

Audit Committee report

Role of the Committee

The primary role of the Audit Committee, which reports its findings to the Board, is to ensure the integrity of the financial reporting and audit processes and the maintenance of a sound internal control and risk management system. In pursuing these objectives, the Committee ensures that an appropriate relationship is maintained between GKN and the external auditors, considers the effectiveness of the external audit process and makes recommendations to the Board on the appointment of the external auditors. It reviews the effectiveness of the internal audit function and is responsible for approving the appointment of the head of that function. The Committee reviews the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group.

In the performance of its duties, the Committee has independent access to the services of the internal audit function and to the external auditors, and may obtain outside professional advice as necessary. Both the Head of Internal Audit and the external auditors have direct access to the Chairman of the Committee outside formal Committee meetings.

The Committee has written terms of reference that outline its authority and responsibilities. These are considered annually by the Audit Committee and any proposed changes are referred to the Board for approval. The Committee's current terms of reference are available upon request and on GKN's website.

Membership

The Audit Committee presently comprises John Sheldrick (Chairman), Sir Ian Gibson, Helmut Mamsch, Sir Christopher Meyer and Sir Peter Williams, all of whom are independent non-executive Directors. Their biographical details are set out on pages 44 and 45. There were no changes to the membership of the Committee during 2006. The Company Secretary acts as secretary to the Committee.

Report on the Committee's activities in 2006

Meetings and attendance

The Committee met on four occasions in 2006 timed to coincide with the financial and reporting cycles of the Company. Members' attendance at the meetings held during the year is set out in the table on page 50.

The Group Chairman, Chief Executive, Finance Director, Head of Internal Audit, the engagement partner of the external auditors and other members of the management team attended meetings by invitation. At each meeting there was an opportunity for the external auditors, and annually an opportunity for the Head of Internal Audit, to discuss matters with the Committee without any executive management being present. In addition, the members of the Committee met separately at the start of each meeting to discuss matters in the absence of any persons attending by invitation.

Financial reporting

During 2006 the Committee reviewed a wide range of financial reporting and related matters including the interim and annual financial statements prior to their submission to the Board. The Committee focused in particular on key accounting policies and practices adopted by the Group and any significant areas of judgement that materially impacted reported results. It also reviewed the Group's trading update announcements prior to release.

External auditors

The Audit Committee is responsible for the development, implementation and monitoring of the Company's policies on external audit. The policies, designed to maintain the objectivity and independence of the external auditors, regulate the appointment of former employees of the external audit firm to positions in the Group and set out the approach to be taken when using the external auditors for non-audit work. As a general principle the external auditors are excluded from consultancy work and cannot be engaged by GKN for other non-audit work unless there are compelling

reasons to do so. Any proposal to use the external auditors for non-audit work must be submitted to the Finance Director (who will, depending on the nature of the service, seek the prior authorisation of the Chairman of the Audit Committee) for approval prior to their appointment.

In accordance with its remit, the Committee reviewed and approved the external auditors' plans for the audit of the Group's 2006 financial statements. In approving the terms of engagement for the audit, the Committee considered the proposed audit fee and associated expenses.

During the year the Committee performed its annual review of the effectiveness of the external auditors. This process was based primarily on a format devised by the Institute of Chartered Accountants of Scotland and conducted by means of formal interviews with a number of Directors and senior management across the Group and the external audit engagement partner. The Committee also reviewed a formal letter provided by the external auditors confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards and received confirmation of compliance with the policy on the employment of former employees of the external auditors. In addition, a new audit engagement partner was appointed during the year in accordance with professional standards on the rotation of key audit staff.

Internal audit and monitoring of control issues

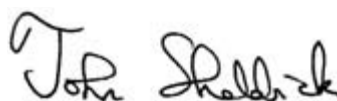
At its meetings during 2006 the Committee reviewed the results of the audits undertaken by the internal audit function and considered the adequacy of management's response to the matters raised, including the implementation of recommendations made by the function. It also reviewed and approved the internal audit plan for the coming year and the level of resources allocated to the internal audit function. The effectiveness of the internal audit function was reviewed based primarily on guidelines issued by the Institute of Internal Auditors. Feedback was obtained from a number of Directors and senior management across the Group by means of formal interview. In addition, an independent review of the function by Ernst & Young was completed during the year.

The Committee reviewed regular reports on control issues of Group level significance, including details of any remedial action being taken. It considered reports from the internal audit function and the external auditors on the Group's systems of internal control and reported to the Board on the results of its review. The Committee also examined a post-acquisition report on the integration and performance of a significant recent acquisition.

Whistleblowing

GKN operates an international whistleblowing hotline which is run by an external and independent third party. Launched during the year as part of the revised Employee Disclosure Procedures Policy, the hotline facilitates the arrangements whereby employees can make (on an anonymous basis if preferred) confidential disclosures about suspected impropriety and wrongdoing. Any matters so reported are investigated and escalated to the Audit Committee as appropriate. Statistics on the volume and general nature of all disclosures made are reported to the Committee on an annual basis.

On behalf of the Committee



John Sheldrick
Chairman of the Audit Committee

26 February 2007