

COMBINING THE GOALS OF COMMERCE AND CONSCIENCE

When the foundations of today's GKN were established in 18th century Britain the sole purpose of a manufacturing company was to produce wealth for its owners.

Today, almost 250 years later, wealth creation still endures as the principal concern for the directors and managers of a business but there are many more stakeholders who can now legitimately claim an influence on GKN's commerce and conscience.

If we achieve success with our customers we generate value for our shareholders, rewards for our employees and the ability to make a meaningful contribution to the communities of which we are part.

And in seeking to create highly efficient manufacturing processes to meet our customers' demands for quality and cost effectiveness, we experience no conflict in also working to minimise the impact of our operations on the environment and to making a contribution towards sustainable development goals within society as well as in creating an ever safer workplace for our employees.

SCOPE OF THE REVIEW

In this year's social responsibility review GKN has again used, as a framework to present the information, the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), an international multi-stakeholder group. The GRI Guidelines, last published in June 2002, are based on the 'triple bottom line' reporting concept covering economic, social and environmental performance. The financial aspects of the economic performance of the Group in 2004 are reported on elsewhere in this annual report.

GKN supports the terms of the Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises and continues to work towards ensuring that there is no breach of these within its businesses. Our ultimate aim is to ensure that similar standards operate throughout our supply chains.

The Group operates globally and it is therefore appropriate that our approach to social responsibility is global. Accordingly, the review covers all of our subsidiary companies worldwide. It also embraces our joint venture companies through an open exchange of information and ideas; where practicable performance data is collected from those companies. Joint ventures may also participate in our global Safety Award and Green Scheme Award programmes.

The performance data presented in this review has been the subject of self-certification by Group companies together with some independent verification of data or data collection processes as described below.

We have again reported our performance against key environmental indicators (energy, waste, water) by measuring volume consumed or generated relative to sales. However, in line with our objective of

continuously improving the reporting of data and particularly in the light of the disparate nature of the production processes in our different divisions, we have decided this year to present the environmental data on a divisional basis. As referred to in last year's review, the use of 'sales' as a metric has a number of disadvantages, including distortions caused by price reductions, intra-Group trading and widely varying consumption levels in differing manufacturing processes. The development of alternative metrics continues. Within our Automotive businesses we are now progressively measuring energy, waste and water relative to weight of products shipped as an alternative metric, on a divisional basis. We continue to use sales within our Aerospace businesses where the widely differing range of products manufactured and the drive towards ever lighter components means that weight is not an appropriate measure of production. Divisional environmental performance data using this alternative metric will be placed on our website at www.gkn.com when available.

GOVERNANCE

Management systems

The principles of good corporate social responsibility are embedded within GKN's values which are embraced throughout the Group. They can be viewed on our website.

The Board views very seriously its responsibility for ensuring that all the Group's businesses act as good corporate citizens. During the latter part of 2004, the Executive Committee of the Board established a Governance and Risk Sub-Committee, chaired by Grey Denham, Company Secretary, with responsibility for monitoring and reviewing matters relating to governance and compliance, risk management and corporate social responsibility. The Group Risk Management Council (GRMC), which replaced the Group Loss Prevention Council in 2004 and is under the overall supervision of the Sub-Committee, is the policy advisory and steering group on accidental risk and sustainable development. Its responsibilities include providing oversight and direction on the management of accidental risk across GKN; acting as a focus for guidance on, the development of strategy for, and reporting on the progress of, key elements of sustainable development within GKN; being a primary source of information for effective communication with all stakeholders; recognising outstanding achievement in risk management and promoting the sharing of best practice. The GRMC is supported in its role by Divisional Risk Management Councils (formerly Divisional Loss Prevention Councils), the purpose of which is to ensure that best practice processes are embedded within the Group's operations.

Maureen Constantine, Group Human Resources Director, has responsibility for ensuring implementation of and compliance with health, safety and environment programmes. Grey Denham, together with the internal audit department and the Audit Committee, oversees compliance with Group policies.

The management of social responsibility issues is an integral part of the Group's overall corporate governance procedures and therefore this review should be read in conjunction with the corporate governance section on pages 74 to 78. In particular the management of social, environmental and ethical risks is encompassed within the internal control procedures described in that section.

The most significant risks that we have identified in relation to social responsibility issues are 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 these could, potentially, impact shareholder value significantly as well as our employees and the communities in which we operate. In environmental terms, our manufacturing processes are not inherently high risk, however great care is taken to prevent any adverse impact arising.

Corporate social responsibility issues are reported to the Executive Committee and the Board twice yearly, and health, safety and environmental performance is also reported separately to the Executive Committee on a quarterly basis. Significant incidents are reported to executive Directors within 24 hours and to the next meeting of the Executive Committee.

The Business Excellence Programme is the overarching strategic business tool we use throughout GKN in all aspects of managing the business, including our corporate social responsibilities. The programme, using the Business Excellence model (developed by the European Foundation for Quality Management) and Lean Enterprise, forms an integrated approach to performance improvement towards best-in-class standards across a wide range of activities. These include leadership, empowerment, organisational processes, customer relationship management and community contributions. All divisions have carried out at least one strategic business excellence assessment at regional level and all the major businesses have at least one trained 'excellence champion'. The total number of trained assessors within the Group at the end of 2004 was 155.

Group governance policies

A series of governance policies, which are applied throughout the Group, underpin GKN's values. Our internal control procedures (described in the corporate governance section on pages 77 and 78) are designed to confirm proper implementation and identify material breaches of these policies. No such breaches have been identified in respect of 2004.

The newly formed Governance and Risk Sub-Committee is charged with bringing together, within a new code on corporate social responsibility, existing governance policies and policies on health and safety, the environment, the community, business continuity and risk financing. It will also be considering the development of new policies in areas such as supply chain management and product and process design.

GKN's current governance policies are summarised as follows:

Ethical standards policy

The Ethical Standards policy sets high standards of integrity, honesty and fair dealing for all employees. As part of the overall Group Ethical Standards policy, individual divisional and company policies require that all business should be conducted with respect to human dignity and rights, and in compliance with all applicable laws and regulations, and that corrupt practices and the acceptance or making of bribes be prohibited. All commercial transactions must be properly recorded, and 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 appropriate nominated executives or groups of executives for the purposes of advice and assistance and, where necessary, rulings on ethical issues which may arise.

GKN also has a separate policy on the appointment of agents and consultants which governs the terms of appointment of, and the conduct of the ongoing relationship with, agents and consultants to ensure that all business is carried out lawfully and ethically.

Competition policy

To ensure that Group companies comply with the 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. Employees are trained by way of attendance at courses or by use of 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 and in a manner compliant with local data protection regulations. The policy is applied worldwide even where it is more exacting than local legislation.

Employment policies

The Group's Employment Law and Practices policy requires every business in the Group to adopt employment policies and procedures ensuring that employees and prospective employees are afforded equal opportunities irrespective of gender, 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 must respect employees' human dignity and rights and 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 to provide expeditious and confidential grievance procedures.

Employee disclosure procedures policy

Group companies are required to establish appropriate procedures to enable employees to disclose in good faith, at local company or if appropriate at divisional level, instances of wrongdoing by other employees at any level, including any substantial breach of the Group's policies. Employees must be able to do so in the knowledge that their concerns will be investigated and dealt with properly and sensitively and without fear of reprisal or disciplinary action. The process must also provide for employees, should they so wish, to make disclosures in writing directly to the Company Secretary or the head of the internal audit department at the Corporate Centre.

In support of its governance procedures, our Aerospace business, which operates in the highly regulated world of government contracting, has established an external Ethics Hotline. This provides employees with a means of voicing concerns on compliance and regulatory issues to a third party provider, if they wish on an anonymous basis.

TOWARDS PEOPLE EXCELLENCE

2004 has seen a continuing focus on employee development and progression in support of our core GKN values. During the year we have continued our work to create a culture where continuous improvement is an integral part of our business processes, recognising that the contribution of our employees is critical to operational excellence. Objectives around employee development focus on realising the full potential of our people at individual, team and organisational level. We aim to promote fairness and equality, to involve and empower our employees and to build commitment to GKN as an employer through recognising the value of individual skills and knowledge.

At the International Leadership Conference in November, corporate social responsibility was a major topic on the agenda. Some 200 senior

GKN managers from around the world considered how best to identify and implement best practice in terms of ethical behaviour and contribution to the local economy, as well as promoting the health and welfare of employees, their families and the communities in which we operate. Whilst there are many examples within the Group of which we can be proud, the challenge is to develop an integrated, global approach to corporate social responsibility, including social responsibility reporting, which will become embedded in all our operations.

Diversity and inclusion

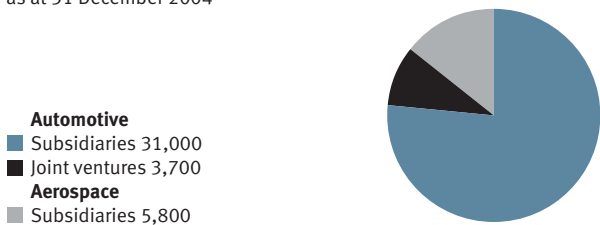
One of GKN's values is to act with integrity at all times, and in so doing we aim to be regarded as an 'employer of choice'. As a global company operating across more than 30 countries, with different national cultures, different customers with varying expectations in a rapidly changing business environment, the commitment of GKN employees and the continuity and consistency they bring to the business is a differentiating factor in our competitive environment. Making sure that employees are involved in and informed about business objectives and can contribute from a wealth of ideas, backgrounds and perspectives is part of developing an inclusive culture where diversity is valued and individuals are respected.

During the year GKN Driveline North America has taken the lead in examining, with the help of an external facilitator, perceptions of diversity and attitudes towards difference amongst GKN employees. As a result of this survey, an awareness workshop for managers looking at issues of diversity and inclusion was developed, and the pilot programme involving 20 managers from all levels within the region was well received. A similar programme will be rolled out across all the divisions during 2005. The objective of this increased awareness of the value of diversity is to broaden our perspectives in terms of new recruits to the organisation, to look beyond the perceptions of the immediate knowledge base and to grow the organisation through the potential of our employees.

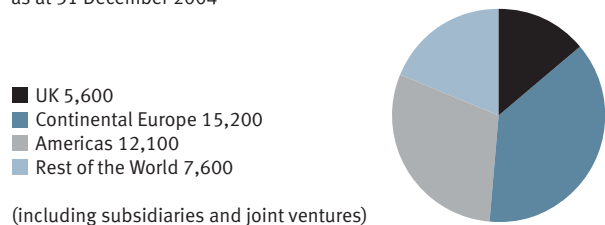
Training and development

GKN offers a wide range of experiences and careers not limited to engineering. Training and development activities across the Group continue in order to ensure that employees are well equipped to perform the duties of current jobs as well as to develop skills and knowledge for the

Employees – by business
as at 31 December 2004



Employees – by region
as at 31 December 2004



future requirements of the business. Technical skills are a prerequisite for day-to-day operations, particularly in engineering and manufacturing, and GKN is active with external organisations such as schools, colleges, universities and industry groups to promote engineering and manufacturing as a rewarding and meaningful career path for young people.

In 2004, GKN was awarded BEST partner status by the Royal Academy of Engineering in the UK for our work with the Engineering Development Trust programmes. Only two other UK companies have achieved this recognition. GKN sponsored the 2004 award for the best mechanical engineering student, part of the Science, Engineering and Technology (SET) Student of the Year Awards launched in 1998 to raise the status of technology education in the UK. The Awards have since become known as the 'Oscars' of British technological education with entries from all of Britain's leading universities. The winner of the award was Graham McShane, an undergraduate at Cambridge University. Additionally, GKN's International Leadership Development Programme for graduates was highly commended as an example of 'best in class' in a recently published research project by Lancaster University.

In addition to technical capability, leadership attributes and personal behavioural competences are also important to the continuing development of the business. Each year a detailed review of the management competence of the Group is undertaken across all business units, the results of which are then reported to both the Executive Committee and the Board. Career progression and succession programmes are also monitored in this way. Personal development planning is encouraged for all staff, and personal objectives and performance levels are assessed on a regular basis. Training is tailored to individual development needs rather than set programmes, and is made available through a variety of channels: on-line, through external providers, and through in-house providers such as our International College of Engineering. Mentoring and coaching structures are also in place to support executives in their development through the experience of more senior managers often from a different function or division and a different background.

The GKN Board has mandated that all divisions must conduct an employee survey at least once every two years. Recent surveys, carried out in the various divisions in local languages, produced interesting results with common areas for improvement such as communication, personal development, concern for employees as individuals and the need for more widespread coaching and mentoring. On the positive side, results indicated agreement that GKN provides a healthy and safe working environment, shows concern for its customers and shareholders and is focused on results. A key stage in the process is the development of action plans to address those areas where the response scores were less acceptable and where immediate improvement is required. Subsequent tracking of performance against action plans is critical to ensure that the desired improvements are implemented. In many instances this aspect is incorporated in regular business reviews. 80% of all employees have been surveyed in the last two years.

WORKING WITH OUR STAKEHOLDERS

We define stakeholder as any person or organisation who is affected by, or whose actions impact upon, our business. These include local communities, shareholders, customers, suppliers, employees, business partners, local authorities, government agencies and non-governmental organisations (NGOs). We engage with these stakeholders in a variety of ways.

As part of our aim to contribute positively to the communities in which we operate, wherever possible we employ local labour in our businesses. We invest in local community projects both by way of financial donations and through the volunteer work of our employees, particularly in less developed countries. Examples of local initiatives are given on page 35.

Over the last few years, a number of meetings have been held with major shareholders and NGOs to discuss the Group's performance with regard to corporate social responsibility and it is our intention to continue to seek dialogue with major stakeholders.

We are aware that there are some investment organisations and individuals who are concerned by companies' involvement in the defence industry. Following the sale of our helicopter joint venture, AgustaWestland, GKN's primary interest in defence equipment is through GKN Aerospace which is a first tier supplier of aerospace structures, propulsion systems and special products for US and European military aircraft programmes. All sales outside domestic markets are strictly in accordance with the relevant government export approval procedures.

In addition to the impact of our own activities, the impact of our supply partners and the products we manufacture both during their life and in their end of life phase are of increasing importance. We continue to seek to identify ways in which we can support our key suppliers in this regard to our mutual benefit. As a component supplier, the impact of our products has to be addressed also in partnership with our customers as well as our suppliers. This continues to be an important focus of attention.

GKN plays a substantive role in a number of key industrial organisations. We are founder members of the Industry and Parliament Trust, the UK Per Cent Club and the UK Emission Trading Scheme. We are active members of the Engineering Employers' Federation and Confederation of British Industry in the UK and the German Employers' Federation. We are also active members of the Society of Motor Manufacturers and Traders (SMMT) in the UK, the Society of British Aerospace Companies, the US Organisation for International Investment and the British Occupational Health Foundation. In addition, we are represented on the boards of the Automotive Academy, Skills4Auto and on the Engineering Training Board.

GKN Driveline was one of 11 founding signatories to the SMMT's sustainability strategy 'Towards Sustainability' which outlines the automotive industry's commitment to balance economic progress with environmental care and social responsibility. The fifth Annual Sustainability Report published towards the end of the year demonstrated the increasingly prudent use of resources within the automotive industry.

OUR COMMITMENT TO THE COMMUNITY

GKN is committed to enhancing the welfare of the communities in which it operates. In 2004, charity and community contributions by Group companies amounted to some £794,000. Those organisations to which cash contributions were made are listed on GKN's website at www.gkn.com. Community support is widespread across GKN's worldwide operations. The following are just a few examples:

Asia Pacific – GKN Driveline India has teamed up with a local NGO, Pranab Kanya, to provide informal education to underprivileged children of migrant workers at nearby brick kilns. At local facilities provided by Pranab Kanya, GKN Driveline India is funding the cost of teaching and assistance, refreshments and stationery. Currently 50 children receive teaching in English, Hindi, elementary mathematics and general knowledge. GKN employees also help out at the facility and in the future GKN will assist with the provision of better classrooms, uniforms and basic exposure to computers.

The Americas – Employees at GKN Aerospace, St Louis have formed one of only two corporate community emergency response teams (CERTs) in the St Louis area to provide search and rescue assistance in the event of an emergency. The team completed a training exercise in July which simulated a real life mass casualty disaster and later in the year participated in another drill to prepare for an earthquake. The CERT team was on standby to assist with the disaster relief following the Florida hurricanes in September.

GKN Driveline Brazil continues to be very active in its local community, a more recent initiative being involvement in a Food Bank programme through which the company donates 40kg of food every day to a day care centre in the local community benefiting over 100 young children from poor families.

Europe – GKN Aerospace Transparency Systems (Kings Norton) in the UK supports secondary schools in its local area through a number of initiatives aimed at promoting a better understanding of the world of work. In 2004, these included events at a girls school on the manufacturing environment and succeeding in an engineering role, and at a local school on a project concerned with running a business. During 2005 this will be extended to conducting mock interviews with school leavers and an environmental awareness programme.

GKN Driveline Polska (Poland) plays an active part in the life of the Oleśnica community and region in which it is located including involvement with an orphanage in Bierutowa the children from which attend company events with employees' children, support for a local school with opportunities for pupils to gain experience in a production plant environment, and support over a number of years for the Technical University of Wrocław.

5,000 GKN people make a difference in the wake of the Tsunami

On the morning of 26 December 2004 more than 5,000 GKN employees across the Asia Pacific region were among the millions worldwide who were shocked by the first news bulletins telling of the Indian Ocean Tsunami.

Thierry Ehrhardt, Plant Director of GKN's plant in Rayong in Thailand, said: "All we knew at first was that a big wave had hit six provinces in the south – it was only the following day that we heard that many people had died. Then we heard that many more thousands had lost everything – they had no clothes, no shelter and nothing to eat."

More than 200 people work for GKN in Thailand and their response was immediate. Food, clothes, cooking utensils and money were raised and a GKN team was despatched to Suratthanee, one of the affected areas, more than 900 kilometres away. Then they learned that a small fishing village in the region of Ranong, which was a further 200 kilometres away, had not received any assistance and more aid was despatched from Rayong.

The experience for the GKN aid workers was harrowing and they found themselves distributing aid for the living and helping to buy coffins for the dead.

In Malaysia the families of several employees lost everything when the tsunami hit their homes in the coastal area of Kuala Muda and a donation drive among employees was matched by GKN. Funds were prioritised for the families of GKN staff.

Across the Asia Pacific region there were other spontaneous responses. In India all employees contributed one day's salary and GKN made a matching contribution. In China donations from employees and their company made a large contribution to relief efforts and in Australia employees decided to forego their annual Christmas bonus. On behalf of the Group GKN plc made a donation of £100,000 to the Disasters Emergency Committee, and many Group companies and their employees around the world have raised money for tsunami relief funds.

Walter Rohregger, Managing Director of GKN's operations in Asia Pacific and Japan said: "We are thankful that the GKN family across this region suffered no direct loss. While our employees have mourned for those who died and have prayed for the missing the priority for all of us has been to help the survivors trying to rebuild their lives.

"Of all the countries in which we operate Thailand has been the hardest hit. After the immediate assistance which we rendered in the aftermath of the disaster we focused our efforts on a small fishing village in Kampoun where we are helping to build new houses and for fishermen who have lost their livelihood we are helping purchase new boats and equipment. We believe that such practical help is the best way we can make a difference."

MANAGING HEALTH AND SAFETY IN GKN

Health and safety are well established as an integral part of a strong company culture based on shared values which are reflected in the behaviour of employees at all levels of the organisation. We continue to focus on strong, committed, visible and supportive leadership, together with appropriate behaviours as the main drivers of health and safety improvement towards a goal of zero preventable accidents. The element of executive bonus based on safety performance introduced in 2003 continued in 2004.

The deployment of Business Excellence within GKN continues to provide a framework for achieving excellence in safety. A key part of our strategy is to encourage every employee to take ownership of their own health and safety and that of their immediate colleagues. Developing people excellence, team working and continuous improvement throughout the organisation forms a major part of our improvement aims including those for health and safety.

Many GKN businesses now incorporate in their operations features from the health and safety management system OHSAS 18001 and 11 GKN companies have now achieved certification to this standard.

Performance

Our performance in 2004 again shows an improvement against the key performance indicators of accident frequency rate (AFR) and of accident severity rate (ASR) (which also includes lost time due to occupational ill health). Group results are shown in the charts below.

Over the last five years AFR performance has improved by 71% and ASR by 51%. Our serious injury rate (SIR) remained relatively flat in 2004 but nevertheless showed a 63% reduction over the last five years. Further improvements have been made to processes and systems for the management of serious accident risk. During 2004 four enforcement actions with fines totalling £13,416 occurred in plants in the UK, Italy, US and Australia.

Targets

Objectives and targets continue to be applied primarily at plant level where they can best reflect a plant’s specific needs, risks, priorities and opportunities for improvement. Performance targets are applied in two ways. Every part of GKN has to achieve an overall, clear and positive improvement trend leading to and maintaining a best-in-class performance. Where considerable improvement is needed, plants have specific, often aggressive, targets. In 2004, 74% of plants improved or maintained their excellent AFR performance and 71% of plants achieved their AFR targets. For ASR 62% of plants maintained or improved their performance and 54% met their targets.

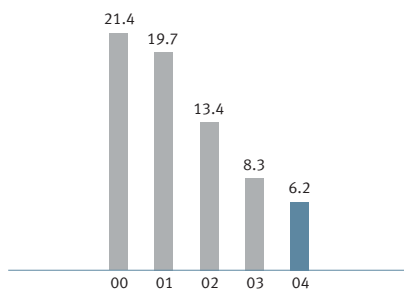
In addition to performance targets for AFR, ASR and SIR we also apply targets to and measure performance against key enablers including health and safety training and the publication of health and safety objectives and plans. These enablers and associated targets are subject to change as part of a dynamic approach which addresses developing needs and priorities, and drive continuous improvement. They consistently operate at an achievement level of 75% or above.

Benchmarking results place our accident rates well below industry averages in the UK, Germany and the US. Against those of our peer companies in the UK and the US where comparative data is available, our performance compares very favourably.

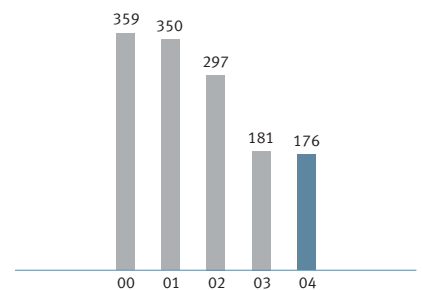
Verification

We recognise the importance placed by stakeholders on verification to ensure that the data which is reported on in this review is robust. We reported last year that an external review of processes and procedures used in the collection and reporting of health and safety data had been carried out at a sample of 10 sites which revealed no significant deficiencies. We are currently reviewing how best to develop this process in 2005. Verification and assurance of the effectiveness of data collection systems is demonstrated through the achievement of certification to international standards.

Accident frequency rate (AFR)
lost time accidents per 1,000 employees



Accident severity rate (ASR)
lost days/shifts due to accidents and occupational ill health per 1,000 employees



Occupational health

GKN adopts an overarching approach to risk in all aspects of its business. In conjunction with our management of safety, there is a parallel set of provisions for safeguarding employees' health with the focus clearly on the avoidance of work-related ill health through the completion of workplace-based risk assessments, occupational health management intervention, the promotion of wellness programmes and active data collection and monitoring.

Safety award scheme

The GKN Safety Award scheme, which has been a key contributor in transferring best practice in health and safety across the Group, has been run annually since 1997 and attracted 37 entries in 2004, equalling the previous record number and demonstrating the high level of interest, involvement and commitment to safety throughout GKN. Leadership, employee involvement and team working together with excellent progress were key attributes recognised by the judges. Five teams received awards from Kevin Smith, Chief Executive, at an awards ceremony attended by over 200 people. The overall winner was GKN Aerospace Chem-tronics for commitment to continuous improvement, developing a safety system with many best practice features and in recognition of major performance improvement. The other winners were GKN Driveline Brazil, GKN Driveline North America, GKN AutoStructures Telford, UK, and GKN Sinter Metals Wisconsin, USA.

Special awards were also presented to GKN Sinter Metals Emporium, USA, for continuing to demonstrate many best practice features and achieving five million hours without a lost time accident, and to GKN North America Services which since 2001 has had an informal network of health, safety and environment advisors in three divisions of the Group which provide shared resources and solutions and share best practice.

ENVIRONMENT

Environmental management continues to form an important element of the Group's integrated approach to loss prevention. GKN's environmental management system (EMS) is part of this approach and is broadly based on the international management standard, ISO 14001. Both of these impose a requirement for continuous improvement in environmental performance and, in the case of ISO 14001, a requirement to demonstrate that improvement to an independent certifying body.

Targets

GKN is committed to achieving accreditation to ISO 14001 at all its manufacturing sites throughout the world. 80 plants are currently accredited and a further 13 are planning to achieve accreditation in 2005. Three of our European companies continue to maintain certification to the ECO Management and Audit Scheme (EMAS).

GKN maintains its commitment to reducing carbon dioxide (CO₂) emissions relative to sales by 2005 starting from a 1999 baseline.

The target, if achieved, will bring GKN's reduction in emissions broadly in line with the targets set in the Kyoto Protocol.

Performance

As referred to earlier in this review, this year we are reporting environmental performance on a divisional basis. Our business processes across the Group are diverse and this is reflected in the range of environmental performance by division. For example, as can be seen from the charts below, Hoeganaes consumes energy and water and generates waste at a much higher rate relative to reported sales than the other divisions within the Group. This business is engaged in the production of metal powders and, by definition, has processes which are more energy intensive, result in higher water usage due to its cooling processes, and produce a higher level of waste principally in the form of slag. In 2004, Hoeganaes' reported sales, which account for 4% of Group sales, increased by 10%.

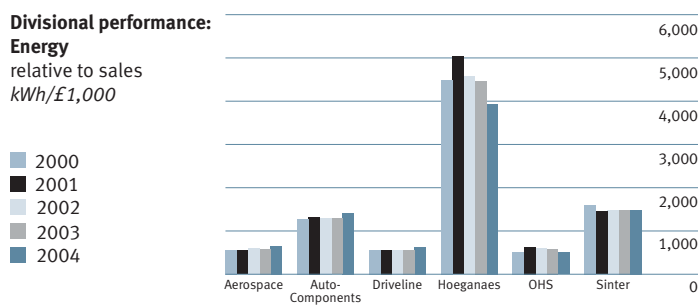
Also referred to earlier in this review, the use of sales as a metric has a distorting effect on the resultant data. In particular GKN Driveline's level of sales is impacted significantly by annual price reductions required by customers and intra-group trading which have a negative impact on the performance when compared with the respective prior year.

Each year, we continue to improve our environmental reporting processes and as a result this can have a distorting effect on prior years' comparisons. Such effects, where significant, are noted below.

Energy consumption

With the exception of Hoeganaes, all divisions continued at relatively low levels of energy consumption relative to sales. We recognise that there remains room for improvement, however, and efficient energy management is receiving a high level of focus across all our plants.

We continue to beat the targets we have set ourselves under the UK Emission Trading Scheme, the overall target being a 10% reduction in our absolute CO₂ emission over a five-year period to 2006. The incentive payments we have received as a result are being invested in energy saving schemes in the UK to reduce further our CO₂ emissions.



Waste generation

Performance was mixed across the divisions. The increase in reported waste generation by the OffHighway Systems (OHS) and AutoComponents divisions was due to the inclusion this year of scrap metal as waste in the 2003 and 2004 figures (this is in line with other reporting divisions). The volatile nature of Hoeganaes' performance is due to the timing of the removal of slag from its sites (which is when it is recorded as scrap). Much of the waste generated is of value and is sold, often at a premium rate. Steelmaking slag produced at Hoeganaes is typically used for infill in major construction projects.

Water consumption

Most divisions are showing a flat or reducing trend over the five years with the exception of Aerospace. The increase in water consumption within that division is principally due to the acquisition of the St Louis business (which has been reported on since 2002) and also the inclusion by St Louis of data on steam for the first time in 2004 (this data was previously not available due to the terms of a supply agreement with the previous owner). The improved performance by OffHighway Systems is particularly pleasing. Hoeganaes' figures are impacted by sales price increases in 2004.

During the year, seven enforcement actions against GKN companies, all in the US, resulted in fines totalling US\$57,200. The largest of these (US\$40,000) was levied against Hoeganaes, Milton in Massachusetts for exceeding its air permit limit. In addition there was a further enforcement action against the Sinter Metals plant in DuBois, Pennsylvania, in respect of an air permit violation for which the fine has yet to be determined.

Verification

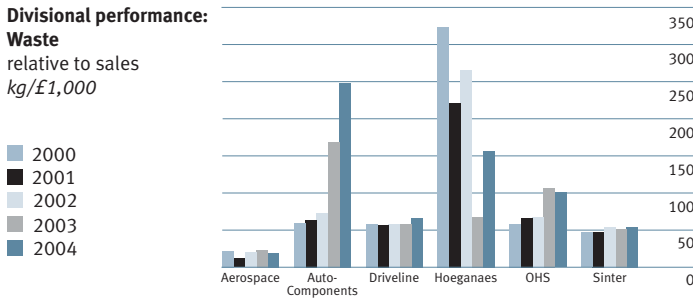
As part of the certification to ISO 14001, the suitability of systems in place to gather and report data is assessed by external independent certifying bodies. In addition, Group companies are required to certify the accuracy of the data that they report centrally, and most companies have developed their own internal auditing systems. The energy data relating to UK companies has been successfully audited as part of the UK Emission Trading Scheme for the base years (1998-2000) and on an annual basis for the life of the Scheme.

The GKN Green Scheme continues to recognise and reward Group companies which have developed innovative ways of reducing their environmental impact. The Green Scheme overall winner in 2004 was GKN Aerospace Services, St Louis in the US which launched a multiple attack on historically inefficient practices. The business improved its chemicals data management, its oil reclamation and oil consumption, and minimised raw material consumption resulting in less hazardous waste and a significant saving. Other winners were GKN Driveline Arnage, France, GKN Wheels at Telford in the UK, our Sinter Metals facility at Radevormwald in Germany and GKN Driveline Slovenija.

CONCLUSION

We continue to make progress as a Group in enhancing our role as a good corporate citizen. Recognising that we have scope for further improvement, towards the end of 2004 the newly formed Governance and Risk Sub-Committee commissioned a comprehensive survey of all our operating facilities around the world to determine the extent to which CSR practices and procedures are embedded within their day-to-day operations. The results of this survey, which are at present being analysed, will help us to identify the key areas of focus for 2005. We look forward to reporting on our progress in the 2005 review.

Divisional performance: Waste relative to sales kg/£1,000



Divisional performance: Water relative to sales m³/£1,000

