

Measurement and reporting of performance

In this announcement, in addition to statutory measures of profit and loss, we have made reference to profits and earnings excluding the impact of:

- strategic restructuring and impairment charges of subsidiaries and joint ventures;
- amortisation of non-operating intangible assets arising on business combinations;
- profits and losses on the sale or closures of businesses;
- change in the value of derivative and other financial instruments; and
- profits and losses, after tax, arising on discontinued operations.

We believe results excluding the above items show more clearly the underlying trend in business performance.

Trading profit is defined as operating profit or loss before any of the above. In 2007 the Group closed its UK cylinder liner business, GKN Sheepbridge Stokes Ltd. 2007 sales include £22 million in respect of this business, whilst its 2007 trading performance, a loss of £7 million, is reported in 'profits and losses on sale or closures of businesses'.

In August 2008, negotiations in respect of the deferred consideration held in escrow on the AgustaWestland joint venture divestment were concluded. As a result the Group received a further £18 million in consideration, the after tax impact of which has been disclosed as a profit on discontinued operations, a treatment consistent with the original divestment.

Where appropriate, reference is also made to results excluding the impact of 2007 acquisitions as well as the impact of currency translation on the results of overseas operations.

Exchange rates used for currencies most important to the Group's operations are:

	Average		Year End	
	2008	2007	2008	2007
Euro	1.26	1.46	1.03	1.36
US dollar	1.85	2.00	1.44	1.99

The approximate impact on 2008 trading profit of subsidiaries and joint ventures of a 1% movement in the average rate would be euro - £1.2 million, US dollar - £0.8 million.

In our internal performance reporting we aggregate our share of sales and trading profits of joint ventures with those of subsidiaries. This is particularly important in assessing sales and profit performance in our Driveline and Other Automotive businesses where significant activity takes place in joint ventures. Reference to these combined figures is made, where appropriate, as 'management sales' and 'management trading profits'.

Group activities

GKN is a global engineering business serving mainly the automotive, industrial, off-highway and aerospace markets. The bulk of our sales are made to vehicle and aircraft manufacturers as well as, in Aerospace, to other major tier one suppliers. We operate in four different business areas:

Automotive activities comprise GKN Driveline and Other Automotive companies which supply driveshafts, geared components, torque management devices, structural and engine components and substrates for catalytic converters, largely to vehicle manufacturers in the global car and light vehicle markets.

Powder Metallurgy produces powdered metal and sintered components for automotive and other industrial customers.

OffHighway mainly designs and manufactures steel wheels and driveline products for the agricultural, construction and mining, and industrial machinery markets.

Aerospace activities are concentrated on the production of airframe and engine structures, components and assemblies for both military and civil aerospace markets.

The Group has operations in over 30 countries with 36,500 employees in subsidiary companies and a further 3,500 in joint ventures.

Changes in the composition of the Group

Results for the year contain a full 12 month contribution from the Aerospace acquisition of the Teleflex Aerospace Manufacturing Group, completed on 29 June 2007.

Group performance

Management sales (subsidiaries and joint ventures) £4,617 million (2007 – £4,122 million)

Combined sales of subsidiaries and share of joint ventures totalled £4,617 million compared with £4,122 million in 2007. Excluding the positive impacts of currency translation (£469 million) and of acquisitions (£46 million), there was a net underlying decrease of £20 million, with the benefit from continued strong OffHighway and Aerospace markets offsetting the overall declines experienced in all our businesses operating in automotive markets.

Sales of subsidiaries £4,376 million (2007 – £3,869 million)

Sales of subsidiaries were £4,376 million compared with £3,869 million in 2007, an increase of £507 million (13%). Excluding the impact of currency translation, acquisitions, and the prior year sales of the UK cylinder liner business, there was an increase of £49 million (1%).

In Automotive businesses, subsidiaries' sales of £2,207 million compared with £2,031 million a year earlier. Currency translation was £263 million favourable and, excluding this and the £22 million negative impact of the UK cylinder liner closure, the underlying decrease was £65 million (3%). On a management basis, including our share of joint ventures and excluding the UK cylinder liner business, sales were £2,444 million (2007 – £2,259 million) and the underlying decline was £112 million (4%). The sales decline was most notable in the final quarter, with underlying sales down 25% on 2007 levels.

Powder Metallurgy sales were £618 million compared with £602 million in 2007. Currency translation was £68 million favourable, so that the underlying decrease was £52 million (8%) as the first half impact of weak sales to General Motors and the American Axle strike, and the significant deterioration in volumes in all regions in the final quarter of the year adversely impacted sales.

In OffHighway, subsidiaries' sales improved to £549 million from £416 million in 2007. The favourable impact of currency translation was £53 million, with underlying sales ahead by £80 million (17%) as good market conditions, in both Europe and North America, for agricultural and heavy construction equipment continued throughout the year.

Aerospace sales increased to £1,002 million from £820 million in 2007. The impact of the 2007 Teleflex acquisition was £46 million and, with currency translation being £50 million favourable, the underlying sales improvement was £86 million (10%), reflecting strong demand in both civil and military markets and volumes on programme wins in recent years.

Management trading profit (subsidiaries and joint ventures) £221 million (2007 – £309 million)

The aggregated trading profit of subsidiaries and our share of joint ventures was £221 million, a decrease of £88 million (28%). The net positive impact of currency translation and acquisitions was £57 million and, excluding these factors, the underlying decrease was £145 million (40%). Whilst OffHighway and Aerospace both delivered strong profit performances, with underlying increases of 18% and 13% respectively, the Automotive and Powder Metallurgy businesses' full year results reflect the severe operating conditions in the second half.

Overall margins fell to 4.8% (2007 - 7.5%) being adversely affected by the sharp deterioration in automotive markets.

Trading profit of subsidiaries £201 million (2007 – £277 million)

Group trading profit was £201 million compared with £277 million in 2007, a decrease of £76 million (27%). The currency impact on the translation of overseas profits was £47 million favourable and there was a net benefit of £6 million from 2007 acquisitions. Excluding these factors, the decrease was £129 million (40%).

Automotive subsidiaries' trading profit totalled £69 million compared with £146 million in 2007. There was a favourable currency impact of £29 million after which profits decreased by £106 million (61%).

Second half performance was severely impacted by the rapid fall in global automotive demand, particularly in the final quarter.

For Automotive as a whole, subsidiaries' margin of trading profit to sales was 3.1% (2007 – 7.2%). On a management basis, including our share of joint ventures, trading profit was £90 million (2007 - £178 million) with an underlying decrease of £121 million. Return on sales was 3.7% (2007 - 7.8%).

Powder Metallurgy reported a loss of £2 million in 2008, compared with a £29 million profit in 2007. The underlying reduction was £37 million, largely as a consequence of lower volumes in North America and Europe. Return on sales was (0.3)% (2007 – 4.8%).

OffHighway profit improved to £40 million from £29 million in 2007 with the underlying increase being £6 million. The benefit from higher underlying sales in both the wheels and driveline products businesses was the primary driver of the profit improvement, with increased raw material costs being fully recovered in the year. Margin was 7.3% compared with 7.0% in 2007.

Aerospace profit rose to £106 million from £83 million in 2007. Currency translation was £5 million favourable while there was a £6 million benefit from 2007 acquisitions, leaving an underlying improvement of £12 million (14%). Margin improved from 10.1% in 2007 to 10.6%.

Corporate and unallocated costs of £12 million (2007 – £10 million) represent stewardship, legacy, governance and compliance costs relating to activities undertaken on behalf of the whole Group.

The overall margin of subsidiaries was 4.6% compared with 7.2% in 2007.

Restructuring and impairment costs £153 million (2007 – £31 million)

Net charges in the year relate to

- the final charges (£4 million) on the 2004 strategic restructuring programme, as reported at the half year; and

- the initial charges, including impairments, in respect of the Group's current restructuring initiatives to respond to severe volume downturns affecting most of the Group's end markets and businesses.

The net £4 million charge in relation to the 2004 programme was entirely attributable to Driveline, and encompassed reorganisation costs on business transfers (£3 million) and asset write-downs (£1 million).

The restructuring and impairment of subsidiaries charge for the 2008 initiative totalled £149 million and includes impairment charges amounting to £129 million.

The impairment charge (£129 million) includes a write-down of Powder Metallurgy's North American fixed assets (£92 million), £15 million for Driveline structural capacity changes and the charges attributable to restructuring actions within Aerospace (£3 million). An £11 million impairment charge was also taken on the UK automotive structural component business assets. Cash based restructuring charges amounted to £20 million in the period and included the cost of short-time working, redundancies and other reorganisation costs.

Amortisation of non-operating intangible assets arising on business combinations £10 million (2007 – £8 million)

In accordance with IFRS 3, the Group recognises intangible assets arising on business acquisitions. The amortisation of non-operating intangible assets (e.g. customer contracts and relationships, trademarks, non-compete agreements and intellectual property rights) increased during the year as a result of the full year impact of the acquisition of Teleflex in June 2007.

Profits and losses on sale or closures of businesses £nil (2007 – £7 million charge)

The prior year loss on closure of businesses of £7 million arose at the UK cylinder liner business (Sheepbridge) which ceased trading in September 2007.

Change in the value of derivative and other financial instruments £124 million charge (2007 – £10 million charge)

The Group enters into foreign exchange contracts to hedge much of its transactional exposure. At 1 January 2008 the net fair value of such instruments was an asset of £18 million and at the end of 2008 the figure was a liability of £166 million.

Transactional hedge accounting has been applied to a small proportion of these transactions. Where transactional hedging has not been applied, the difference of £175 million has been charged (2007 – £9 million charged) separately as a component of operating profit. In addition, there was a £1 million charge in respect of commodity hedges in Powder Metallurgy (2007 – £1 million charge), a credit of £43 million arising on the change in the value of embedded derivatives (2007 – no charge), and a credit attributable to the translational currency impact on Group funding balances, leaving a net charge of £124 million (2007 – £10 million charge).

Operating loss £86 million (2007 – profit £221 million)

The operating loss of £86 million compared with a profit of £221 million in 2007, reflecting the movements discussed above.

Post-tax earnings of joint ventures £6 million (2007 – £24 million)

There was a decrease of £18 million in the Group's share of post-tax earnings of joint ventures. Within this figure, trading profit fell to £20 million from £32 million in 2007, a decline of 38%. The impact of currency was favourable at £4 million, leaving underlying trading profit adverse by £16 million (44%), this being attributable to falling volumes in all businesses, curtailment of diesel

particulate retrofit demand in Emitec and a one-time commercial settlement in AutoStructures in 2007.

The post-tax earnings in 2008 include impairment charges of £10 million in respect of the planned winding up of two joint ventures as part of the Group's recently announced restructuring activities.

Net financing costs £50 million (2007 – £46 million)

Interest payable totalled £66 million (2007 – £62 million) and arose mainly on the £675 million of bonds, £30 million debenture in issue and bank borrowings. This was partially offset by interest receivable of £19 million (2007 – £19 million) which arose on short term deposits, together with the benefits of lower borrowing costs on foreign currency synthetic debt instruments used to hedge the Group's overseas investments and £3 million interest received on the AgustaWestland deferred consideration released from escrow. The year on year movement also reflects the full year effect of acquisitions made in 2007.

Other net financing costs were £3 million (2007 – £3 million) and related to post-employment obligations. This charge has remained level with 2007 as adverse currency of £2 million offset a net underlying credit. The overall charge arises as the expected return on scheme assets of £163 million (2007 - £146 million) was more than offset by interest on post-employment obligations of £166 million (2007 - £149 million). Details of the assumptions used in calculating post-employment costs and income are provided in note 12.

Profit/Loss before tax

On a management basis Group profit before tax was £167 million, £88 million lower than 2007. The post-tax share of joint ventures contributed £16 million (2007 – £24 million) and subsidiaries £151 million (2007 – £231 million). On a statutory basis, including 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 value of derivative and other financial instruments, a loss of £130 million was recorded (2007 profit of £199 million).

Taxation

The tax credit on management profits of subsidiaries of £151 million (2007 - £231 million) was £3 million (2007 - £6 million charge), representing a negative 2.0% tax rate (2007 - 2.6% positive).

This £3 million tax credit arises due to the recognition of a tax credit relating to the use of previously unrecognised tax losses against certain taxable foreign exchange gains. There is a tax charge in relation to these gains shown in equity.

Adjusting for the above item, there is an increase in the effective rate from 2.6% in 2007 to 17.2%. This is predominantly attributable to the use of previously recognised deferred tax assets (tax losses and other temporary differences) against taxable profits in 2008. The charge arising from the use of these assets has been partially offset by tax credits in relation to the recognition of previously unrecognised deferred tax assets (principally in the UK) and the utilisation of other previously unrecognised deferred tax assets (principally in the UK and Germany). The recognition of previously unrecognised deferred tax assets has been based upon management projections of future taxable profits in the relevant territories.

GKN's tax strategy is aimed at creating a sustainable 'cash tax' charge (which excludes deferred taxes, movements in provisions for uncertain tax positions and tax relating to those non-trading elements of operating profit identified separately in the income statement) that balances the shareholders' interest of minimising tax payments with the need to comply with the tax laws of each country in which we operate. In 2008 the cash tax charge was 15% (2007 - 17%) and we expect

cash tax to average 20% or less for the near term as we continue to make use of prior years' tax losses, incentives and deductions in the various countries in which we operate.

For 2009 and beyond, the overall reported tax rate is likely to continue to be volatile, being influenced by the possible further recognition of currently unrecognised deferred tax assets and the settlement of prior year tax disputes. These unrecognised, potential deferred tax assets principally relate to brought forward tax losses in the UK and US which, due to the structure of the Group and the geographic mix of profitability, have so far not been seen as realisable for tax purposes.

The total effective tax rate of subsidiaries was 7.4% (2007 - 0.6%) arising as a £10 million tax credit on losses of £136 million.

Discontinued operations

As previously noted, negotiations over the AgustaWestland deferred consideration held in escrow were finalised in August 2008, resulting in a net of tax profit of £13 million. There were no discontinued operations in the prior period.

Minority interests

The share of profit relating to minority interests was £2 million (2007 - £2 million).

Earnings per share

Earnings per share were (17.3)p (2007 - 27.9p). Before restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations, profits and losses on the sale or closures of businesses, changes in the value of derivative and other financial instruments and discontinued operations, the figure was 23.8p (2007 - 35.1p), a decrease of 32%.

Cash flow

Operating cash flow, which is defined as cash generated from operations (£328 million; 2007 - £299 million) adjusted for capital expenditure (£205 million; 2007 - £192 million), proceeds from the disposal of fixed assets (£7 million; 2007 - £21 million), proceeds from capital grants (£1 million; 2007 - £nil) and joint venture dividends (£24 million; 2007 - £13 million), was an inflow of £155 million compared with a £141 million inflow in 2007.

The outflow on working capital and provisions totalled £4 million (2007 - £49 million) largely reflecting favourable working capital movements. The figure also included a £3 million outflow in respect of legacy environmental obligations (2007 - £9 million) where a further £7 million is expected to be spent in 2009.

Capital expenditure (on tangible and intangible assets) totalled £204 million (2007 - £192 million). Of this, £192 million (2007 - £172 million) was on tangible assets representing property, plant and equipment and was 1.2 times (2007 - 1.2 times) the charge for depreciation. The ratio of capital expenditure to depreciation is expected to reduce significantly in 2009, recognising the level of prior years' investments and the need to fund the current restructuring programme.

Expenditure on intangible assets totalled £13 million (2007 - £20 million) and mainly reflected initial non-recurring costs on Aerospace programmes.

Net interest paid totalled £47 million compared with £44 million in 2007. The increase was largely due to higher net UK borrowings during the year, with the impact of prior year acquisitions being offset by the interest on the AgustaWestland deferred consideration released from escrow.

Tax paid in the year was £45 million (2007 - £28 million), the most significant increase being in respect of German taxes as cumulative prior year liabilities were settled.

Dividends received from joint ventures totalled £24 million (2007 – £13 million) including the Group's first dividend of £5 million from its UK Chassis Systems joint venture.

Free cash flow

Free cash flow, which is cash flow excluding acquisitions and currency translation but including capital expenditure and dividends paid, is a key performance indicator of the Group. Free cash flow for the year was an outflow of £38 million (2007 – £23 million) after £28 million (2007 – £40 million) of expenditure on the Group's restructuring programmes. The year on year increase reflects investment in tangible fixed assets, net of property proceeds.

Acquisitions and divestments

The net expenditure on acquisitions and divestments in the year was £1 million (2007 – £71 million) being the final payments in respect of prior year acquisitions.

Net borrowings

At the end of the year the Group had net debt of £708 million (2007 – £506 million). This includes the negative impact of closing out Group balance sheet hedges in the final quarter (net cost £221 million) and the benefit of £79 million (2007 – £42 million) from customer advances in the Aerospace businesses which are shown in creditors in the balance sheet. The Group's share of net borrowings in joint ventures was £1 million (2007 – net funds £14 million).

Pensions and post-employment obligations

GKN operates a number of defined benefit and defined contribution pension schemes together with retiree medical arrangements across the Group. The total charge to trading profit in respect of current and past service costs, together with curtailments of defined benefit schemes and retiree medical arrangements was £25 million (2007 – £19 million), whilst other net financing charges included in net financing costs were £3 million (2007 – £3 million).

The increase in the charge to trading profit mainly reflects an increased UK current service cost, £4 million higher than in 2007. Changes to US pension benefit arrangements in Driveline, Sinter Metals and Hoeganaes in 2008, have resulted in a £12 million curtailment credit, broadly equivalent to the US past service credit recognised in 2007 on retiree medical changes. The ongoing annual benefit of the 2008 changes is £2 million to trading profit. Further information including asset, liability and mortality assumptions used is provided in note 12.

UK pensions

The UK defined benefit scheme is considered to be relatively mature with just over 4,000 of its 52,000 members currently in service. As a UK defined benefit scheme, it is run on a funded basis with funds set aside in trust to cover future liabilities to members. The scheme specific funding valuation and schedule of contributions as at April 2007 remains in force. The current schedule of contributions does not require any deficit funding during 2009.

With the acquisition of the Airbus wing component and sub-assembly business at Filton in January 2009, the UK scheme membership increased by 1,200. These members joined the GKN pension scheme for future service benefits. There is a relatively small increase in past service liabilities of £22 million which was recognised in the purchase amount paid to Airbus, and which will be paid as a further contribution into the scheme.

The charge relating to the UK defined benefit scheme reflected in trading profit in respect of current and past service costs/curtailments was £21 million (2007 – £17 million), whilst other net financing credits included in net financing costs were £14 million (2007 – £13 million). Restructuring activities in the UK in the final quarter of the year attracted a past service charge of £1 million.

The accounting deficit at 31 December 2008 of £272 million (2007 – £3 million) was significantly higher than that at the end of 2007. This was as a result of the adverse impact of the actual asset returns compared with expected return more than offsetting both the benefit of the change in yields on long dated corporate bonds used to determine future liability values and the impact from a lower inflation assumption.

The next scheduled actuarial funding review of the scheme is due in 2010.

Overseas pensions

The principal countries involved in overseas pensions are the US, Germany and Japan.

The net charge to trading profit in respect of current and past service costs/curtailments was £4 million (2007 – £13 million), whilst other net financing charges included in net financing costs were £14 million (2007 – £12 million). The trading profit charge benefited from the one-time US curtailments of £12 million.

The increase in the deficit of £213 million to £494 million (2007 – £281 million) was largely a result of currency movements which increased this deficit by £125 million, and the net impact of actual asset returns experienced and discount rate changes which increased the deficit by a further £79 million.

Retiree medical

GKN operates retiree medical arrangements in the Americas and has a scheme, closed to new members, in the UK.

The charge to trading profit in 2008 was £nil (2007 – £11 million credit). The 2007 credit arose from changes in retiree medical arrangements in the US. Other net financing charges included in net financing costs were £3 million (2007 – £4 million).

As a result of these changes, the impact of currency translation and changes in the discount rates used to value the liabilities, the obligation in respect of all schemes at the end of the year was £68 million compared with £47 million at the end of 2007.

Summary

At 31 December 2008 the post-employment obligations of the Group totalled £834 million (2007 – £331 million), details of which can be found in note 12.

Shareholders' equity

Shareholders' equity at the end of 2008 was £905 million compared with £1,177 million at the end of 2007.

Dividend

The Board has reviewed the full year dividend and has decided not to pay a final dividend for 2008. This decision was made due to the severe operating environment for GKN's businesses and the consequent need to adopt a more prudent liquidity policy for the Group. The Board's commitment to a progressive long term dividend policy continues.

The total dividend for the year is, therefore, the interim dividend of 4.5p. The dividend is covered 5.3 times (2007 – 2.6 times) by management earnings (i.e. before the impact of restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations, profits and losses on the sale or closures of businesses, changes in the value of derivative and other financial instruments and discontinued operations). Using the cash tax rate for

the year of 15%, the dividend was covered 4.6 times by earnings (2007 on the same basis – 2.3 times).

Financial resources and going concern

At 31 December 2008 the Group had net borrowings of £708 million. In addition, it had available, but undrawn, committed borrowing facilities totalling £402 million. On 5 January 2009, GKN completed the acquisition of the Airbus UK wing component and sub-assembly facility at Filton. New revolving credit facilities totalling £180 million became available to the Group on completion of this acquisition. Of the Group's total committed borrowing facilities £350 million is due to expire in July 2010.

The Directors have assessed the future funding requirements of the Group and the Company and compared them to the level of committed available borrowing facilities. The assessment included a review of both divisional and Group financial forecasts, financial instruments and hedging arrangements for the 15 months from the balance sheet date. Recognising that a number of industries and especially the automotive sector continue to be affected by the sharp global decline in demand, the Directors considered a range of potential scenarios within the key markets the Group serves and how these might impact on the Group's cash flow, facility headroom and banking covenants. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

Having undertaken this work, the Directors are of the opinion that the Group has adequate committed resources to fund its operations for the foreseeable future and so determine that it is appropriate for the 2008 Group financial statements to be prepared on a going concern basis.

OPERATING REVIEW BY BUSINESS

AUTOMOTIVE

Markets

Approximately 58% of GKN's combined sales of subsidiaries and joint ventures are to the world's passenger car and light vehicle original equipment markets. Production levels in these markets are a key driver of Group performance and, in particular, of our Automotive and Powder Metallurgy operations. Historically the compound annual growth rate in global production has been around 3% with expectations that this rate would continue, albeit with significant regional variations.

In the first half of 2008 this pattern was repeated with stable markets in Western Europe and Japan and solid increases in the emerging markets, including the 'BRIC' countries of Brazil, Russia, India and China. However, demand in North America was weaker than expected, with a 12% decline in the annualised production rate to June 2008.

In the second half of the year, the effects of the global 'credit crunch' began to be felt and in the fourth quarter automotive volumes fell sharply in every region. No significant recovery is expected in overall global demand in the short term, with annual volumes for 2009 now forecast to fall within a range of 55 to 59 million vehicles (12-20% lower than the 68 million in 2008), again with regional variations (based on projections, including those of Global Insight).

Longer term, although the type and mix of vehicles may be different, global growth in vehicle production is expected to resume, trending roughly in line with overall growth in GDP.

Western Europe

In Western Europe (where sales to vehicle manufacturers accounted for approximately 30% of Group sales in the year (2007 - 32%)) overall production in 2008 was 14.7 million vehicles compared with 16.2 million in 2007, a decrease of approximately 9%. Falls were seen in the major

Western European markets of Germany (3%), France (12%), Italy (20%), Spain (13%) and the UK (6%).

North America

In North America (where sales to vehicle manufacturers accounted for approximately 14% of Group sales in the year (2007 - 15%)) production in 2008 was 12.7 million vehicles, a reduction of 16% from the 15 million in 2007. Within the overall figure there was again a significant change in market share with Chrysler, Ford and General Motors continuing to lose volume to foreign manufacturers. Consumer preference also continued to move from light trucks and sports utility vehicles (SUVs) to crossover and passenger vehicles.

Emerging markets

Asia Pacific production (excluding Japan where the year on year production decreased by 1% to 11.1 million vehicles) grew by 2.9% in 2008. In China, production of 8.5 million vehicles was 5% above 2007, while production in India rose by 5% to 2.0 million. In Brazil, production increased by 7.4% to 2.9 million vehicles.

Sales in Asia Pacific and Brazil accounted for 13% and 3% respectively of Group revenues in the year.

GKN Driveline

GKN Driveline is the world's leading supplier of automotive driveline components and systems. As a global tier one supplier serving the world's major vehicle manufacturers, GKN Driveline's market leadership is based on strong engineering capabilities to achieve optimum driveline solutions - from the smallest ultra low-cost car to the most sophisticated premium vehicle demanding complex drivetrain dynamics. GKN Driveline has the broadest range of constant velocity jointed (CVJ) sideshafts, propshafts, mechanically and electronically controlled torque management and associated geared components.

2008 Highlights

On a management basis, GKN Driveline sales were £2,268 million (2007 - £2,052 million). Excluding the positive impact of currency (£284 million), the underlying decrease was £68 million (3%).

Within this, subsidiaries' sales in the year totalled £2,123 million compared with £1,922 million in 2007. The positive impact of currency translation was £262 million so that the underlying decrease was £62 million (3%). This decrease arose entirely in the second half, with sales in the first half 7% ahead on a constant currency basis. Second half sales on the same basis were £137 million lower than the comparable period last year. Demand fell across all regions and customers, with North America and Japan being particularly affected. Total GKN Driveline sales in the fourth quarter on a constant currency basis were 16% below the equivalent level in 2007.

The share of joint venture sales (which are not consolidated in the Group income statement but are set out in note 9 to this announcement) grew to £145 million from £130 million in 2007. On a constant currency basis, sales fell £7 million (5%) with the final quarter slowdown in China being the major contributor.

Trading profit of subsidiaries fell by £76 million from £149 million to £73 million. There was an overall benefit from currency translation of £29 million. Excluding this, the decrease was £105 million (59%) and the operating margin at constant currency reduced to 3.4% from 8.2%. Return on invested capital was 7.9% (2007 - 18.5%).

GKN Driveline's profits in the first half were held back by the rapid increase in material costs, particularly steel, which impacted profits by some £12 million in that period. Second half performance was severely impacted by the sharp global downturn in demand with profits in the half reduced to £2 million.

The Group's share of trading profit of joint ventures decreased from £17 million to £15 million with the underlying decrease, excluding currency impacts, being £5 million (25%). The decrease arose almost entirely in China, mainly as a consequence of lower sales.

As reported in the half year results, the strategic restructuring programme announced in 2004 was completed and charges in the year totalled £4 million (2007 – £19 million).

Further restructuring was launched in the last quarter of 2008, to enable the business to adjust to the severe market and economic downturn. Action was taken to downsize the workforce through redundancies and reductions in temporary and agency staff. In addition, short-time working and unscheduled plant shutdowns were introduced across all plants. In total around 1,700 people left Driveline in the final quarter. Further restructuring will be carried out in 2009 recognising continuing weak automotive markets.

Charges recognised in 2008 in relation to this restructuring, amounted to £33 million of which impairments were £25 million, redundancy and short-time working was £6 million, and other reorganisation costs were £2 million.

Capital expenditure on tangible assets in the year totalled £108 million (2007 – £94 million), representing 1.2 times (2007 – 1.3 times) depreciation.

During 2008 sidschaft production started at a new state-of-the-art facility at Oragadam, India. Expansion continued in China with ground breaking at a new sidschaft facility at Wuhan, the start of production for transmission differentials in Pudong and the opening of a new forge at Shenjiang (both in Shanghai). In addition a new sidschaft facility in Eskiesehir, Turkey was completed.

GKN Driveline invested £63 million in the year on research and development focused on advanced driveline products including ultra low cost driveshafts and active torque management devices. Amortisation of capitalised Electronic Torque Vectoring (ETV) development costs commenced in early 2008, as the programme went into production.

Sustaining its position as a global technology leader, GKN Driveline launched the first production ETV product for BMW, providing exceptional levels of agility and driving dynamics, and a high performance lightweight final drive units (FDU) and 4WD torque control for the new Nissan GT-R. Work continues with three customers on developing active front Super Limited Slip Differential (LSDs) and FDU's for hybrid vehicles.

During the year, the division won some 77% of all available CVJ driveshaft business, further enhancing future market share.

Other Automotive Businesses

Products

Our Other Automotive subsidiary businesses, which are predominantly UK based, but with small facilities in the US and China, manufacture structural components, chassis and engine cylinder liners for the passenger car, SUV and light vehicle and truck markets in Western Europe, the US and China. Customers include vehicle manufacturers and engine makers. We also have a 50% share in Chassis Systems Ltd (CSL) which manufactures structural chassis components for Jaguar

Land Rover in the UK, and in Emitec which manufactures metallic substrates for catalytic converters in Germany, the US, China and India.

2008 Highlights

Sales on a management basis totalled £176 million compared with £229 million in 2007. Excluding the UK cylinder liner manufacturing operation, which was closed during 2007, the combined sales of continuing subsidiaries and joint ventures were £176 million compared with £207 million in 2007, with an underlying decrease of £44 million (20%).

Sales of subsidiaries in the year were £84 million compared with £109 million in 2007. Excluding the UK cylinder liner manufacturing operation, sales of £84 million were £3 million (3%) below 2007.

The share of sales of joint ventures decreased from £120 million to £92 million with a severe curtailment in activity levels, most notably in the second half, both in the structural chassis business and Emitec, which was particularly hard hit by declines in the particulate filter retrofit market.

Trading profit of continuing businesses on a management basis declined to £2 million from £12 million in 2007. Within this figure, there was a loss at subsidiaries of £4 million (2007 – £3 million loss). Joint venture profits reduced by £9 million impacted by volume losses in all businesses. The Chinese cylinder liner business was profitable in the year having reached breakeven in 2007.

Other Automotive businesses were significantly impacted by the market downturns, particularly in the UK and, as a result, an £11 million impairment charge has been taken against the carrying value of fixed assets. £2 million in redundancy costs were also incurred in the year and further restructuring actions will be implemented in 2009.

POWDER METALLURGY

Products

GKN's Powder Metallurgy business consists of two elements: GKN Sinter Metals producing sintered components and Hoeganaes producing metal powders, the raw material for component production. This combination provides a number of advantages, including technology development. Powder is largely iron based, although growth is also being seen in the use of aluminium and alloys.

GKN Sinter Metals

GKN Sinter Metals utilises powdered metals to manufacture precision automotive components for engines, transmissions and body and chassis applications as well as a range of components for other industrial and consumer applications.

Hoeganaes

Hoeganaes produces principally ferrous based metal powder, the raw material for ferrous based sintered components.

Markets

Approximately 80% of divisional sales are to automotive markets (which are discussed in detail on page 13), with around 29%, either directly or indirectly, to the North American operations of Chrysler, Ford and General Motors. The balance of 20% is to a range of other industries, including office equipment, white goods and home and garden. All of these markets weakened during 2008 with expectations for a continuing decline in 2009.

2008 Highlights

Sales in the year were £618 million compared with £602 million in 2007. The underlying sales decline, after the currency translation benefit of £68 million, was £52 million (8%).

The North American Powder Metallurgy business experienced difficult trading conditions throughout the year, with the impact of weak sales to General Motors and the prolonged American Axle strike in the first half being followed by the steep decline in overall US automotive builds in the second half.

The European Powder Metallurgy business achieved good growth in the first half of the year with sales 5% ahead of 2007, but experienced a steep decline in the second half such that full year sales were 16% below 2007 at constant exchange rates.

Hoeganaes' external customer sales were ahead of 2007, as a result of market share gains in Europe and Asia Pacific and increased surcharge revenues. Total tons shipped however were down 8% compared with 2007, the revenue impact of which was offset by higher customer surcharges.

GKN Sinter Metals businesses in the emerging markets of South America and Asia experienced growth of 12% in the first half of the year, but second half sales were broadly level with the comparative period in 2007 and sales in the final quarter of 2008 were down compared with 2007.

Despite a £6 million positive impact from currency translation, GKN Powder Metallurgy reported a full year loss of £2 million in 2008, compared with a trading profit of £29 million in 2007. The underlying profit decline, which arose predominantly in the second half of the year, was driven by the reduction in volumes, the impact of the American Axle strike and raw material cost volatility.

The divisional operating margin in 2008 was (0.3)% (2007 – 4.8%). Return on invested capital was (0.5)% (2007 – 6.9%).

The main raw material in the Powder Metallurgy business is scrap steel, prices for which were highly volatile in 2008, peaking in September at approximately \$900 per ton, three times higher than the 2007 average. Powder alloying materials including nickel, copper and molybdenum remained at historically high levels for most of the year, before declining sharply in the final quarter. The management of input costs to remove volatility, recover costs and eliminate recovery lag from customers was a key focus for the year. Significant changes were made to achieve this with Hoeganaes moving to a monthly customer surcharge for all input materials. In addition, the Sinter Metals business now has surcharging mechanisms in place on around 80% of its business.

Actions implemented to respond to significant declines in sales volume included a total headcount reduction in the year of 1,200, coupled with short-time working in all plants during the fourth quarter. Additional actions to reduce the fixed cost base are also in place for 2009.

Net restructuring costs and asset impairments in 2008 totalled £106 million (2007 – £14 million). Of these, £81 million related to the impairment of assets in GKN Sinter Metals North America and an impairment of £11 million arising from the rationalisation of manufacturing activity across Hoeganaes' North American plants. Restructuring costs of £6 million were charged in the year and were in relation to redundancies, short-time working and other reorganisation costs.

Capital expenditure on tangible fixed assets in the period totalled £33 million (2007 - £38 million) with depreciation of £32 million (2007 - £28 million). The ratio of capital expenditure to depreciation was 1.0 times (2007 - 1.4 times).

New business wins related to emerging technology trends continued with a particular focus on applications to improve fuel efficiency and reduce emissions, such as variable valve timing in engines and high performance gear sets in automatic transmissions. Other business wins included manual transmission gears where the potential of 'design for Powder Metal' continues to enable performance differentiation over competing technologies.

OFFHIGHWAY

Products

GKN OffHighway designs, manufactures and distributes, on a global basis, a portfolio of products for offhighway vehicles primarily in the agricultural, construction, mining and other specialty vehicle markets. It consists of three primary business streams – driveline products, wheels and systems solutions which includes advanced power transmissions, axles and trailer equipment. The division is a global market leader in its wheels and driveline products businesses.

A service and distribution business supplies GKN's and other manufacturers' products to aftermarket wholesalers and distributors, principally within Europe.

Markets

During 2008, 68% of divisional sales were to the agricultural market, 20% to the construction and mining equipment market and the balance to the industrial machinery market. The wheels and driveline products businesses account for close to 80% of divisional sales, with the systems solutions business providing the balance. The wheels business has market shares in North America and Europe of 32% and 44% respectively. The driveline business enjoys shares of 27% and 51%, respectively, in the same regions.

The division's other businesses serve the original equipment market and aftermarket with a range of gearboxes, tractor attachments and axles.

Overall in 2008, the division showed solid year on year growth and achieved record sales. However, all end markets showed increasing weakness late in 2008 and are expected to decline further in 2009.

Agriculture

In Europe the overall agricultural machinery market continued a positive trend in 2008 compared with 2007. Record high crop prices in the first half of the year together with high demand and structural changes in the market, such as the rapid development of bio-fuels, drove demand for agricultural equipment.

In the second half, crop prices weakened and overall demand reduced in Europe and North America, but remained ahead of prior year levels.

Construction and mining

The construction and mining machinery markets had a mixed year with light construction heavily impacted by much reduced housing starts in Europe and North America, partially offset by heavy construction which remained strong until late in the year.

Mining equipment sales were strong for the majority of the year, with commodity prices at record highs and demand out-stripping capacity in certain areas. As commodity prices weakened in the latter part of the year, equipment order books showed signs of weakening and in 2009 demand is expected to reduce significantly in all product segments.

Industrial machinery

The industrial machinery sector includes products for material handling and a range of other industries. Demand in this sector in 2008 weakened in the latter half of the year, with a further weakening expected in 2009.

2008 Highlights

Sales of subsidiaries in the year were £549 million compared with £416 million in 2007, including a £53 million increase from currency translation effects. The underlying increase of £80 million (17%) mainly reflected strong market conditions in most markets for the first nine months of the year when the underlying sales increase was 20%, and the impact of price increases to cover significant material cost increases.

Trading profit of subsidiaries of £40 million was £11 million above 2007. Within this, the wheels business performed strongly as good sales growth and an improved operational performance, particularly in the Danish and US operations, contributed to improved profits. The driveline business enjoyed strong demand for its core products with sales of £189 million, an underlying increase of 22%. The return on sales for the division increased to 7.3% from 7.0% in 2007. Return on invested capital was 19.2% (2007 – 17.0%).

Around half of GKN OffHighway's cost structure is externally sourced materials ranging from steel coil to multiple components. In 2008, the business was successful in recovering rapidly increasing input costs from its customers.

In anticipation of market downturns, restructuring initiatives commenced in the fourth quarter of 2008 and resulted in charges of £3 million.

Capital expenditure on tangible fixed assets of £18 million (2007 – £11 million) was 1.5 times (2007 – 1.1 times) depreciation with the higher investment attributable to increased capacity for driveline gearboxes, manufacturing and information technology systems and improvement in relation to newly acquired plants.

During the year, the division was successful in attracting a high level of orders, increasing market share in Europe, North America and Asia. Specific areas of success included two major new customers for the new wheels plant in China, a long term global supply agreement with John Deere, new customers for GKN Rockford's mechanics driveshaft in Japan and Europe and significant growth for the gearbox business in Eastern Europe.

AEROSPACE

Products

GKN Aerospace is a global first tier provider of airframe and engine structures, components, assemblies, transparencies and engineering services to a wide range of aircraft and engine prime contractors and other first tier suppliers. It operates in three main product areas: aerostructures, propulsion systems and special products.

In 2008 approximately 52% of the division's revenues were aerostructures (2007 - 53%), 36% propulsion systems (2007 – 33%) and 12% special products (2007 – 14%). The aftermarket business spans all three sectors and continues to account for approximately 15% of total Aerospace revenues.

Markets

The overall aerospace market was strong in 2008 with significant growth in both the civil and defence sectors. During 2008, Airbus delivered 483 aircraft, an increase of 30 on the prior year,

and Boeing delivered 375 aircraft, a reduction of 66 on the prior year primarily due to industrial action in the fourth quarter. Despite programme delays on new platforms, such as the Boeing 787 and Airbus A380 and A400M, airline order books remain strong for these products.

The civil market however started to soften in the final quarter of 2008, with business jet volumes weakening, together with cancellations in orders for some larger aircraft. Looking forward, the industry is facing a number of headwinds in the form of shortage of financing for new aircraft, together with significant reductions in both passenger and freight traffic. Further aircraft cancellations and softening of demand are expected during 2009 and 2010.

US defence programmes maintained or increased demand for both current and future requirements. Funding and commitment for new programmes, such as the Joint Strike Fighter (JSF) and CH-53K, remain strong and was supplemented with further multi-year contracts on existing platforms such as F-18, C-130J and V22 Osprey. Demand in the defence sector is expected to remain robust throughout 2009.

Whilst the price of oil has reduced from its peak of \$147 per barrel in July 2008, there is increasing pressure within the aerospace industry to invest and develop lightweight innovative design solutions to improve not only fuel efficiency but the environmental impact of aviation. GKN Aerospace is well positioned to meet these challenges.

2008 Highlights

GKN Aerospace sales increased 22% in 2008 to £1,002 million (2007 - £820 million) including a £50 million translational currency benefit and £46 million from a full year of trading from the Teleflex acquisition, completed in June 2007.

The underlying sales growth in the first half was 12% which reduced in the second half to 8% primarily as a result of the Boeing strike, giving a full year organic growth rate of 10% (£86 million). The rotorcraft market was particularly strong with increased activity on both development and production programmes, including the Black Hawk, CH-53K, Chinook VH71 and Future Lynx.

Trading profit rose to £106 million from £83 million in 2007. Currency translation was £5 million favourable while there was a £6 million benefit from 2007 acquisitions, leaving an underlying improvement of £12 million (14%). The divisional operating margin improved in 2008 by 0.5% to 10.6% (2007 – 10.1%). Return on invested capital was 17.5% (2007 – 15.3%).

Capital expenditure on tangible assets in 2008 amounted to £31 million (2007 - £28 million) which represents 1.2 times depreciation (2007 – 1.2 times).

GKN investment in non-recurring programme costs was £9 million (2007 - £16 million) including those associated with the Airbus A350 XWB and the Boeing 767 winglet.

In 2008, GKN Aerospace secured a number of new programmes and achieved a number of significant milestones including:

- selection to supply the integrated nacelle system for the Embraer MST and MLJ programme. This nacelle system is the third derivative application of the Honeywell HTF7000 engine that is already in service with Bombardier and in development for a future Gulfstream platform;
- conclusion of a 60 aircraft multi-year supply contract for the Lockheed Martin C-130J nacelle system;
- commencing delivery of Boeing 767 winglet sets to Aviation Partners; and

- establishing the composite fan blade joint venture agreement with Rolls-Royce. Research and applied development operations have commenced with activities focused on the development of an advance composite fan blade for application in next generation single aisle (NGSA) engines.

Following EU regulatory approval, the transfer of ownership and operational control of the former Airbus UK Filton wing component and sub-assembly plant took place on 5 January 2009. The facility has lifetime agreements for A320 derivatives, A330, A340, A380 and A400M wing trailing and leading edges and wing system components. In addition, Airbus awarded GKN a life of programme contract on the A350 XWB including rear spar and wing trailing edge assembly, which is expected to generate revenues of \$2 billion.

As a result of the softening in the civil aviation market in the fourth quarter of 2008, GKN Aerospace initiated the first elements of its restructuring activities in December. Restructuring charges were taken amounting to £3 million which was predominantly impairment of assets. Further restructuring will be carried out in 2009.

Cautionary Statement

This announcement contains forward looking statements which are made in good faith based on the information available at the time of its approval. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward looking statement which could cause actual results to differ materially from those currently anticipated.