

Directors' Report

Business review

The principal businesses of the Group are described on pages 18 to 35 of the business review. A review of the development of those businesses in 2007 and their position at the end of that year, 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 5 to 7 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 principal risks and uncertainties facing the Group. The business review and the Chief Executive's statement are each incorporated into this Directors' report by reference.

Share capital

The authorised share capital of the Company as at 31 December 2007 was £450 million divided into 900 million ordinary shares each with a nominal value of 50p. At the end of 2007, 743,699,431 fully paid ordinary shares were in issue, including 38,659,142 ordinary shares (5.2% of the issued share capital) held in treasury and 2,186,244 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes. Each share (other than the treasury shares which have no voting rights) carries the right to one vote on a poll at a general meeting of the Company.

The ordinary shares are listed on the London Stock Exchange. In addition, GKN has a sponsored Level 1 American Depository Receipt (ADR) programme for which the Bank of New York Mellon acts as Depository. The ADRs trade on the US over-the-counter market where each ADR represents one GKN ordinary share.

At the Annual General Meeting in May 2007, the Company was authorised to purchase up to 70,285,404 of its own ordinary shares, representing slightly less than 10% of the issued share capital of the Company (excluding treasury shares) at 31 December 2006. No shares were purchased under this authority during 2007.

The rights and obligations attaching to the Company's shares are contained in the articles of association, a copy of which can be viewed on GKN's website or can be obtained by writing to the Company Secretary. The articles can only be changed by special resolution of the shareholders.

There are no restrictions on transfer or limitations on the holding of the Company's ordinary shares and no requirements for prior approval of any transfers. Under the Company's articles, the Directors have power to suspend voting rights and the right to receive dividends in respect of shares in circumstances where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006.

Change of control

The Company's subsidiary, GKN Holdings plc, entered into separate agreements on 27 July 2005 with the following banks each in respect of a bi-lateral banking facility in an amount of £35 million: Barclays Bank plc, BNP Paribas, Calyon, Commerzbank Aktiengesellschaft, Citibank N.A., Deutsche Bank A.G., HSBC Bank plc, ING Bank N.V., The Royal Bank of Scotland and Wachovia Bank National Association. Each agreement provides that, on a change of control of the Company, the bank can give notice to GKN Holdings plc to repay all outstanding amounts under the relevant facility.

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards normally vest and become exercisable on a change of control subject to the satisfaction of any performance conditions at that time.

As referred to in the Directors' remuneration report on page 61, the executive Directors' service agreements provide for payment of a predetermined amount equivalent to one year's salary and benefits on termination by the Company of a Director's service agreement on less than due notice within 12 months of a change of control of GKN plc.

Substantial shareholders

In accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority, at 27 February 2008* the Company had received notification of the following holdings exceeding the 3% notification threshold:

Shareholder	Nature of Interest	No. of shares/ voting rights	% of issued capital
Standard Life Investments Ltd	Direct	35,663,510	5.06
	Indirect	29,499,095	4.18
	Total	65,162,605	9.24
Mondrian Investment Partners Ltd	Direct	43,849,886	6.24
AXA SA	Direct	6,904,169	0.98
	Indirect	28,271,520	4.01
	Total	35,175,689	4.99
Bank of New York Mellon Corp.	Direct	34,973,762	4.96
Schroders plc	Indirect	34,685,344	4.93
Legal & General Group plc	Direct	28,645,996	4.06

Annual General Meeting

The Annual General Meeting of the Company will be held at 2.00 pm on Thursday 1 May 2008 at the Institution of Engineering and Technology, Savoy Place, London WC2R 0BL. The notice of meeting, which includes the special business to be transacted at the meeting, is included within the AGM circular. The circular also contains an explanation of all the resolutions to be considered at the AGM.

Dividend

The Directors recommend a final dividend of 9.2p per ordinary share in respect of the year ended 31 December 2007 payable on 14 May 2008 to shareholders on the register at the close of business on 25 April 2008. This, together with the interim dividend of 4.3p paid in September 2007, brings the total dividend for the year to 13.5p per share.

Key dates for the dividend reinvestment plan as it will operate in respect of the proposed 2007 final dividend are given on page 122.

Directors

The constitution of the Board and of its Committees, together with biographical notes on the Directors, is shown on pages 48 and 49.

The articles of association provide that a Director may be appointed by an ordinary resolution of shareholders or by the existing Directors, either to fill a vacancy or as an additional Director. Further information on GKN's internal procedures for the appointment of Directors is given in the corporate governance statement on page 54 (in the section on the Nominations Committee) and on GKN's website.

* As at 29 February 2008, the Company had not been advised of any changes or additions to these notifiable interests.

The Board of Directors, which is responsible for the management of the business, may exercise all the powers of the Company subject to the provisions of relevant legislation and the Company's memorandum and articles of association. The powers of the Directors set out in the articles include those in relation to the issue and buyback of shares.

Sir Ian Gibson retired as a Director of the Company on 31 December 2007. He had been a non-executive Director of the Company since 2002 and was appointed Senior Independent Director in January 2006. The Directors would like to record their appreciation of the significant contribution Sir Ian has made to the Group during this time.

In accordance with the provisions for retirement by rotation in the Company's articles of association, Nigel Stein, John Sheldrick and Sir Peter Williams retire at the AGM and, being eligible, offer themselves for re-election. As Directors appointed during the year, Marcus Bryson, Andrew Reynolds Smith and Bill Seeger retire at the forthcoming AGM and, being eligible, offer themselves for re-election. Richard Parry-Jones, appointed with effect from 1 March 2008, also retires at the AGM and offers himself for re-election (further details can be found in the AGM circular). 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 64 to 68.

Pursuant to the articles of association, the Company has executed a deed poll of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company 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.

The circular containing the notice of meeting sets out details of the amendments to the articles of association which will be proposed at the AGM (and where the full text of those amendments can be inspected).

Donations

Contributions to good causes made by Group companies around the world, other than those in connection with GKN Mission Everest, amounted to some £581,500 in 2007. This included cash donations to UK registered charities of £144,500 for educational purposes and £22,300 for community activities. In addition, as part of its commitment to GKN Mission Everest, the Company donated \$500,000 to charities in Africa. Further details of this and other community activities are given on pages 46 and 47 and on GKN's website.

It is the policy of the Group not to make political donations. During 2007, 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 section 364 of the Companies Act 2006.

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 2007.

Corporate governance

The Board's statement on corporate governance is given on pages 52 to 55 and the Directors' remuneration report is set out on pages 57 to 68.

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 2007, 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 2007 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 applicable company law. 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

Each of the Directors who held office at the date of approval of this Directors' report confirms that, so far as he is 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

27 February 2008