

Directors' report

Business review

The principal businesses of the Group are described on pages 17 to 31 of the business review, which is incorporated into this Directors' report by reference. A review of the development of those businesses in 2006, events affecting the Group since the end of the year and likely future developments are referred to in the Chief Executive's statement on pages 4 and 5 and in the business review; the latter also includes an indication of the research and development activities of the Group. An assessment of the Group's exposure to financial risks and a description of how these risks are managed are also included in the business review, together with a description of other risks and uncertainties facing the Group.

Share capital

During 2006, 1,046,965 GKN plc ordinary shares of 50p each were issued in connection with the exercise of options under SAYE and Executive share option schemes.

At the Annual General Meeting held in May 2006, shareholders authorised the Company to purchase up to a maximum of 71,524,622 of its own ordinary shares, representing 10% of the issued share capital of the Company (excluding treasury shares) as at 31 December 2005. During the year, 13,439,142 shares (representing 1.8% of the Company's called up share capital as at 31 December 2006) were purchased for an aggregate consideration of £40 million. This completes the share buyback programme which commenced in 2004. During the programme, the Company purchased a total of 38,659,142 shares (amounting to 5.2% of the Company's called up share capital as at 31 December 2006) for an aggregate consideration of £100 million. All of the shares purchased are being held by the Company as treasury shares. Authority to purchase up to 58,085,480 shares remained in place at 31 December 2006.

The issued share capital of the Company at the end of the year was 741,513,187 ordinary shares of 50p each including the 38,659,142 shares held in treasury.

Substantial shareholders

Until 19 January 2007 the Company maintained a register of substantial shareholdings in accordance with the provisions of section 211 of the Companies Act 1985. At 19 January 2007, holdings exceeding the 3% disclosure threshold were those of Franklin Resources, Inc. which held 35,122,189 ordinary shares and Legal & General Group plc which held 23,018,242 ordinary shares, representing 4.99% and 3.27% respectively of the issued ordinary share capital of the Company (excluding treasury shares).

On 20 January 2007 the Companies Act 1985 provisions in respect of substantial shareholdings were repealed and the Disclosure and Transparency Rules of the Financial Services Authority came into force. At 26 February 2007*, the Company had received notification that holdings exceeding the 3% notification threshold were those of Legal & General Group plc which held 23,065,565 voting rights, representing 3.28% of the total voting rights attaching to the issued ordinary share capital of the Company (excluding treasury shares).

*As at 1 March 2007, the Company had not been notified of any changes or additions to these notifiable interests.

Annual General Meeting

The notice of the Annual General Meeting to be held at 11.00 am on Thursday 3 May 2007 at the Institution of Engineering and Technology, Savoy Place, London WC2R 0BL is contained in the AGM circular enclosed with this annual report, together with an explanation of the resolutions to be considered at the meeting.

Dividend

The Directors recommend a final dividend of 8.7p per 50p ordinary share in respect of the year ended 31 December 2006 payable on 9 May 2007 to shareholders on the register at the close of business on 20 April 2007. This, together with the interim dividend of 4.1p paid in September 2006, brings the total dividend for the year to 12.8p per share.

Key dates for the dividend reinvestment plan as it will operate in respect of the proposed 2006 final dividend are given on page 110.

Directors

The constitution of the Board and of its Committees, together with biographical notes on the Directors, are shown on pages 44 to 45.

Ian Griffiths retired as a Director of the Company on 3 February 2006 on leaving the service of the Group. He had been an executive Director since 2001, responsible for the Group's Automotive Driveline businesses. Baroness Hogg retired from the Board at the conclusion of the 2006 AGM after serving as a non-executive Director of the Company since 1996. She was also Senior Independent Director from December 2003 to December 2005. The Directors would like to record their appreciation of the contribution each has made to the Group over the years.

In accordance with the provisions for retirement by rotation in the Company's articles of association, Sir Christopher Meyer and Helmut Mamsch, both non-executive Directors, retire at the AGM and, being eligible, offer themselves for re-election.

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

Directors' interests in GKN shares are shown on pages 58 to 60.

Following an amendment to the Companies Act 1985, the Directors' indemnity provision in the Company's articles of association was amended by shareholders at the 2005 AGM. Pursuant to the articles (as amended), the Company executed a deed poll of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company during the financial year under review in respect of costs of defending claims against them and third party liabilities. These provisions remain in force. The indemnity provision in the Company's articles of association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

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

Donations

Contributions to good causes made by Group companies around the world amounted to some £694,500 in 2006. This included cash donations to UK registered charities of £143,500 for educational purposes and £31,625 for community activities. Further details of contributions made by the Group worldwide are given in the corporate responsibility review on page 43 and on GKN's website.

It is the policy of the Group not to make political donations. During 2006, no donations were made to EU political organisations, no EU political expenditure was incurred and no contributions to political parties outside the EU were made within the meaning of Part XA of the Companies Act 1985.

The Group's US Aerospace business has a Political Action Committee (PAC) which is funded entirely by employees and their spouses. No funds are provided to the PAC by GKN and any administrative services provided to the PAC by the US Aerospace business are fully charged to and paid for by the PAC, and the Company does not therefore consider these to be political donations. Employee contributions are entirely voluntary and no pressure is placed on employees to participate. Under US law, an employee-funded PAC must bear the name of the employing company.

Payments to suppliers

It is Group policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract. Given the nature and diversity of the Group's international purchasing arrangements and contracts, it is not Group policy to follow any specific code or standard in relation to payment practice.

GKN plc, as a holding company, did not have any amounts owing to trade creditors at 31 December 2006.

Corporate governance

The Board's statement on corporate governance matters is given on pages 48 to 51 and its report on Directors' remuneration is set out on pages 53 to 60.

Directors' responsibility for the accounts

At the end of each financial year the Directors are required by the Companies Act 1985 to prepare accounts which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing the accounts for the year ended 31 December 2006, appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been used consistently. The Group accounts have been prepared on the basis of applicable International Financial Reporting Standards effective and endorsed by the European Union as at 31 December 2006 and the Company accounts have been prepared in accordance with UK applicable accounting standards. The Directors are responsible for ensuring that the Company and the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 1985. In addition, the Directors are responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Company

and the Group are properly safeguarded and to ensure that reasonable steps are taken to prevent or detect fraud and other irregularities.


Auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Audit information

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board



Grey Denham
Secretary

26 February 2007