

DIRECTORS' REPORT

Business review

The principal businesses of the Group are described on pages 2 and 3 and in the operating and financial review on pages 22 to 27. A review of the development of those businesses in 2003, 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 8 to 11 and in the operating and financial review.

Share capital

During 2003, 1,219,368 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 734,113,396 Ordinary Shares of 50p each.

On 15 May 2003, the Special Share in the capital of the Company, issued in connection with the Industrial Services businesses demerger in August 2001, was purchased by the Company at its nominal value of 50p and then reclassified as an Ordinary Share of 50p forming part of the Company's authorised but unissued share capital.

The Company has been informed of the following notifiable interests in the issued capital of the Company at 27 February 2004:

	% of issued capital
Franklin Resources Inc	6.98
Aviva plc	3.95
Legal & General Group plc	3.19

Annual General Meeting

The notice of the Annual General Meeting to be held at 11.30 a.m. on Thursday 20 May 2004 at the Institution of Electrical Engineers, Savoy Place, London WC2, 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 7.8p per 50p Ordinary Share for the year ended 31 December 2003 payable on 21 May 2004 to shareholders on the register at the close of business on 30 April 2004. This, together with the interim dividend of 3.8p paid in September 2003, brings the total dividend for the year to 11.6p per share.

Key dates for the dividend reinvestment plan as it will operate in respect of the proposed 2003 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 pages 16 and 17.

Sir Christopher Meyer and Helmut Mamsch were appointed non-executive Directors on 1 August and 1 December 2003 respectively. As Directors appointed during the year, they each retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

Sir David Lees retires as Chairman at the conclusion of the forthcoming AGM to be succeeded by Roy Brown. Sir David joined GKN in 1970 as an accountant, becoming Finance Director in 1982. He was appointed Group Managing Director in 1987 and Chairman and Chief Executive in 1988 before becoming Chairman only in 1997. Klaus Murmann, non-executive Director since 1995, also retires at the conclusion of the AGM following completion of his term of appointment. The Directors wish to record their appreciation of the considerable contribution that Sir David and Dr Murmann have made to the Group over the years.

In accordance with the provisions for retirement by rotation in the articles of association, Roy Brown, non-executive Director, and Ian Griffiths, Managing Director GKN Driveline, retire at the AGM and, being eligible, offer themselves for re-election.

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

Honours

The Directors record their great pleasure at the award of CBE to Marcus Beresford, former Chief Executive, GKN plc, of OBE to Colin Hague, Chief Test Pilot, Westland Helicopters, and of MBE to Nicholas Whitney, Head of Future Lynx, Westland Helicopters, in the 2003 Queen's Birthday Honours.

Donations

Contributions to good causes made by Group companies around the world amounted to some £840,000 in 2003. This included cash donations to UK registered charities of £261,000 for educational purposes and £98,000 for community activities. Further details of contributions made by the Group worldwide are given in the social responsibility review on page 38 and on the Company's website.

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 to be 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 2003.

Corporate governance

The Board's statement on corporate governance matters is given on pages 74 to 79, and its report on Directors' remuneration is set out on pages 80 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 2003, 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

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to fix their remuneration will be proposed at the AGM.

On behalf of the Board

Grey Denham

Secretary

27 February 2004