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 chaired the Committee throughout 2005, a position she held since May 2002. She resigned from the Committee on 31 December 2005 and was succeeded as Committee Chairman by Sir Peter Williams. The other current members of the Committee are Sir Ian Gibson, Helmut Mamsch, Sir Christopher Meyer and John Sheldrick, all of whom, together with Sir Peter Williams, served on the Committee throughout 2005. Members' attendance at meetings of the Committee in 2005 is summarised on page 93.

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 2005 from Towers Perrin in relation to executive Director remuneration. During 2005 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 relation to actuarial valuations relating to retirement plans in Japan and assistance in the design and implementation of healthcare programmes and software implementation in the US. Towers Perrin did not provide any other 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 page 91, comply with the best practice provisions of the Combined Code on Corporate Governance. (The Board's statement of overall compliance with the Combined Code is given on page 94.)

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 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 each 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 UK listed companies of comparable size and complexity.

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 provided to it by independent consultants.

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 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 100% of salary.

Report on Directors' remuneration continued

Details of the targets and cap for 2005 are given below in the section 'Directors' remuneration 2005'.

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. The structure of the Company's performance-related long-term incentives is considered annually as part of the award process and the Committee believes the current arrangements remain appropriate.

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 (LTIP)

In summary, under the LTIP introduced in 2004, each executive Director may be awarded annually a conditional right to receive GKN plc Ordinary Shares up to a maximum value 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. LTIP awards to executive Directors in 2005 were made at a value of 80% of basic salary.

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 99).

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 with 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 comprises a tailored peer group representing GKN's major competitors and customers worldwide. (Where a comparator company's shares are listed on an overseas market, the TSR of that company is calculated in local currency. The Committee believes this method of measurement provides a true indication of a company's performance, without potential distortions brought about by windfall movements in currency.)

The companies making up the comparator group for the awards granted in 2004 and 2005 (unless specified otherwise) 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		

*2004 comparator group only

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) consisted 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 had 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 those being used in 2004 and 2005, provides 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 was 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 ranking. For intermediate rankings between median and upper quartile, the executive Director will receive a proportionate number of shares increasing 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 (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. ESOS awards to executive Directors in 2005 were made at 120% of basic salary, giving a combined award value with LTIP for 2005 of 200% of basic salary.

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 99), set by the Remuneration Committee before an option is granted. Performance for awards granted from 2004 onwards is measured by comparing the TSR from GKN shares with 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 median and upper quartile. 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.

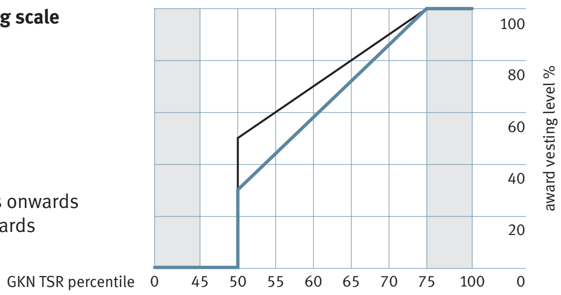
For options granted from 2001 to 2003 inclusive, the performance condition is linked to the increase in GKN's earnings per share, or 'EPS', (calculated in accordance with International Accounting Standard 33, adjusted to exclude individually significant charges and credits (including, but not limited to, major restructuring costs, profits or losses on disposal of businesses and the change in fair value of derivative financial instruments where hedge accounting has not been used) as disclosed in the Group's financial statements and the tax thereon) over the three years commencing on 1 January in the year of award. 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.

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

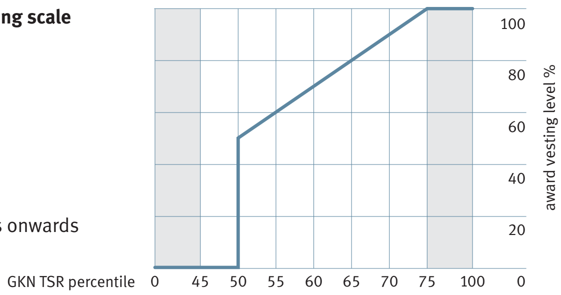
For executive Directors subject to the UK restrictions on pensionable earnings in the Finance Act 1989 (the earnings cap), retirement provision is secured by the Company by a combination of amounts paid to individual 'money-purchase' schemes and supplementary allowances paid to each Director. In certain 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

GKN LTIP vesting scale



2004 awards onwards
pre-2004 awards

GKN ESOS vesting scale



2004 awards onwards

Report on Directors' remuneration continued

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, currently 5% of gross salary, is required under the scheme, except in 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 have been reviewed in the light of changes in the taxation of pensions being introduced by the Government from April 2006. For those currently affected by the limit on annual pensionable earnings, which includes all executive Directors, a notional limit will be maintained beyond April 2006 so that, overall, the existing pension and salary supplement arrangements will be broadly unchanged. For senior executives who joined the Company prior to June 1989 and are currently not affected by the limit on pensionable earnings, no compensation is to be offered for any additional tax suffered by the individual in the event that the value of their pension exceeds the new Lifetime Allowance.

Service agreements

The service agreements of executive Directors 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.

Kevin Smith is a non-executive Director of Scottish and Southern Energy plc. Nigel Stein is a non-executive Director of Wolseley plc. They each retain the fees payable in respect of these appointments (currently £40,000 and £50,000 per annum respectively). Ian Griffiths, who left the service of the Group on 3 February 2006, was a non-executive Director of Ultra Electronics Holdings plc throughout 2005. He also retained the fee payable in respect of that appointment in 2005 (£29,000 per annum).

Terms of appointment of Chairman and non-executive Directors

Roy Brown became Chairman in May 2004 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. In respect of 2005, the Deputy Chairman and Senior Independent Director, Baroness Hogg, received an annual fee of £55,000. The basic fee received by the other non-executive Directors in 2005 was £40,000. In addition, the Chairmen of the Audit Committee (Sir Peter Williams) and Remuneration Committee (Baroness Hogg) received £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, save in exceptional circumstances, is for non-executive Directors to serve on the Board for nine years with interim renewals after three and six years, subject to mutual agreement and annual performance reviews.

With effect from 1 January 2006, Sir Ian Gibson was appointed to the position of Senior Independent Director, receiving an annual fee of £50,000, Sir Peter Williams was appointed Chairman of the Remuneration Committee, receiving the additional fee payable in respect of that position, increased to £8,000, and John Sheldrick was appointed Chairman of the Audit Committee, receiving the additional fee payable in respect of that position, increased to £9,000. Also with effect from 1 January 2006, the basic fee payable to non-executive Directors was increased to £45,000. Whilst ceasing to be Senior Independent Director on 31 December 2005, Baroness Hogg continues as Deputy Chairman until her retirement from the Board at the AGM in May 2006. She will continue to receive a fee at a rate of £55,000 per annum until that date.

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.

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

Schedule 7A to the Companies Act 1985 (the Act) requires 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 in order to maintain consistency, it continues to be appropriate 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 2005 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, Schedule 7A to the Act only requires 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 96 and 97). 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 below 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.

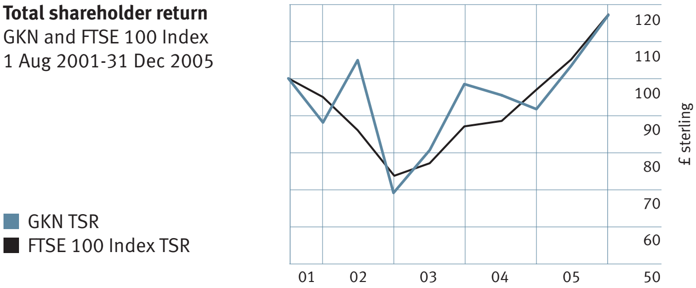
Period	TSR %	Percentile ranking in comparator group (rank no.1 = 100)(a)	Deferred award conversion %
Jan 1999–Dec 2001(b)	0.67	46	0
Jan 2000–Dec 2002(b)	(14.97)	23	0
Jan 2001–Dec 2003	(13.26)	25	0
Jan 2002–Dec 2004	(6.45)	24	0
Jan 2003–Dec 2005	3.59	22	0

(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, 63 and 64 companies (including GKN) respectively.

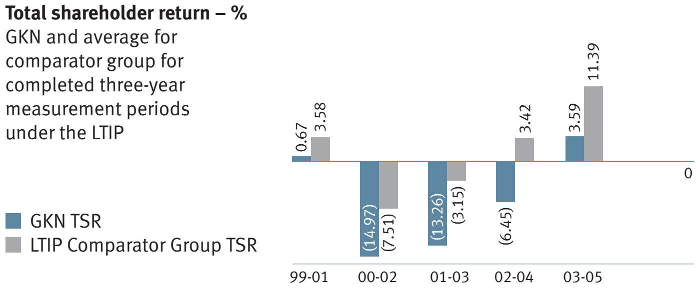
(b) Comparative TSR performance for these awards post the Industrial Services demerger in 2001 was based on a bundle of GKN plc and Brambles Industries plc Ordinary Shares.

The chart below illustrates GKN's TSR compared to the average TSR of the relevant comparator group under the LTIP for such periods.

Total shareholder return
GKN and FTSE 100 Index
1 Aug 2001-31 Dec 2005



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 2005

With the exception of the dates of the executive Directors' service agreements shown in the table below, note (a) to the table below, note (f) to the tables on page 101 and the section headed 'Share interests' on page 103, the information set out on pages 100 to 103 represents the auditable disclosures required by Part 3 of Schedule 7A to the Act.

The remuneration of the executive Directors in 2005, 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 2005 £000**	Total 2004 £000
K Smith	24.1.03	646	327	14	10	–	**997[b]**	934
R J Clowes[c]	14.11.01	361	180	11	13	504[c]	**1,069[b]**	401
R W Etches[d]	24.1.03	–	–	–	–	–	**–**	394
I R Griffiths[e]	24.1.03	459	200	10	13	–	**682[b]**	682
C J Keating[f]	19.8.02	–	–	–	–	–	**–**	431
N M Stein	22.8.01	378	191	5	5	–	**579[b]**	539
		1,844	898	40	41	504	**3,327**	3,381

(a) The executive Directors' basic salaries at 31 December 2005 were: Mr K Smith £659,237; Mr R J Clowes £367,636; Mr I R Griffiths £468,000; Mr N M Stein £392,895. The average year-end basic salary of those executives in the most senior executive grade below Board level whose remuneration is monitored by the Remuneration Committee was £200,068 (all non-sterling amounts have been translated into sterling at the year-end 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 102. 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 £153,000 (2004 – £133,000); Mr R J Clowes £103,000 (2004 – £99,000); Mr R W Etches £nil (2004 – £26,000); Mr I R Griffiths £142,000 (2004 – £128,000); Mr N M Stein £110,000 (2004 – £103,000).

(c) The service agreement of Mr Clowes terminated by way of redundancy on 31 December 2005. Under Mr Clowes' redundancy arrangements a payment equivalent to £504,311 was payable to him. This consisted of 12 months' basic salary and benefits (including payments relating to pensions, health assurance and car entitlement).

(d) Retired 30 June 2004. Comparative figure for 2004 represents total emoluments payable on retirement (full details of which were contained within the 2004 Report); the performance-related element of this (£11,000) was, however, paid in 2005.

(e) Resigned from the service of the Group with effect from 3 February 2006 to take up an appointment external to the GKN Group. No termination payment was payable to Mr Griffiths consequent upon him leaving service.

(f) Left service 30 June 2004. Comparative figure for 2004 represents total emoluments payable on cessation of employment (full details of which were contained within the 2004 Report); the performance-related element (£10,000) and a proportion of the termination element (£127,000) were, however, paid in 2005. As Mr Keating was paid in US$, for this purpose 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 2005 performance-related payments were triggered by the achievement of a number of Group and divisional targets relating to profit before tax and cash generation. Profit performance equal to target would have resulted in payments of 40% 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. All cash flow targets were achieved, resulting in payments equal to 10% of salary. In relation to profit performance, achievements resulted in payments of between 16% and 41% of salary.

The remuneration of the non-executive Directors in 2005 was as follows:

	Total 2005 £000[a]	Total 2004 £000
R D Brown[b]	**240**	159
Sir David Lees[c]	**–**	125
Baroness Hogg	**60**	60
Sir Ian Gibson	**40**	40
H C-J Mamsch	**40**	40
Sir Christopher Meyer	**40**	40
Dr K H Murmann[c]	**–**	17
J N Sheldrick[d]	**40**	2
Sir Peter Williams	**47**	44
	507	527

(a) No payments other than fees were received by the non-executive Directors in 2005.

(b) Appointed Chairman 20 May 2004.

(c) Retired 20 May 2004.

(d) Appointed 20 December 2004.

Directors' aggregate emoluments for 2005 amounted to £4.3 million (2004 – £4.4 million).

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 2005 and 1 January 2005 were as follows:

	Scheme	Exercisable(a) From	Exercisable(a) To	Shares under option 31 December 2005	Exercise price	2005 Granted	2005 Exercised	2005 Lapsed	Shares under option 1 January 2005
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
	ESOS	5.4.08	4.4.15	**300,062**	253.5p	300,062	–	–	–
	SAYE	–	–	**–**	–	–	–	–	–
R J Clowes(b)	ESOS	21.9.04	27.8.06	**169,928**	242.75p	–	–	–	169,928
	ESOS	15.3.05	27.8.06	**138,798**	308p	–	–	–	138,798
	ESOS	28.2.06	27.8.06	**294,388**	163.05p	–	–	–	294,388
	ESOS	16.9.07	15.3.08	**183,026**	219p	–	–	–	274,403
	ESOS	5.4.08	4.4.15	**–**	253.5p	167,335	–	167,335	–
	SAYE	1.1.06	30.6.06	**8,283**	217p	–	–	–	8,283
I R Griffiths(c)	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
	ESOS	5.4.08	4.4.15	**213,017**	253.5p	213,017	–	–	–
	SAYE	1.7.05	31.12.05	**–**	275.41p	–	–	1,468	1,468
N M Stein	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
	ESOS	5.4.08	4.4.15	**172,209**	253.5p	172,209	–	–	–
	SAYE	1.12.06	31.5.07	**4,028**	229p	–	–	–	4,028

(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) The service agreement of Mr Clowes terminated by way of redundancy on 31 December 2005. Under the rules of the ESOS, any options which vest under his awards will be exercisable for a period of six months following vesting. The number of shares the subject of his 2004 ESOS award has been reduced, by 91,377 shares, pursuant to the rules to reflect his cessation of employment during the course of the relevant measurement period. Mr Clowes' SAYE option became exercisable immediately upon his termination.

(c) Resigned from the service of the Group with effect from 3 February 2006, as a consequence of which all outstanding ESOS awards lapsed on that date in accordance with the rules.

(d) 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 or 2005).

(e) The closing mid-market price of GKN plc Ordinary Shares on the London Stock Exchange on 30 December 2005 (being the last day of trading for 2005) was 288p and the price range during the year was 228.75p to 300p.

(f) At 31 December 2005, 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 21.2 million and 8.4 million respectively. This represents approximately 2.9% of the issued share capital of the Company at that date in respect of discretionary (i.e. executive) schemes and 4.0% of the issued share capital of the Company at that date in respect of all (i.e. both executive and all-employee) schemes.

Conditional and deferred rights to GKN plc Ordinary Shares under the LTIP held by the executive Directors at 31 December 2005 and 1 January 2005, together with awards made and lapsed during the year, were as follows:

	Awards held 31 December 2005 Conditional	Awards held 31 December 2005 Deferred	Conditional awards made(a)	Conditional awards lapsed	Awards held 1 January 2005 Conditional	Awards held 1 January 2005 Deferred
K Smith	**647,440**	**–**	215,720	103,400	535,120	–
R J Clowes(b)	**198,908**	**–**	120,300	207,000	327,200	–
I R Griffiths(c)	**451,240**	**–**	153,140	103,400	401,500	–
N M Stein	**371,540**	**–**	123,800	91,250	338,990	–

(a) The closing mid-market price on the date of award of the shares comprising the conditional awards made during the year was 259p per share. The measurement period relating to these awards ends on 31 December 2007.

(b) The service agreement of Mr Clowes terminated by way of redundancy on 31 December 2005. Under the rules of the LTIP, the shares that are the subject of his conditional awards are eligible for release at the end of the relevant measurement period; the award granted during 2005 lapsed on Mr Clowes' date of leaving in accordance with the rules as he left in the first year of the measurement period. The number of shares the subject of his 2004 award has been reduced, by 41,592 shares, pursuant to the rules to reflect his cessation of employment during the course of the relevant measurement period.

(c) Resigned from the service of the Group with effect from 3 February 2006, as a consequence of which all outstanding LTIP awards lapsed on that date in accordance with the rules.

(d) Since 31 December 2005, the following conditional rights to GKN plc Ordinary Shares in respect of awards granted in relation to the measurement period 2003 to 2005 have lapsed: Mr K Smith 207,750 shares; Mr R J Clowes 115,600 shares; Mr I R Griffiths 103,400 shares; Mr N M Stein 119,200 shares.

(e) During both 2005 and 2004, no conditional rights were converted into deferred awards, no awards vested and no shares were released to Directors.

Report on Directors' remuneration continued

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	
	2005 £000	2004 £000
K Smith[a]	**259**	249
R J Clowes	**103**	99
R W Etches[a][b]	**–**	55
I R Griffiths	**142**	128
C J Keating[c]	**–**	24
N M Stein	**110**	103

(a) The difference between the Director's pension cost shown in this table and the supplementary allowance amount disclosed in note (b) on page 100 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 2005[a] £000	Accrued annual pension at 31 December 2004[a] £000	**Transfer value of accrued annual pension at 31 December 2005 £000**	Transfer value of accrued annual pension at 31 December 2004 £000	Change in transfer value in 2005[b] £000	Increase in annual pension in 2005[c] £000	**Transfer value at 31 December 2005 of increase in annual pension in 2005 £000**
R J Clowes	**50**	45	**1,228**	687	534	4	**101**
I R Griffiths	**54**	49	**942**	749	191	4	**70**
N M Stein	**38**	34	**538**	409	121	4	**52**

(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 9.1 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 2005 and 1 January 2005 were as follows:

	31 December 2005	1 January 2005
R D Brown	**24,264**	24,264
Baroness Hogg	**9,893**	9,893
K Smith	**203,273**	203,273
R J Clowes	**37,892**	224,284
Sir Ian Gibson	**10,000**	10,000
I R Griffiths	**–**	118,034
H C-J Mamsch	**2,500**	2,500
Sir Christopher Meyer	**2,500**	2,500
J N Sheldrick[(a)]	**2,500**	–
N M Stein	**121,244**	121,244
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 2005 and 27 February 2006 this trust held 108,796 GKN plc Ordinary Shares (2004 – 706,924 shares).

There were no changes in the Directors' interests in shares or options between 31 December 2005 and 27 February 2006 other than in respect of the lapses of conditional rights to GKN plc Ordinary Shares under the LTIP, and in respect of Mr Griffiths the lapse of options over GKN plc Ordinary Shares under the ESOS, disclosed on page 101.

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

Sir Peter Williams
Chairman of the Remuneration Committee

27 February 2006