

Corporate social responsibility review

› Living our Values

GKN's approach to Corporate Social Responsibility (CSR) is underpinned by a set of enduring values focused on customers and quality, enterprise and innovation, people and the community, the environment and business ethics. These have guided our behaviour for almost 250 years.

Our commitment to continuous improvement in everything we do led us to reappraise, in early 2005, how the Values are applied throughout the Group. Whilst the Values remain central to the way in which GKN operates, we decided to reinforce them by developing The GKN Code. The Code provides a framework for the behaviour of all employees whatever their job, wherever they are located. It is supported by a number of policies, some of which update existing policies and some of which are new. The Code and Policies are progressively being implemented throughout all of our businesses and will be available in some 20 languages.

› The GKN Code and Policies

The GKN Code is designed to ensure that our business in all its aspects continues to be run in an ethical, socially responsible and sustainable manner by:

- › complying with all relevant laws and regulations wherever we operate and conducting our business with integrity and in such a manner as to reinforce our reputation;
- › maximising shareholder value whilst safeguarding shareholders' investment by combining high standards of business performance with high standards of corporate governance and risk management;
- › providing excellent products and services to our customers and seeking to win new business through fair competition;
- › dealing honestly and fairly with our suppliers and sub-contractors;
- › treating our employees justly and with respect, recognising their abilities and differences, rewarding them for their achievements and providing them with a healthy and safe working environment;
- › playing our part in the protection of the environment both in the operation of our facilities and the design of our products; and
- › contributing positively to the communities in which we operate.

These principles are underpinned by policies relating to ethical standards (including a specific policy on the appointment of agents and consultants), employment, health and safety, business continuity, competition law, supplier management, environment (including a specific policy on energy), community, data protection and employee disclosure (whistleblowing).

It is the responsibility of all companies in the Group and all employees to ensure that The GKN Code is followed and that we comply with the Policies.

› CSR framework

The Governance and Risk Sub-Committee has responsibility for developing strategy for and providing oversight and direction on all matters relating to governance, risk management and CSR with a view to ensuring that all GKN businesses act as good corporate citizens and in accordance with GKN's Values. As part of its remit the Sub-Committee developed The GKN Code and

Policies during 2005. It is chaired by Grey Denham, Company Secretary; other members include business leaders from different divisions and geographical locations, together with specialists in governance, risk, financial control, human resources and corporate communications. The Sub-Committee reports regularly to the Executive Committee of the Board and a formal presentation is made annually to the Board.

The Sub-Committee works closely with the Group Risk Management Council (GRMC), the policy advisory and steering group on accidental risk and sustainable development. The GRMC provides oversight and direction on the management of accidental risk across GKN. It also develops strategy for and reports on the progress of key elements of sustainable development within GKN. It is supported in its role by Divisional Risk Management Councils which ensure that best practice processes are embedded within the Group's operations.

Maureen Constantine, Group Human Resources Director, has responsibility for ensuring that appropriate health, safety and environmental programmes are in place throughout the Group and that performance is reviewed regularly. Grey Denham, together with the internal audit department and the Audit Committee, oversees compliance with Group Policies.

› Governance and risk

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 statement on pages 90 to 94. The management of risks associated with CSR issues is encompassed within the internal control procedures described in that section. From 2006, as part of these procedures, Group companies will be required to confirm twice-yearly that they operate in compliance with The GKN Code and the Policies.

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, nevertheless great care is taken to prevent any adverse impact arising.

› Assurance

The Group operates globally and it is therefore appropriate that our approach to social responsibility is global. Accordingly, this review covers all of our subsidiary operations 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. The performance data presented in this review has been the subject of self-certification together with some independent verification of data or data collection processes as described below.

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.

Corporate social responsibility review continued

► How we operate

Over the past five years we have developed a set of tools and enablers that embed continuous improvement in all aspects of the way we do business. Through the progressive use of a Business Excellence Model as a strategic analysis tool we prioritise strategic actions, conduct gap analysis, apply consistent measurements, and focus on proactive improvement and knowledge sharing, which collectively drive change through the organisation and across all business processes. CSR is a key element within the Business Excellence Model. All divisions have undertaken high level assessments and 150 assessments at regional and plant level have also been completed. Within the Group there are 170 trained assessors who provide momentum to the process.

The three Sub-Committees of the Executive Committee – the Technology Sub-Committee, the Lean Enterprise Sub-Committee, and the Governance and Risk Sub-Committee – have made a significant contribution during 2005. Through their work, we ensure that we establish clear leadership accountability, continue to operate as a global entity with common processes and ways of working where appropriate, carry out process measurement and improvement activities, and share knowledge and best practice to ensure we deliver against our objectives. For GKN a key component of our Business Excellence Model is ‘Lean Enterprise’, a specific set of enablers and measures that drive continuous improvement of our production, business and people processes.

Under the oversight of the Lean Enterprise Sub-Committee three councils have been established, the People Excellence Council, the Production Excellence Council and the Business Process Excellence Council. Whilst all three Councils have an important role to play in achieving excellence, the People Excellence Council has a particularly pivotal role. People excellence provides the foundation on which production excellence and business process excellence are built. Its major objective is the establishment and deployment of the principle of ‘Development for All’, ensuring that the Group has the right skills and competence at all levels in the organisation to achieve its strategic objectives.

► Enabling our people to meet their full potential

In building a sustainable business, GKN’s people are of paramount importance. Operating in over 30 countries, with almost 40,000 employees, we recognise the importance of respecting local and national cultures and of enabling our people to understand and deal with the impact of economic and business changes in their working lives. We embrace diversity in all aspects of our business and work consistently to build an inclusive culture.

To fulfil our vision of growth and the creation of shareholder value, we must have knowledgeable, skilled and competent people. Development plans and opportunities are in place at all levels in the organisation. We continue to operate apprenticeship schemes and a graduate development programme (the International Leadership Development Programme) to provide engineering and leadership capability for the future. Our training programmes encourage learning and sharing of technical know-how across companies and divisions. Our programme of employee international assignments helps to promote cross-cultural awareness as well as providing excellent development opportunities. There are currently almost 100 assignees in 20 countries across the Group with an average length of assignment of some three years.

We collaborate with a number of external bodies associated with sector skills development as well as professional and educational institutions. Work experience opportunities are provided for schools and colleges local to our facilities and in some cases we contribute to curriculum development.

Our organisational capability is reviewed through a rigorous Organisational and Management Development Review conducted at regional, divisional and Group level on an annual basis. The effectiveness of our development and succession plans is reviewed annually by the Board.

We conduct training programmes and technical events, some of which also benefit other stakeholders. A number of technical forums have been held with global customers and, as part of the deployment of Lean Enterprise training, supply chain management training (which commenced in 2005) will become a focal point in 2006, some elements of which will cascade into the supply chain.

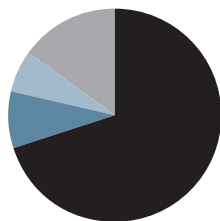
Employee feedback

We welcome feedback from our employees and believe employee surveys are an effective means of soliciting employee opinion. All companies are required to conduct an employee survey every two years.

As a precursor to the 2005 International Leadership Conference, a Leadership Survey of the 210 delegates was conducted to assess the extent to which leadership behaviours are aligned with GKN’s Values. The results suggested strong alignment but with a need for more focus on involvement with the communities in which we operate. The new Community Policy will identify ways of contributing more positively to the community including, for example, greater use of work placements, involvement in local environmental projects, readiness to respond in local or national emergencies, and governorships on school and college boards and similar bodies.

Employees – by business
as at 31 December 2005

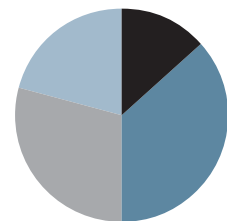
Automotive
■ Subsidiaries 28,000
■ Joint ventures 3,400
OffHighway
■ Subsidiaries 2,600
Aerospace
■ Subsidiaries 5,900



Employees – by region
as at 31 December 2005

■ UK 5,400
■ Continental Europe 14,600
■ Americas 11,600
■ Rest of the World 8,300

(including subsidiaries and joint ventures)



› Our commitment to the community

During 2005, GKN's businesses and employees again made a significant contribution to the communities in which we operate. Cash donations were made to many local, national and international projects including the international relief funds established for victims of the Asian tsunami in December 2004 and for those affected by the Kashmiri earthquake and by Hurricane Katrina in the US. Those organisations to which cash contributions were made are listed on the GKN website at www.gkn.com.

Total community support during the year amounted to some £902,200. The tremendous achievements of our employees at GKN Driveline Rayong, Thailand, in providing support to victims of the tsunami are referred to on page 17. Other examples of community support include:

Asia Pacific – Amongst the many community activities in which GKN Driveline India is actively involved is a project to provide a basic infrastructure to disabled children with special learning needs. The company provides funding and assistance to a local day care centre which provides specialist educational services for the children in areas such as sensory training, personal independence, speech therapy, physiotherapy and elementary craft training.

The Americas – GKN Driveline in Brazil continued its successful Renascence Project, initiated in 1994, to provide young people from low income families with opportunities for personal and professional development. Working in partnership with local schools the company offers three-year placements to students to give them experience of manufacturing. In recognition of this and the many other community projects in which it is involved, the company won a national award for social accountability in 2005.

South Africa – GKN Sinter Metals Cape Town has taken a proactive approach to AIDS education for employees since 1999 and activities were dramatically stepped up in December 2004 to coincide with World AIDS Day. A system of Peer Group Educators was established to encourage employees to have HIV screening and counselling and also to make positive lifestyle choices. They engaged in a range of activities, also involving employees from neighbouring companies, including role play and training videos. The company is committed to finding further innovative ways in which to help employees address this extremely important issue.

Europe – GKN Driveline Bruneck in Italy involved more than 800 children in local elementary schools in a project entitled 'Step by Step' which, through various initiatives including workshops, competitions and discussions, increased their awareness of the environmental impact of mobility and of the kind of behaviour that could have a more positive impact on the environment. In a related project, local children built a model car giving them basic technical knowledge and increasing their enthusiasm for teamworking.

› 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 customers, local communities, shareholders, 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.

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 and is addressed in our new Supplier Management Policy which is being introduced, as part of The GKN Code, in 2006.

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, CLEPA (the European Association of Automotive Suppliers), the Society of British Aerospace Companies, the US Organisation for International Investment and the British Occupational Health Research 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 sixth Annual Sustainability Report published towards the end of the year demonstrated the increasingly prudent use of resources within the automotive industry.

› Managing health and safety in GKN

Whilst expert advisers are available centrally and within divisions, we continue to focus on strong, committed, visible and supportive leadership, together with appropriate employee behaviours as the main drivers of health and safety improvement throughout the Group towards a goal of zero preventable accidents.

Corporate social responsibility review continued

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. Health and safety performance is reported to the Board and the Executive Committee as part of the regular CSR reports. In addition, significant incidents are reported to Executive Committee members within 24 hours and reviewed at the next meeting of that Committee.

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. In the introduction of lean manufacturing, issues of health and safety, ergonomics and the health hazards of any chemicals involved in production are all considered when defining 'Standard Work' – the correct way of doing each job.

Many GKN businesses now incorporate in their operations features from the health and safety management system OHSAS 18001 and 17 GKN companies have now achieved certification to this standard.

Performance

Our performance in 2005 again shows an improvement against the key performance indicators of accident frequency rate (AFR) and accident severity rate (ASR). Whilst ASR continues to improve, the element attributable to occupational ill health has been fairly constant over the years and is comparable with benchmark companies and with the non-industrial workforce in the countries in which we operate, reflecting the background level of health issues in the general population.

We also focus on the types of health issues which could be problematic in the engineering industry. In particular, data is collected on dermatitis, occupational asthma and vibration white finger (hand-arm vibration syndrome) where there is no lost time. The virtual absence of cases is reassuring.

We were deeply saddened by the death in November of an independent contractor as a result of an accident during roofing work being carried out by his firm on GKN premises in Romania. No GKN personnel were involved in carrying out the work and appropriate safeguards were in place. The accident was the subject of detailed internal and external investigations.

Over the last five years AFR performance has improved by 74% and ASR by 60%. Our serious injury rate (SIR) also improved in 2005 and shows a 71% reduction over the last five years. Further improvements have been made to processes and systems for the management of serious accident risk. During 2005, nine enforcement actions (five of which carried no penalty) with fines totalling £2,630 occurred in plants in Australia, Italy and the US.

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. In addition, divisional targets are established for the three key performance indicators i.e. AFR, ASR and SIR. Performance targets are applied in two ways. Every part of GKN must target 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 2005, 66% of plants improved or maintained their excellent AFR performance and 53% of plants achieved their AFR targets. For ASR 61% of plants maintained or improved their performance and 48% met their targets. Divisional targets were met in 75% of cases.

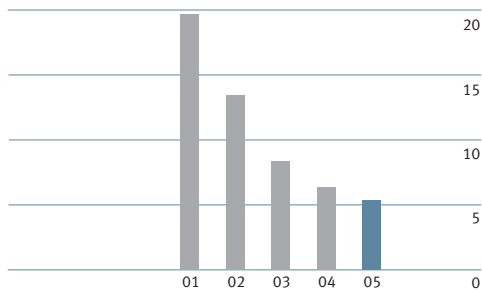
In addition to performance targets for AFR, ASR and SIR we also apply targets to and measure performance against key enablers including health and safety training and the publication of health and safety objectives and plans. These enablers and associated targets are subject to change as part of a dynamic approach which addresses developing needs and priorities and drives 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.

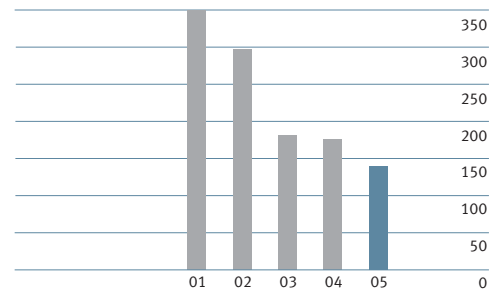
Verification

We recognise the importance placed by stakeholders on verification to ensure that the data which is reported on in this review is robust. A previous external review of processes and procedures used in the collection and reporting of health and safety data revealed no significant deficiencies. Verification and assurance of the effectiveness of data collection systems is demonstrated through the achievement of certification to international standards and, in many countries, compliance with local legal requirements. We will review how best to develop this process going forward.

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



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



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 47 entries in 2005, 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 St. Louis in the US for the introduction of a safe behaviour observation and intervention programme and improvement process, owned and implemented by line management with employee involvement and integrated into the quality programme, and also for an excellent safety performance. The other winners were GKN Driveline Trier, Germany, GKN Driveline Nagoya, Japan, GKN OffHighway division and GKN Sheepbridge Stokes, UK.

Environment

Environmental management continues to form an important element of the Group's integrated approach to risk management. GKN's environmental management system 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.

Environmental performance is reported to the Board and the Executive Committee as part of the regular CSR reports. In addition, any significant incident is reported to Executive Committee members within 24 hours and reviewed at the next meeting of that Committee.

Targets

GKN is committed to achieving compliance with ISO 14001 at all its manufacturing sites throughout the world. 96 plants are currently certified to the ISO 14001 standard and a further three are planning to achieve certification in 2006. Two of our European companies continue to maintain certification to the ECO Management and Audit Scheme (EMAS).

Operating sites are required to set targets, in particular on energy consumption, water use and waste generation, in line with the commitment to continuous improvement.

Performance

As reported in last year's review, in our Automotive and OffHighway businesses we have progressively been measuring our performance against key

environmental indicators (energy, waste, water) by reference to volume consumed or generated relative to weight of products shipped rather than relative to sales as previously, recognising the disadvantages of using sales as a metric. This methodology is reflected in the performance data reported below. We have however continued to use sales as the metric 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. As in last year's review, we continue to report environmental performance on a divisional basis.

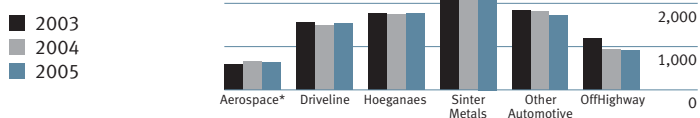
This year we have included performance data relating to carbon dioxide (CO₂) emitted as a result of energy consumed by the Group. This includes indirect emissions of CO₂ from power stations that generate the electricity we consume (calculated using average data for the emissions of CO₂ per kWh of generated power for each country, published by the International Energy Agency). Overall, CO₂ emission levels follow a similar trend to energy consumption with only slight variations due to changes in energy mix.

Our business processes across the Group are diverse and this is reflected in the range of environmental performance by division. In particular, Sinter Metals consumes energy and water at a much higher rate by unit weight of product than other divisions within the Group. This business manufactures a high volume of small products using processes that are energy intensive and have high water usage due to its cooling processes.

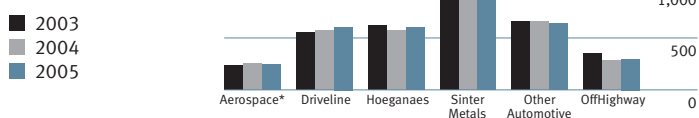
Overall, most divisions achieved similar or slightly improved performances in each of the four key indicators compared with 2004 as shown in the charts below.

As the accuracy of our reported data continues to improve, this can result in anomalies in year-on-year comparison. However, it also provides us with a clearer focus for improvement opportunities which are receiving a high level of attention. There are a significant number of initiatives throughout our plants which are contributing to improved performance. For example, GKN Aerospace St. Louis plant in the US, which represents over 50% of the division's overall water consumption, achieved a 63% reduction in its water consumption in 2005 following the installation of new recycling systems. The GKN Sinter Metals plant in Manitowoc, USA also achieved significant savings in water consumption due to the optimisation of water flow rates in the furnace cooling zones prior to the installation of recirculatory water cooling towers. A significant contribution to GKN's overall environmental footprint is the CO₂ emitted by power stations that generate the electricity we use to run our plants. In 2005 we made a step towards reducing that impact when GKN Sinter Metals at

Energy consumption per unit of production
kWh/tonne
*Aerospace measured against £1,000 sales



CO₂ emissions per unit of production
kg/tonne
*Aerospace measured against £1,000 sales



Corporate social responsibility review continued

Pimpri in India signed an agreement to purchase 48% of its electricity in 2005 from a local wind farm operator. The plant has also harnessed solar energy to preheat water for use in boilers and the site canteen.

We continue to beat the targets we 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 savings schemes in the UK to reduce further our CO₂ emissions.

In addition to targeting continuous improvement in the environmental impact of our business processes, we continue to focus on environmental issues in the design of new products. GKN Driveline announced, at the end of 2005, the development of two new constant velocity joint technologies which, when assembled together in a driveshaft, are expected to be lighter, more fuel efficient and quieter, due to reductions in driveline noise, vibration and harshness. New product development at our cylinder liner business in the UK has focused on reduced weight and reductions in NO_x and particulate materials emissions.

During the year, two enforcement actions against GKN companies resulted in fines totalling some £16,000. One, in the US, related to an accidental spillage of acid and the other, in the UK, related to breaches of waste management legislation. In addition, a fine of \$22,000 was paid for a waste management offence in the US which occurred in a prior year.

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. In 2006 we are planning to carry out a pilot external audit of 2005 environmental data submitted by a sample number of sites.

The GKN Green Scheme, which attracted 52 entrants in 2005, continues to recognise and reward Group companies which have developed innovative ways of reducing their environmental impact. The Green Scheme overall winner in 2005 was GKN Driveline in Brazil for the development of a technique for composting organic and other wastes arising from the production process

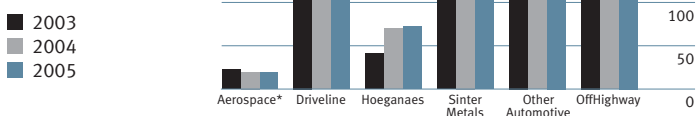
which can be sold as a soil improver. Other winners were GKN Driveline in Carcastillo, Spain, GKN Driveline Vigo, Spain, the Sinter Metals facility at Pimpri, India, and the Hoeganaes facility at Gallatin in the US.

Conclusion

Despite our long history of good corporate citizenship, we are never complacent about our performance and strive for continuous improvement in CSR as in every aspect of our business. The GKN Code and Policies, developed in 2005, will reinforce in all our businesses and amongst all our employees the imperative to uphold our Values in everything we do.

This will be further underpinned in 2006 with the launch of a new employee award scheme which will reward excellence in customer service, performance improvement, technology and innovation as well as health and safety and the environment. This, together with a new award recognising outstanding service to the communities in which we operate, will ensure that CSR continues to be an integral part of the way we do business.

Waste generation per unit of production
kg/tonne
*Aerospace measured against £1,000 sales



Water consumption per unit of production
m³/tonne
*Aerospace measured against £1,000 sales

