

Directors' report

Business review

The principal businesses of the Group are described on pages 4 to 9 and in the business review on pages 22 to 30. A review of the development of those businesses in 2005, events affecting the Group since the end of the year and likely future developments are referred to in the Chief Executive's statement on pages 12 and 13 and in the business review. An assessment of the Group's exposure to financial risks and a description of how these risks are managed are also included in the business review.

Share capital

During 2005, 4,794,334 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 2005, shareholders authorised the Company to purchase up to a maximum of 72,234,688 of its own Ordinary Shares, representing 10% of the issued share capital of the Company (excluding treasury shares) as at 31 December 2004. During the year, 11,895,000 shares (representing 1.6% of the Company's called up share capital at 31 December 2005) were purchased for an aggregate consideration of £29.9 million (excluding expenses) as part of a £100 million share buyback programme. Authority to purchase up to 60,339,688 shares remained in place at 31 December 2005. Since the programme commenced in October 2004, a total of 25,220,000 shares have been purchased at an aggregate consideration of £59.3 million excluding expenses. All of the shares purchased are being held by the Company as treasury shares.

The issued share capital of the Company at the end of the year was 740,466,222 Ordinary Shares of 50p each including the 25,220,000 shares held in treasury.

The Company has been informed of the following notifiable interests in the issued capital of the Company at 27 February 2006:

	% of issued capital
Franklin Resources, Inc.	11.98*
Barclays plc	3.45*
Legal & General Group plc	3.37

Annual General Meeting

The notice of the Annual General Meeting to be held at 11.00 a.m. on Friday 12 May 2006 at the Institution of Electrical Engineers, Savoy Place, London WC2R 0BL is contained in the AGM circular enclosed with this annual report, together with an explanation of the resolutions to be considered at the meeting.

Dividend

The Directors recommend a final dividend of 8.2p per 50p Ordinary Share in respect of the year ended 31 December 2005 payable on 17 May 2006 to shareholders on the register at the close of business on 21 April 2006. This, together with the interim dividend of 4.0p paid in September 2005, brings the total dividend for the year to 12.2p per share.

Key dates for the dividend reinvestment plan as it will operate in respect of the proposed 2005 final dividend are given on page 106.

Directors

The constitution of the Board and of its Committees, together with biographical notes on the Directors, are shown on pages 20 and 21.

Richard Clowes and Ian Griffiths ceased to be Directors of the Company on 31 December 2005 and 3 February 2006 respectively, on leaving the service of the Group. Baroness Hogg, Deputy Chairman, retires from the Board at the forthcoming AGM, after serving as a non-executive Director of the Company since 1996. She was also Senior Independent Director from December 2003 to December 2005. The Directors would like to record their appreciation of the contribution each has made to the Group over the years.

In accordance with the provisions for retirement by rotation in the Company's articles of association, Baroness Hogg, Deputy Chairman, Sir Ian Gibson, non-executive Director, and Kevin Smith, Chief Executive, retire at the AGM. Sir Ian Gibson and Kevin Smith, being eligible, offer themselves for re-election.

In addition, in order to comply with the provisions of the Combined Code, Roy Brown, Chairman, being a non-executive Director who has served on the Board for more than nine years, also retires at the AGM and, being eligible, offers himself for re-election.

Directors' interests in GKN shares are shown on pages 101 and 103.

Following the amendment of the Companies Act 1985 by the Companies (Audit, Investigations and Community Enterprise) Act 2004, the directors' indemnity provision in the Company's articles of association was amended. Pursuant to the articles (as amended), the Company has executed a deed poll of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company during the financial year under review in respect of costs of defending claims against them and third party liabilities. These provisions are currently in force. The indemnity provision in the Company's articles of association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

A copy of the deed poll of indemnity and of the Company's articles of association are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

Donations

Contributions to good causes made by Group companies around the world amounted to some £902,200 in 2005. This included cash donations to UK registered charities of £139,000 for educational purposes and £97,900 for community activities. Further details of contributions made by the Group worldwide are given in the corporate social responsibility review on page 33 and on the Company's website.

It is the policy of the Group not to make political donations. During 2005, 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 Part XA of the Companies Act 1985.

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 specific 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 2005.

› Corporate governance

The Board's statement on corporate governance matters is given on pages 90 to 94, and its report on Directors' remuneration is set out on pages 95 to 103.

› 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 2005, the most appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been used consistently. The Group accounts have been prepared on the basis of applicable International Financial Reporting Standards effective and endorsed by the European Union as at 31 December 2005 and the Company accounts have been prepared in accordance with UK applicable accounting standards. The Directors are responsible for ensuring that the Company and the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and 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 Company and 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 determine their remuneration will be proposed at the AGM.

On behalf of the Board

Grey Denham

Secretary

27 February 2006

*The Company has been informed that, as at 1 March 2006, the notifiable interests of Franklin Resources, Inc. and Barclays plc are 11.97% and 3.39% respectively. The Company has not been informed of any other changes in notifiable interests as at that date.