

# Directors' remuneration report

## 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.

The Committee consists entirely of independent non-executive Directors. Sir Peter Williams has chaired the Committee since 1 January 2006. The other current members of the Committee are Sir Ian Gibson, Helmut Mamsch, Sir Christopher Meyer and John Sheldrick, all of whom served on the Committee throughout 2006. Members' attendance at meetings of the Committee in 2006 is summarised on page 50.

The Remuneration Committee is responsible for appointing external independent consultants to advise on executive remuneration matters. Following a review in 2006, the Committee has appointed New Bridge Street Consultants as its advisers. Whilst the executive Director salary review in 2006 utilised data published by previous advisers to the Committee, in future it is anticipated that New Bridge Street Consultants will provide advice on executive Directors' remuneration. During 2006 New Bridge Street Consultants were also appointed by the Group to provide advice on incentive arrangements for senior executives below Board level. They also continued, during 2006, to provide the total shareholder return monitoring service in connection with the Group's long-term incentive plan and executive share option scheme and a valuation of awards during the year under those schemes as required for share-based payment valuation purposes under International Financial Reporting Standard 2, roles they have performed for the Group since 2004. In appointing New Bridge Street Consultants in 2006, the Committee ensured there was adequate independence and no conflict of interest between the advice it would be seeking and the work performed elsewhere within the Group by employees of New Bridge Street Consultants. New Bridge Street Consultants 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 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 49, 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 51.)

## Remuneration policy

This section describes GKN's current policy for the remuneration of its executive and non-executive Directors as at the date of this report and for subsequent financial years.

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 60% performance-related and 40% 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 if 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 remuneration policy for the Chairman and the other non-executive Directors is for recompense by way of fees at levels commensurate with those paid by other UK listed companies of comparable size and complexity. Such fees may include additional awards in respect of the chairmanship of Board Committees. The fees of the Chairman, as stated above, are determined by the Remuneration Committee. The fees of the other non-executive Directors, including any separate fees payable to the chairmen of Board Committees, are determined by the Board following recommendation from the Chairman and Chief Executive and 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.

### 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 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. The Committee has reviewed the performance of the Directors and believes payment of salaries in accordance with this policy to be entirely justified.

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. 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 around 100% of salary.

## Directors' remuneration report continued

Details of the targets and cap for 2006 are given below in the section 'Directors' remuneration 2006'.

The Remuneration Committee has 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 structure of the Company's performance-related long-term incentives is considered annually as part of the award process; the Committee believes the current arrangements for executive Directors remain appropriate and it is currently reviewing the mix of long-term incentives for those executives in the most senior grade below Board level.

Award levels under each of the GKN Long Term Incentive Plan and the GKN 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 GKN Long Term Incentive Plan or the GKN 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. 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 2006 were made at a value of 100% 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 57).

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 which, the Committee believes, provides a meaningful comparison. (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, 2005 and 2006 (unless specified otherwise) are shown in the table below.

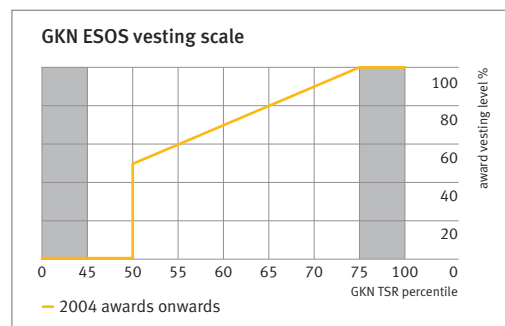
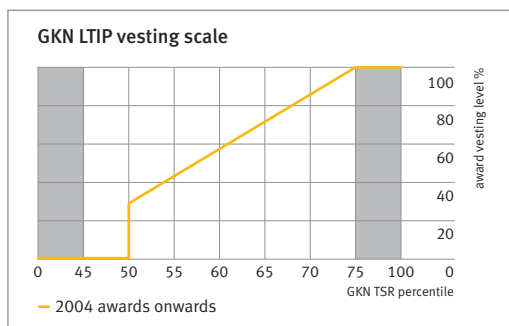
#### Automotive companies

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

#### Aerospace companies

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

\*2004 comparator group only \*\*2004 and 2005 comparator groups only \*\*\*2006 comparator group only



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. If the ranking is at the median level, 30% of the shares will be received at the end of the deferral period, with no shares being received for below median ranking. For intermediate rankings between median and upper quartile, the Director will receive a proportionate number of shares increasing on a straight-line basis. 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.

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)

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 2006 were made at 120% of basic salary, giving a combined award value with LTIP for 2006 of 220% 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 57), 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', 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

Prior to 6 April 2006, all executive Directors were subject to the UK restrictions on pensionable earnings in the Finance Act 1989 (the earnings cap). Retirement provision is secured by the Company either by a combination of amounts paid to individual 'money-purchase' schemes and supplementary allowances paid to each Director or, in certain cases, dependent in part upon the individual's salary level at commencement of employment, by membership of the executive section of the GKN Group Pension Scheme, which is a defined benefit scheme, and a supplementary allowance. The retirement provisions are made in order to assist each

\*Calculated in accordance with International Accounting Standard 33, adjusted to exclude individually significant charges and credits (including, but not limited to, restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations, profits and losses on the sale or closures of businesses and changes in the 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.

## Directors' remuneration report continued

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. An employee contribution of 7% of salary up to the earnings cap is required under the scheme.

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 introduced by the Government from April 2006. For those previously affected by the limit on annual pensionable earnings, which includes all executive Directors, a notional limit is being maintained beyond April 2006 so that, overall, the existing pension and salary supplement arrangements will be broadly unchanged. No compensation is 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 are 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.

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.

Sir 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 £42,500 and £55,000 per annum respectively).

### 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 are determined by the Board upon the recommendation of the Chairman and the Chief Executive. The non-executive Directors do not participate in the Board's determinations on this matter. In respect of 2006, the Deputy Chairman, Baroness Hogg, received a fee at a rate of £55,000 per annum until her retirement from the Board at the AGM on 12 May 2006 (she was not succeeded in the role of Deputy Chairman); the Senior Independent Director, Sir Ian Gibson, received an annual fee in 2006 of £50,000. The basic fee received by the other non-executive Directors in 2006 was £45,000. In addition, the chairmen of the Audit Committee (John Sheldrick) and Remuneration Committee (Sir Peter Williams) received £9,000 and £8,000 respectively to reflect the significant extra responsibilities attached to these positions. The non-executive Directors do not participate in the Group's short-term variable remuneration or long-term incentive arrangements or in its pension scheme, nor do they receive benefits in kind. The current policy is for non-executive Directors to serve on the Board for nine years with interim renewals after three and six years, subject to mutual agreement and annual performance reviews.

### Shareholding requirement

In order to reinforce the alignment of their interests with those of shareholders generally, all Directors are subject to a shareholding requirement.

Under a policy adopted by the Remuneration Committee, executive Directors are required to establish and maintain an investment in GKN plc ordinary shares equivalent to at least 100% of their basic salary. The receipt of any shares by a Director from an award made under the LTIP and ESOS is conditional upon the shareholding requirement being met on the third anniversary of the grant of the award. For these purposes any deferred rights under the LTIP will be counted as shares.

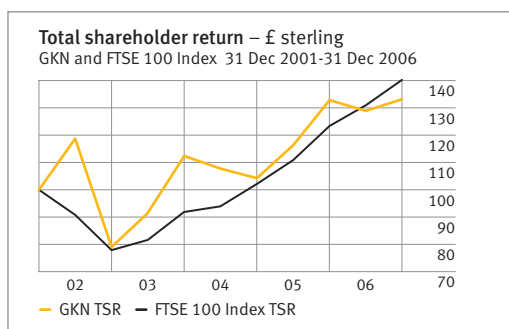
Each executive Director must acquire the minimum required shareholding by adding to any existing shareholding using performance-related rewards which may be received under the GKN short-term variable remuneration and long-term incentive arrangements. Until the required shareholding level is reached, 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 therefore illustrates the TSR performance (based on an initial investment of £100) of GKN plc ordinary shares over the five-year period to the end of 2006 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.



However, for the purposes of the LTIP and ESOS different comparator companies are used (see pages 54 and 55) and the TSR calculation methodology required 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 vesting percentage of the awards for the five most recently completed measurement periods as computed under the terms of the LTIP and for the completed measurement period for the ESOS award based on TSR performance.

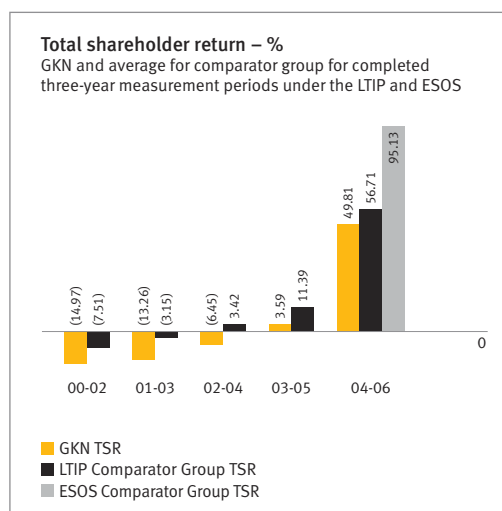
Period	TSR %	Percentile ranking in comparator group (rank no. 1=100)	% of award vested
<b>LTIP<sup>(a)</sup></b>			
Jan 2000–Dec 2002 <sup>(b)</sup>	-14.97	23	0
Jan 2001–Dec 2003	-13.26	25	0
Jan 2002–Dec 2004	-6.45	24	0
Jan 2003–Dec 2005	3.59	22	0
Jan 2004–Dec 2006	49.81	37	0
<b>ESOS<sup>(c)</sup></b>			
Jan 2004–Dec 2006	49.81	24	0

(a) For the measurement period under the LTIP ending on 31 December 2002, the comparator group was based on the entire FTSE 100 Index. For the subsequent three 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. For the measurement period ending on 31 December 2006, it comprised a tailored peer group of 38 companies (including GKN), listed on page 54.

(b) Comparative TSR performance for this award post the Industrial Services demerger in 2001 was based on a bundle of GKN plc and Brambles Industries plc ordinary shares.

(c) The ESOS comparator group comprised the FTSE 350 Index constituent companies on 1 January 2004.

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



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## Directors' remuneration 2006

With the exception of the dates of the executive Directors' service agreements shown in the table below, note (a) to the table below, note (i) to the table on page 59 and the section headed 'Share interests' on page 60, the information set out on pages 58 to 60 represents the auditable disclosures required by Part 3 of Schedule 7A to the Companies Act 1985.

The remuneration of the executive Directors in 2006, excluding pension benefits and long-term incentives, was as follows:

	Date of service agreement	Salary <sup>(a)</sup> £000	Performance-related £000	Car allowance £000	Other benefits £000	Total 2006 £000	Total 2005 £000
Sir Kevin Smith	24.1.03	676	538	10	6	<b>1,230<sup>(b)</sup></b>	997
I R Griffiths <sup>(c)</sup>	24.1.03	44	–	1	3	<b>48<sup>(b)</sup></b>	682
N M Stein	22.8.01	403	321	6	3	<b>733<sup>(b)</sup></b>	579
		1,123	859	17	12	<b>2,011</b>	2,258

(a) The executive Directors' basic salaries at 31 December 2006 were: Sir Kevin Smith £692,202; Mr N M Stein £412,542. 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 £210,966 (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 60. 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: Sir Kevin Smith £263,691 (2005 – £152,825); Mr I R Griffiths £12,080 (2005 – £142,080); Mr N M Stein £118,248 (2005 – £109,817).

(c) 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.

The 2006 performance-related payments were triggered by the achievement of a number of Group 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. Cash flow targets were substantially achieved, resulting in payments equal to 10% of salary. In relation to profit performance, achievements resulted in payments of 69.7% of salary.

The remuneration of the non-executive Directors in 2006 was as follows:

	Total 2006 £000	Total 2005 £000
R D Brown	<b>240</b>	240
Baroness Hogg <sup>(a)</sup>	<b>20</b>	60
Sir Ian Gibson	<b>50</b>	40
H C-J Mamsch	<b>45</b>	40
Sir Christopher Meyer	<b>45</b>	40
J N Sheldrick	<b>54</b>	40
Sir Peter Williams	<b>53</b>	47
	<b>507</b>	507

(a) Retired 12 May 2006.

Directors' aggregate emoluments for 2006 amounted to £2.9 million (2005 – £4.3 million).

Conditional and deferred rights to GKN plc ordinary shares under the LTIP held by the executive Directors at 31 December 2006 (or, if earlier, on date of cessation) and 1 January 2006, together with awards made and lapsed during the year, were as follows:

	Awards held 31 December 2006 <sup>(a)</sup>		Conditional awards made <sup>(b)</sup>	Conditional awards lapsed	Awards held 1 January 2006	
	Conditional	Deferred			Conditional	Deferred
Sir Kevin Smith	<b>687,250</b>	–	247,560	207,750	647,440	–
I R Griffiths <sup>(c)</sup>	–	–	–	451,240	451,240	–
N M Stein	<b>399,882</b>	–	147,542	119,200	371,540	–

(a) Or, if earlier, at date of cessation of appointment as a Director.

(b) The closing mid-market price on the date of award of the shares comprising the conditional awards made during the year was 331p per share. The measurement period relating to these awards ends on 31 December 2008.

(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 2006, the following conditional rights to GKN ordinary shares in respect of awards granted in relation to the measurement period 2004 to 2006 have lapsed: Sir Kevin Smith 223,970 shares; Mr N M Stein 128,540 shares.

(e) During 2006, no conditional rights were converted into deferred awards, no awards vested and no shares were released to Directors.

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 2006 (or, if earlier, on date of cessation) and 1 January 2006 were as follows:

	Scheme	Exercisable <sup>(a)</sup>		Shares under option 31 December 2006 <sup>(b)</sup>	Exercise price	2006			Shares under option 1 January 2006
		From	To			Granted	Exercised	Lapsed	
Sir Kevin Smith	ESOS	21.9.04	20.9.11	<b>210,093</b>	242.75p	–	–	–	210,093
	ESOS	15.3.05	14.3.12	<b>165,584</b>	308p	–	–	–	165,584
	ESOS	19.3.06	18.3.13	<b>793,468</b>	163.05p	–	–	–	793,468
	ESOS	16.9.07	15.9.14	<b>347,332</b>	219p	–	–	–	347,332
	ESOS	5.4.08	4.4.15	<b>300,062</b>	253.5p	–	–	–	300,062
I R Griffiths <sup>(c)</sup>	ESOS	11.4.09	10.4.16	<b>236,816</b>	334.05p	236,816	–	–	–
	ESOS	21.9.04	20.9.11	–	242.75p	–	–	197,734	197,734
	ESOS	15.3.05	14.3.12	–	308p	–	–	165,584	165,584
	ESOS	19.3.06	18.3.13	–	163.05p	–	–	354,185	354,185
	ESOS	16.9.07	15.9.14	–	219p	–	–	349,315	349,315
N M Stein	ESOS	5.4.08	4.4.15	–	253.5p	–	–	213,017	213,017
	ESOS	21.9.04	20.9.11	<b>169,928</b>	242.75p	–	–	–	169,928
	ESOS	15.3.05	14.3.12	<b>146,103</b>	308p	–	–	–	146,103
	ESOS	19.3.06	18.3.13	<b>303,587</b>	163.05p	–	–	–	303,587
	ESOS	16.9.07	15.9.14	<b>282,395</b>	219p	–	–	–	282,395
	ESOS	5.4.08	4.4.15	<b>172,209</b>	253.5p	–	–	–	172,209
	ESOS	11.4.09	10.4.16	<b>141,138</b>	334.05p	141,138	–	–	–
	SAYE	1.12.06	31.5.07	–	229p	–	4,028	–	4,028

Details of the options over GKN plc ordinary shares exercised by Directors during 2006 are shown below.

	Shares issued on exercise	Date of grant	Exercise price per share	Price on date of exercise <sup>(d)</sup>	Shares retained on exercise
N M Stein	4,028 <sup>(e)</sup>	18.9.03	229p	278.25p	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) Or, if earlier, at date of cessation of appointment as a Director.

(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 closing mid-market price per share on date of exercise.

(e) Option granted under the GKN SAYE Share Option Scheme 2001.

(f) Since 31 December 2006, the following ESOS awards granted in relation to the measurement period 2001 to 2003 have lapsed: Sir Kevin Smith 210,093 shares; Mr N M Stein 169,928 shares. Since 31 December 2006, the following ESOS awards granted in relation to the measurement period 2004 to 2006 have lapsed: Sir Kevin Smith 347,332 shares; Mr N M Stein 282,395 shares.

(g) The SAYE share option scheme is open to all UK subsidiary employees with six months' service or more. Participants save a regular monthly sum of up to £250 for three years (or five years for options granted prior to 2003) and can use these savings and any bonus payable under the scheme to exercise the options. For options granted prior to 2003, the exercise price was set at the maximum discount permitted by the Finance Act 1989 of 20% below the market price before the start of the savings period. For options granted in 2003 this discount was reduced to 10% (no SAYE share options were granted in 2004, 2005 or 2006).

(h) The closing mid-market price of GKN plc ordinary shares on the London Stock Exchange on 29 December 2006 (being the last day of trading for 2006) was 278p and the price range during the year was 252p to 341.25p.

(i) At 31 December 2006, 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 schemes was 21.5 million and 8.2 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.

## Directors' remuneration report continued

The first table below shows the total amount paid as a money-purchase contribution (paid only in respect of one Director who is not a member of GKN's defined benefit pension scheme) and supplementary allowances to all 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								
	2006 £000	2005 £000	Accrued annual pension at 31 December 2006 <sup>(c)</sup> £000	Accrued annual pension at 31 December 2005 <sup>(c)</sup> £000	Transfer value of accrued annual pension at 31 December 2006 £000	Transfer value of accrued annual pension at 31 December 2005 £000	Change in transfer value in 2006 <sup>(d)</sup> £000	Increase in annual pension in 2006 <sup>(e)</sup> £000	Transfer value at 31 December 2006 of increase in annual pension in 2006 <sup>(d)</sup> £000
Sir Kevin Smith <sup>(a)</sup>	270	259							
I R Griffiths <sup>(b)</sup>	12	142	59	54	1,025	942	83	3	53
N M Stein	118	110	42	38	584	538	39	3	29

(a) The difference between the Director's pension cost shown in this table and the supplementary allowance amount disclosed in note (b) to the first table on page 58 represents GKN's contribution to the Director's money-purchase pension arrangement.

(b) Resigned from the service of the Group with effect from 3 February 2006 with a deferred pension entitlement. The accrued pension shown at 31 December 2006 is the accrued pension as at 3 February 2006 revalued up to the year-end in line with deferred pension indexation.

(c) 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.

(d) Less any contributions made by the Director.

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

(f) 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 version 9.2 of Guidance Note 11 prepared by the Institute/Faculty of Actuaries with effect from 30 December 2005.

### Share interests

The beneficial interests of the Directors, including family interests, in GKN plc ordinary shares at 31 December 2006 and 1 January 2006 were as follows:

	31 December 2006	1 January 2006
R D Brown	26,264	24,264
Sir Kevin Smith	276,006	203,273
Sir Ian Gibson	10,000	10,000
H C-J Mamsch	7,500	2,500
Sir Christopher Meyer	2,500	2,500
J N Sheldrick	5,000	2,500
N M Stein	125,272	121,244
Sir Peter Williams	10,000	10,000

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 2006 this trust held 103,519 GKN plc ordinary shares (2005 – 108,796 shares). At 26 February 2007\* this trust held 107,550 GKN plc ordinary shares (2005 – 108,796).

There were no changes in the Directors' interests in shares or options between 31 December 2006 and 26 February 2007\* other than in respect of the shares held by the discretionary trust as detailed above, the lapse of conditional rights to GKN plc ordinary shares under the LTIP disclosed on page 58 and the lapse of awards under the ESOS disclosed on page 59.

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

26 February 2007

\*As at 1 March 2007, there were no changes to the beneficial and non-beneficial interests of the Directors.