

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.gkn.com.

The Committee consists entirely of independent non-executive Directors. Baroness Hogg has chaired the Committee since May 2002. The other current members of the Committee are Sir Ian Gibson, Helmut Mamsch, Sir Christopher Meyer and Sir Peter Williams, all of whom served on the Committee throughout 2004, together with John Sheldrick who became a member of the Committee on his appointment to the Board on 20 December 2004. Roy Brown and Dr Klaus Murmann were members of the Committee until 20 May 2004. Mr Brown stood down from the Committee on being appointed Chairman of the Board and Dr Murmann on his retirement from the Board. Members' attendance at meetings of the Committee in 2004 is summarised on page 77.

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 2004 from Towers Perrin in relation to executive Director salary levels and from Kepler Associates in relation to incentive plan structures. During 2004 Towers Perrin consultants (different from the consultant who provided advice to the Remuneration Committee) were also appointed by the Group to provide advice to GKN subsidiaries in Japan and the US in relation, respectively, to retirement plans and software implementation. Towers Perrin did not provide any other services direct 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). Kepler Associates did not provide any services direct 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's terms of reference and procedures, which are reviewed annually under the Board's performance evaluation procedures described on pages 74 and 75, comply with the best practice provisions of the Combined Code on Corporate Governance. (The Board's statement of compliance with the Combined Code generally is given on page 78.)

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 and 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 that the Board believes 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

These comprise principally car and healthcare 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 strategic 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 50% of an executive Director's salary and payments are normally capped at around 100 to 110% of salary.

Details of the targets and cap for 2004 are given below in the section 'Directors' remuneration 2004'.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

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 to Directors are based upon a percentage of basic salary received during the year 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 2004 shareholders approved revisions to 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. The substantive differences between the revised arrangements and those approved previously by shareholders in 2001 (under which awards remain outstanding but no further awards will be made) 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. The combined maximum potential annual award under both elements of the long-term incentive arrangements is 250% of basic salary, or such higher overall percentage which may be applied where necessary specifically to recruit or retain an individual.

There are no provisions under the rules of either the Long Term Incentive Plan or the Executive Share Option Scheme for the automatic release of unvested awards on a change of control of GKN plc.

GKN Long Term Incentive Plan (the 'LTIP')

In summary, under the LTIP introduced in 2004, each executive Director may be awarded annually a conditional right to receive a number of GKN plc Ordinary Shares equal to a value of up to a maximum of 150% of basic salary (100% of basic salary for awards made prior to 2004). The value of shares for this purpose is calculated by reference to the average of the daily closing prices of GKN plc Ordinary Shares during the preceding year.

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 page 82).

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 2004 onwards, the comparator group will comprise a tailored peer group representing GKN's major competitors and customers worldwide.

The companies making up the comparator group for the award granted in 2004 are as follows:

Automotive companies

Magna International Inc	Canada	Tomkins plc	UK
Torch Investment Co Ltd	China	Wagon plc	UK
Faurecia SA	France	American Axle & Manufacturing Inc	USA
Valeo SA	France	ArvinMeritor Inc	USA
DaimlerChrysler AG	Germany	Borg Warner Inc	USA
Volkswagen AG	Germany	Dana Corporation	USA
Fiat SpA	Italy	Delphi Corporation	USA
Denso Corporation	Japan	Ford Motor Company	USA
NGK Spark Plug Co Ltd	Japan	General Motors Corporation	USA
Toyota Motor Corporation	Japan	Johnson Controls Inc	USA
Scania AB	Sweden	Visteon Corporation	USA
Mayflower Corporation plc	UK		

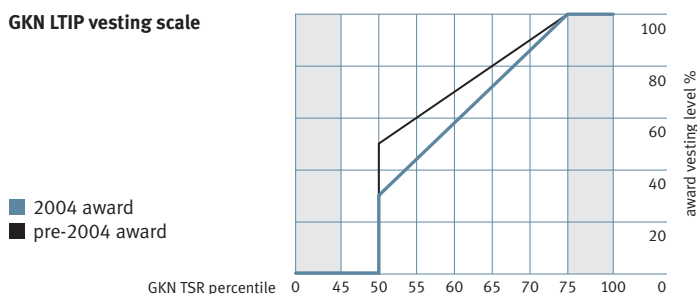
Aerospace companies

Bombardier Inc	Canada	Boeing Company/The	USA
Zodia SA	France	General Dynamics Corporation	USA
Finmeccanica SpA	Italy	Goodrich Corporation	USA
BAE Systems plc	UK	Lockheed Martin Corporation	USA
Cobham plc	UK	Raytheon Company	USA
Meggitt plc	UK	United Technologies Corporation	USA
Rolls-Royce plc	UK		
Smiths Group plc	UK		

The comparator group for awards granted under the LTIP arrangements approved by shareholders in 2001 (the 'pre-2004 awards') consists of 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 exclude certain non-manufacturing sectors, some of which have in recent years contributed significantly to the volatility of the FTSE 100 Index. The Remuneration Committee is of the view, however, that a tailored peer group such as that being used in 2004 will provide a more meaningful comparator group.

For awards granted from 2004 onwards, if GKN's TSR ranks in the upper quartile of the comparator group at the end of the three-year measurement period, 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 one further year other than in the specific circumstances set out in the rules of the LTIP. (For pre-2004 awards, this deferment period is two years.) If the ranking is at the median level, 30% (50% for pre-2004 awards) 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

GKN LTIP vesting scale



a proportionate number of shares reducing on a straight-line basis. For 2004 awards onwards, 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 pre-2004 awards).

GKN obtains the required TSR data and ranking information from an external consultant to ensure 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.

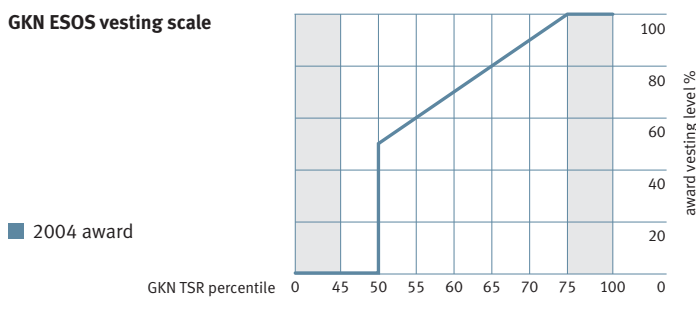
GKN Executive Share Option Scheme (the 'ESOS')

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 from 2004 onwards, annual award levels are not specifically capped under the ESOS, but when combined with awards under the LTIP (which are capped at 150% of basic salary) they cannot exceed 250% of basic salary, except where necessary specifically to recruit or retain an individual.

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 page 82), set by the Remuneration Committee before an option is granted. Performance for awards granted from 2004 onwards 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 a three-year measurement period commencing on 1 January in the year of award. 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. 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 TSR performance. 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. No retesting of the performance condition after the end of the measurement period is permitted.

The TSR information is obtained from an external consultant to ensure that the performance is independently verified. In addition, 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.

GKN ESOS vesting scale



For options granted from 2001 to 2003 inclusive, 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. As stated above, there will be no such retesting of awards made from 2004 onwards.

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, 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. The Remuneration Committee therefore believes that EPS will prove unsuitable for use as a performance measure in long-term incentive schemes and it is for this reason that ESOS awards from 2004 onwards use a relative total shareholder return criterion rather than an EPS based criterion.

Options granted under the ESOS are normally exercisable between the third and tenth anniversary of the date of grant. 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

REPORT ON DIRECTORS' REMUNERATION CONTINUED

the case of members who joined it prior to 1991 when such contributions were introduced. In addition, from 1 April 2004 members have been required to pay a further 2%.

The arrangements for providing retirement benefits to executive Directors and other senior executives are being reviewed in the light of changes in the taxation of pensions being introduced by the Government. The Remuneration Committee will disclose full details of the Company's response to the changes in its remuneration report to be published in 2006 in advance of the new regulations coming into force.

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. 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. 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 such a severance (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 severance 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.

In the event of the service agreement coming to an end by mutual consent, the Remuneration Committee will approve such termination arrangements as are appropriate in the particular circumstances.

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 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.

Ian Griffiths is a non-executive Director of Ultra Electronics Holdings plc. Nigel Stein is a non-executive Director of Wolseley plc. Since June 2004 Kevin Smith has been a non-executive Director of Scottish and Southern Energy plc. They each retain the fees payable in respect of these appointments (currently £38,000, £27,000 and £33,300 per annum respectively).

Terms of appointment of Chairman and non-executive Directors

Roy Brown became Chairman in May 2004 following Sir David Lees' retirement. His appointment is for an initial period of three years terminable at any time upon 12 months' notice by either party. He receives a fee, determined by the Remuneration Committee, of £240,000 per annum. He does 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. The Deputy Chairman and Senior Independent Director, Baroness Hogg, receives an annual fee of £55,000. The basic fee received by the other non-executive Directors is £40,000 per annum. In addition, the chairmen of the Audit Committee (Sir Peter Williams) and Remuneration Committee (Baroness Hogg) receive £7,000 and £5,000 respectively to reflect the significant extra responsibilities attached to these positions. 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 Directors' Remuneration Report Regulations 2002 (the 'disclosure regulations') require GKN's TSR performance to be displayed in chart form against the TSR of a readily available broad equity market index. The Committee considers that it is appropriate and consistent to continue to show the FTSE 100 Index to fulfil this requirement.

The chart below (left) therefore 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 2004 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 half year-end date. (As GKN plc was incorporated during the course of 2001, 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.)

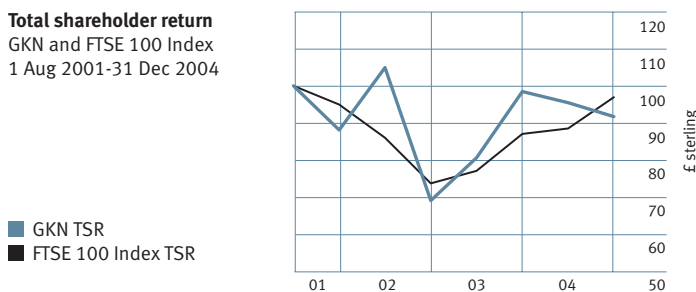
However, for the purposes of the LTIP and ESOS different comparator companies are used (see pages 80 and 81). In addition, the TSR calculation methodology required by the LTIP and ESOS is different from that required by the regulations for the broad equity market index graph. We therefore show in the table above (right) 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 the five most recently completed measurement periods as computed under the terms of the LTIP. The chart below (right) illustrates GKN's TSR compared to the average TSR of the relevant comparator group under the LTIP for such periods.

Period	TSR %	Percentile ranking in comparator group (rank no.1 = 100) ^(a)	Deferred award conversion %
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
Jan 2002–Dec 2004	(6.45)	24	0

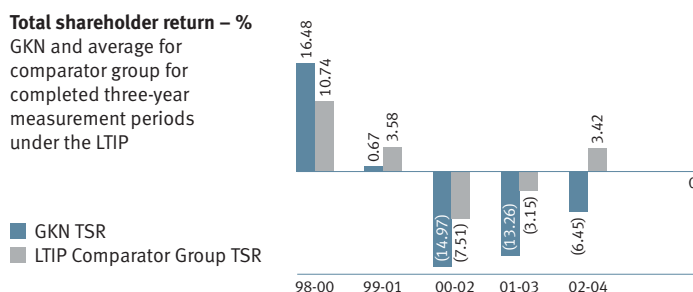
(a) For measurement periods ending before or on 31 December 2002, the comparator group was based on the entire FTSE 100 Index. For the subsequent measurement periods it was based on the FTSE 100 Index less the telecommunications, media, technology and financial services sectors and comprised 57 and 63 companies (including GKN) respectively.

(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
1 Aug 2001-31 Dec 2004



Total shareholder return – %
GKN and average for comparator group for completed three-year measurement periods under the LTIP



REPORT ON DIRECTORS' REMUNERATION CONTINUED

Directors' remuneration 2004

With the exception of the dates of the executive Directors' service agreements shown in the table below, note (a) to the table below, note (j) to the tables on page 86 and the section headed 'Share interests' on page 87, the information set out on pages 84 to 87 represents the auditable disclosures required by Part 3 of Schedule 7A to the Companies Act 1985.

The remuneration of the executive Directors in 2004, excluding pension benefits and long-term incentives, was as follows:

	Date of service agreement	Salary ^(a) £000	Performance-related £000	Car allowance £000	Other benefits £000	Termination costs £000	Total 2004 £000	Total 2003 £000
K Smith	24.1.03	622	292	9	11	–	934 ^(b)	816
R J Clowes	14.11.01	348	38	9	6	–	401 ^(b)	428
R W Etches ^(c)	24.1.03	138	11	7	4	234	394 ^(b)	372
I R Griffiths	24.1.03	420	250	7	5	–	682 ^(b)	678
C J Keating ^(d)	19.8.02	129	10	5	4	283	431	398
N M Stein	22.8.01	357	171	6	5	–	539 ^(b)	462
		2,014	772	43	35	517	3,381	3,154

(a) The executive Directors' basic salaries at 31 December 2004 were: Mr K Smith £633,882; Mr R J Clowes £353,496; Mr I R Griffiths £450,000; Mr N M Stein £363,792. The average year-end basic salary of those senior executives below Board level whose remuneration is monitored by the Remuneration Committee (being executives who have a significant influence over GKN's ability to meet its strategic objectives) was £191,074 (all non-sterling amounts have been translated into sterling at the 31 December 2004 exchange rate for this purpose).

(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 first table on page 87. 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 £133,000 (2003 – £135,000); Mr R J Clowes £99,000 (2003 – £95,000); Mr R W Etches £26,000 (2003 – £74,000); Mr I R Griffiths £128,000 (2003 – £118,000); Mr N M Stein £103,000 (2003 – £97,000).

(c) Retired 30 June 2004.

(d) Left service 30 June 2004. Mr Keating was paid in US\$ – for the purpose of this report his in-service emoluments have been translated at US\$1.82/£1 and his termination costs at US\$1.84/£1 being respectively the average exchange rates for the first and second halves of 2004.

The 2004 performance-related payments were triggered by the achievement of a number of individual strategic objectives and operational targets. For all executive Directors, a proportion of such payments was dependent upon the achieved level of GKN's 2004 earnings before tax, goodwill amortisation and exceptional items (including goodwill impairment) against budget. For those Directors with responsibility for business operations, payments were also dependent upon the achieved level of operating profit of their respective portfolio in 2004. Profit performance equal to target would have resulted in payments of 30% 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 or, 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. In addition, for 2004 strategic objectives were set for each Director which would have resulted in payment of 10% of salary for full achievement; however, this element was only payable if 90% of the Group or portfolio profit target (as appropriate) for the Director was met. Actual total payments to current executive Directors under the 2004 short-term variable remuneration scheme varied between 11% and 59.5% of salary.

The service agreements of Dick Etches and Neal Keating came to an end on 1 July 2004. Under Mr Etches' early retirement arrangements, a payment equivalent to six months' basic salary (£138,000) and six months' pension contributions (equal to 40% of basic salary, or £55,000), totalling £193,000, was payable in six equal monthly instalments, subject to mitigation. Other related costs were comprised principally of settlement of car leasing arrangements (£28,000) and repatriation expenses (£13,000). Upon cessation of employment, one year's basic salary (US\$468,000) payable in 24 twice-monthly payments, together with one year's family healthcare cover (US\$10,000), was receivable by Mr Keating. GKN also paid for outplacement services to assist him in obtaining suitable alternative employment (US\$42,000).

Under the Group's performance-related short-term variable remuneration scheme, Mr Etches and Mr Keating are each entitled to receive 4% of basic salary being the amount payable in relation to the achievement of the Group's and GKN Aerospace Services' respective cash flow targets for the first half of 2004. Under the rules of the ESOS and LTIP they will also be entitled in due course to exercise their outstanding awards and options disclosed on pages 85 and 86 (subject to the usual performance conditions described elsewhere in this report). Under these rules, no retesting of any ESOS options which do not vest at the first potential vesting date will be permitted, and the number of any shares which vest under the LTIP would be pro rated according to their length of service during the relevant three-year measurement period.

The remuneration of the non-executive Directors in 2004 was as follows:

	Fees £000	Benefits £000	Total 2004 £000	Total 2003 £000
R D Brown ^(a)	159	–	159	39
Sir David Lees ^(b)	117	8 ^(c)	125	298
Baroness Hogg ^(d)	60	–	60	41
Sir Ian Gibson	40	–	40	35
H C-J Mamsch ^(e)	40	–	40	3
Sir Christopher Meyer ^(f)	40	–	40	15
Dr K H Murmann ^(g)	17	–	17	35
J N Sheldrick ^(h)	2	–	2	–
Sir Peter Williams	44	–	44	35
	519	8	527	501

(a) Appointed Chairman 20 May 2004.

(b) Retired 20 May 2004.

(c) Comprises principally car benefits. As Chairman, Sir David Lees had the use of a car, the running and associated costs of which were borne partially by GKN.

(d) Appointed Deputy Chairman and Senior Independent Director 1 December 2003.

(e) Appointed 1 December 2003.

(f) Appointed 1 August 2003.

(g) Retired 20 May 2004.

(h) Appointed 20 December 2004.

Directors' aggregate emoluments for 2004 amounted to £4.4 million (2003 – £4.2 million).

Conditional and deferred rights to GKN plc Ordinary Shares under the LTIP held by the executive Directors at 31 December 2004 (or, if earlier, on cessation) and 1 January 2004, together with awards made and lapsed during the year, were as follows:

	Awards held 31 December 2004		Conditional awards made ^(a)	Conditional awards lapsed ^(b)	Awards held 1 January 2004	
	Conditional	Deferred			Conditional	Deferred
K Smith	535,120	–	223,970	86,960	398,110	–
R J Clowes	327,200	–	124,900	72,890	275,190	–
R W Etches ^(c)	112,068	–	–	64,960	237,960	–
I R Griffiths	401,500	–	159,000	81,840	324,340	–
C J Keating ^(c)	124,814	–	–	–	190,659	–
N M Stein	338,990	–	128,540	70,330	280,780	–

(a) The closing mid-market price on the date of award of the shares comprising the conditional awards made during the year was 218.75p per share. The measurement period relating to these awards ends on 31 December 2006.

(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) Mr Etches retired and Mr Keating left the service of the Group on 30 June 2004. Under the rules of the LTIP, the shares that are the subject of their conditional awards are eligible for release at the end of the relevant measurement period. The number of shares the subject of their 2002 and 2003 awards has been reduced pursuant to the rules to reflect their cessation of employment during the course of the relevant measurement period.

(d) Since 31 December 2004, the following conditional rights to GKN Ordinary Shares in respect of awards granted in relation to the measurement period 2002 to 2004 have lapsed: Mr K Smith 103,400 shares; Mr R J Clowes 86,700 shares; Mr R W Etches 64,281 shares; Mr I R Griffiths 103,400 shares; Mr C J Keating 74,107 shares; Mr N M Stein 91,250 shares.

(e) During both 2004 and 2003, no conditional rights were converted into deferred awards, no awards vested and no shares were released to Directors.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

Options over GKN plc Ordinary Shares granted under the ESOS and the Save As You Earn (SAYE) share option scheme and held by the executive Directors at 31 December 2004 (or, if earlier, on cessation) and 1 January 2004 were as follows:

Scheme	Exercisable ^(a)		Shares under option 31 December 2004	Exercise price	2004			Shares under option 1 January 2004	
	From	To			Granted	Exercised	Lapsed		
K Smith	ESOS	21.9.04	20.9.11	210,093	242.75p	–	–	–	210,093
	ESOS	15.3.05	14.3.12	165,584	308p	–	–	–	165,584
	ESOS	19.3.06	18.3.13	793,468	163.05p	–	–	–	793,468
	ESOS	16.9.07	15.9.14	347,332	219p	347,332	–	–	–
	SAYE	–	–	–	–	–	–	–	–
R J Clowes	ESOS	8.4.97	8.4.04	–	120p	–	120,000	–	120,000
	ESOS	6.4.00	6.4.05	–	132.29p	–	33,600	–	33,600
	ESOS	21.9.04	20.9.11	169,928	242.75p	–	–	–	169,928
	ESOS	15.3.05	14.3.12	138,798	308p	–	–	–	138,798
	ESOS	19.3.06	18.3.13	294,388	163.05p	–	–	–	294,388
	ESOS	16.9.07	15.9.14	274,403	219p	274,403	–	–	–
	SAYE	1.2.09	31.7.09	8,283	217p	–	–	–	8,283
R W Etches ^(b)	ESOS	21.9.04	23.8.05	156,952	242.75p	–	–	–	156,952
	ESOS	24.2.05	23.8.05	123,701	308p	–	–	–	123,701
	ESOS	28.2.06	27.8.06	204,576	163.05p	–	–	–	204,576
	ESOS ^(c)	28.2.06	27.8.06	36,693	174.25p	–	–	–	36,693
	SAYE	1.7.04	31.12.04	4,377	217p	–	–	–	4,377
I R Griffiths	ESOS	21.9.04	20.9.11	197,734	242.75p	–	–	–	197,734
	ESOS	15.3.05	14.3.12	165,584	308p	–	–	–	165,584
	ESOS	19.3.06	18.3.13	354,185	163.05p	–	–	–	354,185
	ESOS	16.9.07	15.9.14	349,315	219p	349,315	–	–	–
	SAYE	1.7.05	31.12.05	1,468	275.41p	–	–	–	1,468
C J Keating ^(b)	ESOS	28.2.06	27.8.06	225,481	163.05p	–	–	–	225,481
	ESOS ^(c)	28.2.06	27.8.06	36,693	174.25p	–	–	–	36,693
	SAYE	–	–	–	–	–	–	–	–
N M Stein	ESOS	6.4.00	6.4.05	–	132.29p	–	67,200	–	67,200
	ESOS	21.9.04	20.9.11	169,928	242.75p	–	–	–	169,928
	ESOS	15.3.05	14.3.12	146,103	308p	–	–	–	146,103
	ESOS	19.3.06	18.3.13	303,587	163.05p	–	–	–	303,587
	ESOS	16.9.07	15.9.14	282,395	219p	282,395	–	–	–
	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 2004 are shown below.

	Shares issued on exercise	Date of grant	Exercise price per share	Price on date of exercise ^(d)	Shares retained on exercise
R J Clowes	120,000 ^(e)	28.9.01	120p	242p	120,000
	33,600 ^(f)	28.9.01	132.29p	235p	33,600
N M Stein	67,200 ^(f)	8.10.01	132.29p	231.75p	67,200

(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) Mr Etches retired and Mr Keating left the service of the Group on 30 June 2004. Under the rules of the ESOS, any options which vest under their awards will be exercisable for a period of six months following vesting. Mr Etches' SAYE option became exercisable immediately upon his retirement.

(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) Non performance-related share option originally granted under the GKN Executive Share Option Scheme 1988 on 8 April 1994 and subsequently adjusted (and regranted on the date shown above) in respect of the Industrial Services demerger in 2001.

(f) Non performance-related share option originally granted under the GKN 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.

(g) 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% (no SAYE share options were granted in 2004).

(h) The closing mid-market price of GKN plc Ordinary Shares on the London Stock Exchange on 31 December 2004 was 236.5p and the price range during the year was 202p to 279.25p.

(i) The aggregate of the total theoretical gains on options exercised by Directors during 2004 amounted to £248,000 (2003 – £8,000). 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.

(j) At 31 December 2004, 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 ESOS and the SAYE share option scheme was 19.7 million and 12.5 million respectively. This represents approximately 2.7% of the issued share capital of the Company at that date in respect of discretionary (i.e. executive) schemes and 4.4% of the issued share capital of the Company at that date in respect of all (i.e. both executive and all-employee) schemes.

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	
	2004 £000	2003 £000
K Smith ^(a)	249	237
R J Clowes	99	95
R W Etches ^{(a)(b)}	55	108
I R Griffiths	128	119
C J Keating ^(c)	24	38
N M Stein	103	97

(a) The difference between the Director's pension cost shown in this table and the supplementary allowance amount disclosed in note (b) on page 84 represents GKN's contribution to the Director's money-purchase pension arrangement.

(b) Retired 30 June 2004.

(c) Left service 30 June 2004. In accordance with standard practice in the US, GKN contributed an amount equivalent to 11% of Mr Keating's basic salary and annual performance-related short-term variable remuneration to his defined contribution pension arrangement during his employment in the Group.

	Accrued annual pension at 31 December 2004 ^(a) £000	Accrued annual pension at 31 December 2003 ^(a) £000	Transfer value of accrued annual pension at 31 December 2004 £000	Transfer value of accrued annual pension at 31 December 2003 £000	Change in transfer value in 2004 ^(b) £000	Increase in annual pension in 2004 ^(c) £000	Transfer value at 31 December 2004 of increase in annual pension in 2004 £000
R J Clowes	45	40	687	556	124	3	49
I R Griffiths	49	44	749	612	135	3	47
N M Stein	34	30	409	321	81	3	36

(a) 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.

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

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

(d) 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 2004 and 1 January 2004 (or, if later, on appointment to the Board) were as follows:

	31 December 2004	1 January 2004
R D Brown	24,264	2,018
Baroness Hogg	9,893	5,893
K Smith	203,273	88,273
R J Clowes	224,284	61,299
Sir Ian Gibson	10,000	10,000
I R Griffiths	118,034	103,832
H C-J Mamsch	2,500	–
Sir Christopher Meyer	2,500	–
J N Sheldrick ^(a)	–	–
N M Stein	121,244	54,044
Sir Peter Williams	10,000	10,000

(a) Appointed 20 December 2004.

The executive Directors, 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 2004 and 23 February 2005 this trust held 706,924 GKN plc Ordinary Shares (2003 – 1,219,238 shares).

There were no changes in the Directors' interests in shares or options between 31 December 2004 and 23 February 2005 other than in respect of the lapses of conditional rights to GKN plc Ordinary Shares under the LTIP disclosed on page 85.

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

23 February 2005