

DIRECTORS' REPORT

Business review

The principal businesses of the Group are described on pages 4 and 5 and in the operating and financial review on pages 21 to 30. A review of the development of those businesses in 2004, events affecting the Group since the end of the year and likely future developments are referred to in the Chief Executive's statement on page 7 and in the operating and financial review.

Share capital

During 2004, 1,558,492 GKN plc Ordinary Shares of 50p each were issued in connection with the exercise of options under SAYE and Executive share option schemes.

At the Annual General Meeting held in May 2004, shareholders authorised the Company to purchase up to a maximum of 73,411,339 of its own Ordinary Shares, representing 10% of the issued share capital of the Company as at 31 December 2003. In October 2004 the Directors announced that they intended to implement a share buyback programme of up to a market value of £100 million in the light of the sale of the Group's interest in AgustaWestland NV. A total of 13,325,000 shares (representing 1.8% of the Company's called up share capital at 31 December 2004) were purchased during the year for an aggregate consideration of £29.4 million (excluding expenses). Authority to purchase up to 60,086,339 shares remained in place at 31 December 2004. All of the shares purchased in 2004 are being held by the Company as treasury shares.

The issued share capital of the Company at the end of the year was 735,671,888 Ordinary Shares of 50p each including 13,325,000 shares held in treasury.

The Company has been informed of the following notifiable interests in the issued capital of the Company at 23 February 2005:

	% of issued capital
Franklin Resources Inc	12.8%
Legal & General Group plc	3.4%
Deutsche Bank AG	3.1%

Annual General Meeting

The notice of the Annual General Meeting to be held at 11.00 a.m. on Thursday 5 May 2005 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 8.0p per 50p Ordinary Share for the year ended 31 December 2004 payable on 10 May 2005 to shareholders on the register at the close of business on 15 April 2005. This, together with the interim dividend of 3.9p paid in September 2004, brings the total dividend for the year to 11.9p per share.

Key dates for the dividend reinvestment plan as it will operate in respect of the proposed 2004 final dividend are given on page 90.

Directors

The constitution of the Board and of its Committees, together with biographical notes on the Directors, are shown on pages 40 and 41.

As noted in last year's Directors' report, Sir David Lees retired as Chairman and from the Board at the conclusion of the 2004 Annual General Meeting and was succeeded as Chairman by Roy Brown. Klaus Murmann, non-executive Director, also retired at the conclusion

of the AGM. Dick Etches and Neal Keating left the Group on 30 June 2004 and full details of their termination arrangements are given on page 84. The Directors wish to record their appreciation of the contribution each has made to the Group over the years.

John Sheldrick was appointed a non-executive Director on 20 December 2004. As a Director appointed during the year, he retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with the provisions for retirement by rotation in the articles of association, Richard Clowes, Group Managing Director Corporate Development, Nigel Stein, Finance Director, and Sir Peter Williams, non-executive Director, also retire at the AGM and, being eligible, offer themselves for re-election.

Directors' interests in GKN shares are shown on pages 85 to 87.

Honours

The Directors record their great pleasure at the award of Honorary OBE to Peter Tanaka, former President of GKN Japan, and at the awards in the 2005 New Year Honours of CBE to Graham Cole, former Director Government Affairs, of OBE to Malcolm Bird, Director of Quality and Sustainable Development, GKN Driveline, and of GBE to Sir Bryan Nicholson, former non-executive Director.

Donations

Contributions to good causes made by Group companies around the world amounted to some £794,000 in 2004. This included cash donations to UK registered charities of £177,000 for educational purposes and £139,000 for community activities. Further details of contributions made by the Group worldwide are given in the social responsibility review on page 35 and on the Company's website.

It is the policy of the Group not to make political donations. During 2004, no donations were made to EU political organisations, no EU political expenditure was incurred and no contributions to political parties outside the EU were made within the meaning of the Political Parties, Elections and Referendums Act 2000.

The Group's US aerospace business has 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 2004.

Corporate governance

The Board's statement on corporate governance matters is given on pages 74 to 78, and its report on Directors' remuneration is set out on pages 79 to 87.

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 2004, 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

23 February 2005