



Sir Kevin Smith  
Chief Executive

## Chief Executive's Statement

### 2008 Performance

Against a background of a more uncertain economic environment, GKN entered 2008 with a positive outlook. Our strategic restructuring of Driveline was complete, rebalancing our geographic footprint towards high growth markets; our order books were buoyant across all divisions; and in Aerospace our excellent positioning on new aircraft and engine programmes was set to provide momentum for continuing strong growth.

Our first half performance underscored our confidence. The North American automotive market had already softened significantly and cost pressures had intensified with huge increases in raw material and energy costs. Despite these headwinds, Group revenues (subsidiaries and joint ventures) before favourable currency translation were up 9%, Group profit before tax was up 5% and operating cash flow had also improved.

Although some weakening of automotive sales was expected, the world's automotive industry has been stunned by the speed of the collapse in demand for its products in all parts of the world as the emerging global recession took hold.

For GKN's Automotive business, including Powder Metallurgy, overall activity levels fell in the fourth quarter by around 40% from June and the business was loss making in the last two months of the year. Swift and wide ranging action has been implemented to reposition the business for a sustained period of severely depressed global demand.

Between October and the year end we had reduced our global workforce by 2,800 people, this in addition to a reduction of 600 employees in North America earlier in the year. Short-time working programmes were implemented globally and extended shut-down periods introduced in all 63 automotive plants worldwide. The Group's focus on managing short term cash flow has been intensified, with particular attention being paid to working capital and all elements of discretionary expenditure. Investment programmes, particularly capital plant and machinery procurement, have also been curtailed or delayed.

Elsewhere, in the Group's non-automotive businesses, and against a backdrop of more supportive markets, performance has been excellent.

OffHighway sales and profits achieved record levels. Revenues, before favourable currency, improved by 17% and profits, similarly, were up by 18%. Demand for agricultural machinery was healthy throughout the year and the heavy construction and mining equipment sectors also remained supportive. The light construction, industrial and leisure equipment segments, which account for 15% of OffHighway revenues, have progressively weakened through the year.

Aerospace had another really excellent year. Revenues, before favourable currency, increased by 15% and profits, similarly, by 20%. The acquisition of the Teleflex aero engine component business, which has now been successfully integrated, accounted for 5% of the sales improvement and the division delivered strong organic growth. The military market was particularly buoyant with

increased demand on a range of programmes. Delays were experienced in a number of customer development programmes, particularly the Boeing 787 and Airbus A400M, which were largely offset by sales of new products such as the winglets for the Boeing 767 in-service fleet and early production activity on programmes such as the Joint Strike Fighter.

### Our achievements

The 2008 headlines for GKN will record the impact of a severe global recession on profitability and jobs. Behind those headlines GKN people have much to be proud of in their achievements during the year.

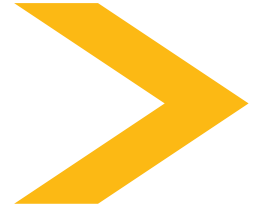
In Automotive the world's most advanced traction control system with GKN technology at its core took to the road to wide acclaim on the new BMW X6. GKN's power distribution and control technology was recognised with Nissan's Global Innovation Award for our contribution to the Nissan GT-R.

Our mild hybrid e-motor technology received its first customer award from a European manufacturer, building on our market leadership position in Japan, and we supported a European customer with the design and development of its first all wheel drive platform which will provide substantial future business for GKN.

Once again our driveshafts operation won the majority of new business which came to market, with a 77% win rate further enhancing its market share. New manufacturing plants were opened in China, India and Turkey by Driveline and in Argentina by Sinter Metals and are now operating to GKN's world class manufacturing standards, further enhancing our global footprint.

Aerospace made further significant progress in 2008 and is now Europe's leading aerostructures company. Successful new programme development, making extensive use of composite materials and proprietary manufacturing technology, has supported the launch of the Boeing 787, Airbus A380 and a range of other important aerospace programmes. Northrop Grumman rolled out its first prototype carrier-capable unmanned combat aircraft with GKN contributing around 80% of the manufactured aircraft and much of the structural design. We are pleased to have secured a \$2 billion order with Airbus for a very significant package of major composite wing structures for the A350, and the formation of a UK-based technology joint venture with Rolls-Royce to co-develop and manufacture composite fan blades for their next generation aero engines was another exciting milestone.

The acquisition of the Airbus wing component and sub-assembly facility at Filton, Bristol, completed on 5 January 2009, marked the end of a momentous year for Aerospace. A new supply and technology partnership with Airbus and a world class aerostructures manufacturing facility creates significant new opportunities as we continue on our path to become the world-leading first tier supplier in the development and manufacture of airframe and engine structural components.



*Although we expect 2009 to be a very challenging year, GKN's financial position is sound and actions taken to reduce costs and improve cash flow should position us to benefit strongly when markets recover.*

### Technology right for the times

In 2009 we celebrate our 250th birthday and it is right that we take time out to reflect on our heritage. Indeed we have much to be proud of. Our history is rich with manufacturing invention and innovation and our future relies on our ability to continue to develop new technology and new products for a new world. The low carbon global economy provides huge potential for GKN — new lightweight mechatronic drivelines, lightweight high strength net shape components from Powder Metallurgy, and complex lightweight aircraft and engine structures for the next generation of fuel efficient, low emission aircraft. In this report you will read about technologies, products and processes which build on our history and provide a major opportunity for GKN to stamp its imprint on a new and exciting low carbon world.

### Quality and capability

Clearly 2008 has been a very challenging year and 2009 is set to be even tougher. We have had much to do to reposition ourselves to survive and prosper through the most severe global recession in modern times.

GKN supplies highly engineered products for almost half of all automobiles manufactured across the globe and almost all aircraft in production worldwide. Our people achieve world class standards of quality and our health and safety record is world leading. I am proud of every one of them and deeply regret the difficult actions we have had to take over the last few months. GKN has much to be proud of in its long history and as our markets recover we will be positioned for a strong future.

### 2009 Outlook

#### Markets and Environments

The outlook for our major markets is both challenging and uncertain as the global economic recession continues to severely impact demand in most of our end markets.

The outlook for Automotive production is extremely uncertain. Forecasters expect weakness across virtually all regions with global light vehicle output to fall within a range of 55 to 59 million vehicles — a decline of between 12% and 20%.

OffHighway markets have weakened over the last few months and forecasters now expect a substantial decline in demand for heavy construction, mining and agricultural equipment.

Aerospace markets are mixed. Military aircraft demand is expected to remain solid through the year. In the civil sector, regional and business jet demand has fallen sharply and some reduction in production rates for large civil aircraft is expected in the second half.

### Restructuring

In addition to the restructuring actions taken in the final quarter of 2008, global headcount will be reduced further in 2009 by around 2,400 people, of which around 300 had already left the Group by the end of January. A number of manufacturing sites will be closed and short-time working and plant shut-downs implemented widely.

The programme will be completed by July 2010 and cash costs of approximately £140 million and non-cash asset impairments of approximately £150 million will be incurred. The plan is expected to reduce full year operating costs by approximately £190 million.

### GKN's businesses

Production volumes in the Group's Automotive and Powder Metallurgy businesses have been particularly soft in the first quarter as vehicle manufacturers reduce inventories and realign output with consumer demand. Some recovery is expected from the second quarter onward and the Group will increasingly benefit from its cost reduction programme.

OffHighway sales are expected to fall as demand declines rapidly through the second quarter.

Aerospace sales are expected to continue to grow strongly as the Filton acquisition is consolidated into the division.

If sterling were to remain at current levels against major international currencies, there would be a translational benefit to Group results.

### Financing

The Group entered 2009 with net debt of £708 million. EBITDA/net interest cover was 8 times, well ahead of the 3.5 times required by our one banking covenant on committed facilities.

### Outlook

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