

## Directors' Report

### Business review

The principal businesses of the Group are described on pages 8 to 49 of the business review. A review of the development of those businesses in 2008 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 Chairman's statement (inside front cover), the Chief Executive's statement on pages 2 and 3 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, the Chairman's statement 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 2008 was £450 million divided into 900 million ordinary shares each with a nominal value of 50p. At the end of 2008, 743,903,944 fully paid ordinary shares were in issue, including 38,384,253 ordinary shares (5.2% of the issued share capital) held in treasury. A total of 479,402 ordinary shares were issued during the year in connection with the exercise of options under the Company's share option schemes, of which 274,889 were treasury shares. 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 in the US over-the-counter market where each ADR represents one GKN ordinary share.

At the Annual General Meeting in May 2008, the Company was authorised to purchase up to 70,504,029 of its own ordinary shares, representing 10% of the issued share capital of the Company (excluding treasury shares) at 31 December 2007. No shares were purchased under this authority during 2008.

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 in 2005 with the following banks each in respect of a bilateral 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 plc and Wachovia Bank National Association. GKN Holdings plc entered into further separate agreements in 2008 with the following

banks each in relation to a bilateral banking facility in an amount of £20 million: Barclays Bank plc, Calyon, Commerzbank Aktiengesellschaft, Citibank N.A., Deutsche Bank A.G., HSBC Bank plc, ING Bank N.V., The Royal Bank of Scotland plc and Wachovia Bank National Association. It also entered into a £55 million bilateral banking facility with Bank of China Ltd and a €50 million bilateral facility with Landesbank Baden-Württemberg in 2008.

Each agreement provides that, on a change of control of GKN plc, the respective 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 65, 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 25 February 2009\* 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	52,866,419	7.49
	Indirect	40,491,676	5.74
	Total	93,358,095	13.23
Mondrian Investment Partners Ltd	Direct	43,849,886	6.24
	Indirect	28,271,520	4.01
	Total	35,175,689	4.99
Bank of New York Mellon Corp.	Direct	34,973,762	4.96
	Indirect	34,685,344	4.93
Legal & General Group plc	Direct	27,448,917	3.89

\* See footnote on page 53.

### Annual General Meeting

The Annual General Meeting of the Company will be held at 2.00 pm on Thursday 7 May 2009 at the Cavendish Conference Centre, 22 Duchess Mews, London W1G 9DT. 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

An interim dividend of 4.5p per ordinary share was paid on 30 September 2008. As noted in the Chairman's statement no final dividend will be paid.

## Directors

The constitution of the Board and of its Committees, together with biographical notes on the Directors, is shown on pages 50 and 51.

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 56 (in the section on the Nominations Committee) and on GKN's website.

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.

In accordance with the provisions for retirement by rotation in the Company's articles of association, Sir Kevin Smith, William C Seeger, Helmut Mamsch and Sir Christopher Meyer 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 68 to 71.

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.

Both the service contracts of the executive Directors and the terms and conditions of appointment of the non-executive Directors 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 £470,300 in 2008. This included cash donations to UK registered charities of £143,600 for educational purposes and £29,800 for community activities. In addition, as part of its commitment to GKN Hearts of Gold, the Company donated £150,000 to charities in Africa. Further details of this and other community activities are given on page 49.

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2008.

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 2008.

## Corporate governance

The Board's statement on corporate governance matters is given on pages 54 to 58 and the Directors' remuneration report is set out on pages 61 to 71.

## 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

25 February 2009

\* As at 5 March 2009, the Company had received notification of an increase in the holdings of Standard Life Investments Ltd to Direct: 56,688,451 (8.04%), Indirect: 43,441,413 (6.16%), Total: 100,129,864 (14.20%). As at that date, the Company had not been advised of any other changes or additions to the notifiable interests set out on page 52.