.3.13	**204,576**	163.05p	204,576	–	–	–
	Executive[(c)]	19.3.06	18.3.13	**36,693**	174.25p	36,693	–	–	–
	SAYE	1.2.05	31.7.05	**4,377**	217p	–	–	–	4,377
I R Griffiths	Executive[(b)]	6.4.00	6.4.05	**–**	132.29p	–	28,800	–	28,800
	Executive	21.9.04	20.9.11	**197,734**	242.75p	–	–	–	197,734
	Executive	15.3.05	14.3.12	**165,584**	308p	–	–	–	165,584
	Executive	19.5.06	18.5.13	**354,185**	163.05p	354,185	–	–	–
	SAYE	1.7.05	31.12.05	**1,468**	275.41p	–	–	–	1,468
C J Keating	Executive	19.3.06	18.3.13	**225,481**	163.05p	225,481	–	–	–
	Executive[(c)]	19.3.06	18.3.13	**36,693**	174.25p	36,693	–	–	–
	SAYE	–	–	**–**	–	–	–	–	–
N M Stein	Executive[(b)]	6.4.00	6.4.05	**67,200**	132.29p	–	–	–	67,200
	Executive	21.9.04	20.9.11	**169,928**	242.75p	–	–	–	169,928
	Executive	15.3.05	14.3.12	**146,103**	308p	–	–	–	146,103
	Executive	19.3.06	18.3.13	**303,587**	163.05p	303,587	–	–	–
	SAYE	1.7.03	31.12.03	**–**	275.41p	–	–	3,516	3,516
	SAYE	1.12.06	31.5.07	**4,028**	229p	4,028	–	–	–

Details of the options over GKN plc Ordinary Shares exercised by Directors during 2003 are shown below.

	Shares issued on exercise	Date of grant	Exercise price per share	Price on date of exercise[(d)]	Shares retained on exercise
I R Griffiths	28,800[(e)]	28.9.01	132.29p	161p	28,800

(a) Represents the earliest exercise date (assuming satisfaction of relevant performance criteria and personal shareholding requirements) and latest expiry date of options held by the Director during the year.

(b) Non performance-related Executive share option.

(c) This element of the Director's award for the year was granted as a US Incentive Stock Option.

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

(e) Option originally granted under the GKN Overseas Executive Share Option Scheme 1988 on 6 April 1995 and subsequently adjusted (and regranted on the date shown above) in respect of the Industrial Services demerger in 2001.

(f) The SAYE share option scheme is open to all UK subsidiary employees with six months' service or more. Participants save a regular monthly sum of up to £250 for three years (or five years for options granted prior to 2003) and can use these savings and any bonus payable under the scheme to exercise the options. For options granted prior to 2003, the exercise price was set at the maximum discount permitted by the Finance Act 1989 of 20% below the market price before the start of the savings period. For options granted in 2003 this discount was reduced to 10%.

(g) The closing mid-market price of GKN plc Ordinary Shares on the London Stock Exchange on 31 December 2003 was 267p and the price range during the year was 147.25p to 290.5p.

(h) The aggregate of the total theoretical gains on options exercised by Directors during 2003 amounted to £8,000 (2002 – £9,000). 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.

(i) At 31 December 2003, the total number of GKN plc Ordinary Shares which had been issued on the exercise of options granted by the Company or were the subject of such options remaining outstanding under the Executive and SAYE share option schemes was 14.8 million and 15.4 million respectively. This represents approximately 2.0% of the issued share capital of the Company at that date in respect of discretionary (i.e. executive) schemes and 4.1% of the issued share capital of the Company at that date in respect of all (i.e. both executive and all-employee) schemes.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Conditional and deferred rights to GKN plc Ordinary Shares under the GKN Long Term Incentive Plans held by the executive Directors at 31 December 2003 and 1 January 2003, together with awards made and lapsed during the year, were as follows:

	Awards held 31 December 2003				Awards held 1 January 2003	
	Conditional	**Deferred**	Conditional awards made(a)	Conditional awards lapsed(b)	Conditional	Deferred
K Smith	**398,110**	**–**	207,750	30,950	221,310	–
R J Clowes	**275,190**	**–**	115,600	14,850	174,440	–
R W Etches	**237,960**	**–**	95,750	23,200	165,410	–
I R Griffiths	**324,340**	**–**	139,100	20,600	205,840	–
C J Keating	**190,659**	**–**	101,600	–	89,059	–
N M Stein	**280,780**	**–**	119,200	–	161,580	–

The first table below shows the amount paid as money-purchase contributions (paid only in respect of those Directors who are not members of GKN's defined benefit pension scheme) and supplementary allowances to executive Directors under the Group's pension arrangements. The second table below shows pension amounts for those Directors whose pension arrangements are either wholly or partly of the defined benefit type.

	Money-purchase contributions and allowances for pension benefit purposes	
	2003 £000	2002 £000
K Smith(e)	**237**	138
R J Clowes	**95**	79
R W Etches(e)	**108**	103
I R Griffiths	**119**	103
C J Keating(f)	**38**	13
N M Stein	**97**	85
M Beresford(e)(g)	**–**	218

	Accrued annual pension at 31 December 2003(h) £000	Accrued annual pension at 31 December 2002 £000	**Transfer value of accrued annual pension at 31 December 2003 £000**	Transfer value of accrued annual pension at 31 December 2002 £000	Change in transfer value in 2003(i) £000	Increase in annual pension in 2003(j) £000	**Transfer value at 31 December 2003 of increase in annual pension in 2003 £000**
R J Clowes	**40**	36	**556**	473	78	3	**41**
I R Griffiths	**44**	40	**612**	527	85	3	**39**
N M Stein	**30**	26	**321**	264	51	3	**30**

(a) The closing mid-market price on the date of award of the shares comprising the conditional awards made during the year was 182p per share. The measurement period relating to these awards ends on 31 December 2005.

(b) Following the Industrial Services demerger in 2001, these awards were converted into rights to acquire equal numbers of GKN plc and Brambles Industries plc Ordinary Shares.

(c) Since 31 December 2003, the following conditional rights to GKN Ordinary Shares in respect of awards granted in relation to the measurement period 2001 to 2003 have lapsed:
Mr K Smith – 86,960 shares;
Mr R J Clowes – 72,890 shares;
Mr R W Etches – 64,960 shares;
Mr I R Griffiths – 81,840 shares;
Mr N M Stein – 70,330 shares.

(d) During both 2003 and 2002, no conditional rights were converted into deferred awards, no awards vested and no shares were released to Directors.

(e) The difference between the Director's pension cost shown in this table and the supplementary allowance amount disclosed in note (b) on page 86 represents GKN's contribution to the Director's money-purchase pension arrangement.

(f) Appointed 19 August 2002.

(g) Retired 31 December 2002.

(h) The accrued annual pension includes entitlements earned as an employee prior to becoming a Director as well as for qualifying services after becoming a Director.

(i) Change in transfer value over the year less any contributions made by the Director.

(j) Increase over the year in accrued pension in excess of inflation to which the Director would have been entitled on leaving service.

(k) A transfer value represents the present value of accrued benefits. It does not represent an amount of money which the individual is entitled to receive. The change in transfer value over the year reflects the additional pension earned and the effect of changes in stock market conditions during the year. Transfer values have been calculated in accordance with paragraph 1.5 of version 9.0 of Guidance Note 11 prepared by the Institute/Faculty of Actuaries.

Share interests

The beneficial interests of the Directors, including family interests, in GKN plc Ordinary Shares at 31 December 2003 and 1 January 2003 (or, if later, on appointment to the Board) were as follows:

	31 December 2003	1 January 2003
Sir David Lees	**221,236**	206,118
Baroness Hogg	**5,893**	893
K Smith	**88,273**	3,000
R D Brown	**2,018**	2,018
R J Clowes	**61,299**	39,090
R W Etches	**67,097**	28,382
Sir Ian Gibson[(a)]	**10,000**	10,000
I R Griffiths	**103,832**	44,954
C J Keating	**8,313**	–
H C-J Mamsch[(b)]	**–**	–
Sir Christopher Meyer[(c)]	**–**	–
Dr K H Murmann	**255,197**	80,197
N M Stein	**54,044**	6,250
Sir Peter Williams	**10,000**	5,000

The executive Directors (other than Neal Keating), as potential beneficiaries, are deemed to have an interest in the GKN plc Ordinary Shares held from time to time by the discretionary trust established to facilitate the operation of the GKN long-term incentive arrangements. At 31 December 2003 and 27 February 2004 this trust held 1,219,238 GKN plc Ordinary Shares (2002 – 1,219,238 shares).

There were no changes in the Directors' interests in shares or options between 31 December 2003 and 27 February 2004 other than in respect of the lapses of conditional rights to GKN plc Ordinary Shares under the LTIP disclosed on page 88.

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.

On behalf of the Board

Baroness Hogg
Chairman of the Remuneration Committee
27 February 2004

(a) Appointed 1 June 2002.

(b) Appointed 1 December 2003.

(c) Appointed 1 August 2003.