

## Key Performance Indicators

Financial KPI	Method of calculation	Target
<b>Earnings per share (EPS)</b>	Management earnings for the Group (as set out in note 8(b) to the financial statements) divided by the weighted average number of ordinary shares in issue.	To achieve absolute growth in EPS each year and in the longer term, recognising the nature and cyclicity of our major markets, to achieve average annual compound growth of at least 6%.
<b>Dividends per share</b>	Amount declared as payable by way of dividend divided by the number of ordinary shares in issue (excluding treasury shares).	To return to a progressive dividend policy aligning dividends with the long term trend in earnings whilst achieving a sustainable earnings to dividend cover ratio of around 2.5 times.
<b>Sales growth</b>	Management sales* measured both in absolute terms and on an underlying basis (i.e. excluding the effects of currency translation, acquisitions and divestments) relative to the prior year.	To achieve growth rates at both a Group and divisional level (in absolute terms and on an underlying basis) in excess of the growth in our major automotive, aerospace and off-highway markets.
<b>Trading margins</b>	Management trading profit* as a percentage of management sales*.	To achieve medium term trading margins of between 8% and 10% for GKN Driveline and Powder Metallurgy, 7% to 10% in OffHighway and 10% to 12% in Aerospace, giving an overall Group trading margin of between 8% and 10%.
<b>Return on average invested capital (ROIC)</b>	Ratio of management trading profit* to average total net assets including the appropriate share of joint ventures but excluding current and deferred tax, cash, borrowings, post-employment obligations and derivative financial instruments.	To achieve ROIC at both a Group and divisional level which exceeds the weighted cost of capital of the Group (12% as a pre-tax threshold and between 9% and 10% on a post-tax basis).
<b>Free cash flow before dividend</b>	Cash generated from operations (excluding special contributions to UK pension schemes) after capital expenditure, net interest and tax payments and the cash cost of strategic restructuring programmes and including fixed asset disposal proceeds, joint venture and minority dividends.	To generate positive free cash flow sufficient to cover dividend payments and provide funding resources to support organic and acquisitive earnings growth at or above the growth in our major markets.
Non-Financial KPI	Method of calculation	Target
<b>Health and safety performance</b>	Accident frequency rate (AFR) and accident severity rate (ASR).	Zero preventable accidents.
<b>Environmental performance</b>	Energy consumption and associated CO <sub>2</sub> emissions, waste generation, waste recycled and water usage measured on a divisional basis.	Improved performance across all KPIs.

\* Management sales and management trading profit are defined on page 12.

## 2009 performance

Management EPS in 2009 was 5.5p compared with 16.0p (as restated for the rights issue) in 2008. This reduction is principally due to the lower profitability of the Group in 2009, reflecting the significant deterioration in automotive and off-highway markets compared with 2008.

In view of the difficult trading environment, no interim dividend was paid and the Board has decided not to pay a final dividend for 2009. A dividend of 4.5p (3.0p as restated for the rights issue) was paid in respect of 2008. It is intended to resume dividend payments, commencing with a 2010 interim dividend, commensurate with earnings and taking account of our markets at that time.

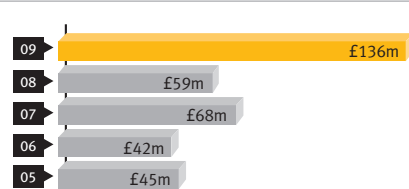
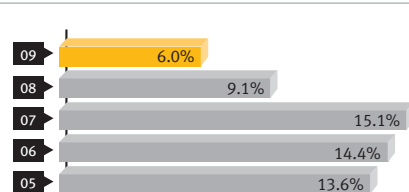
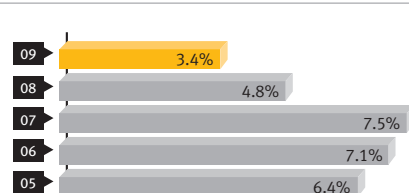
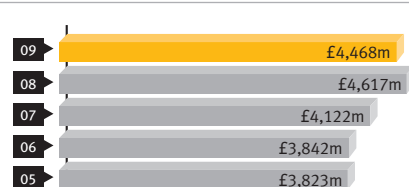
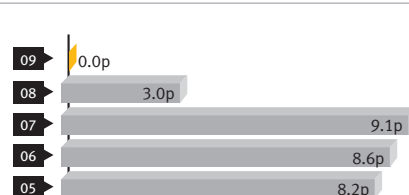
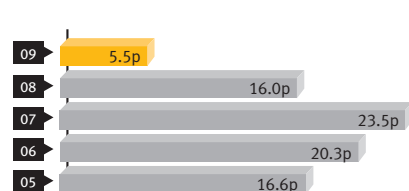
Group management sales\* fell by 3% on an absolute basis and 22% on an underlying basis. The corresponding figures for Aerospace were an increase of 48% and 2% respectively, for Automotive a decline of 14% and 25% respectively, for Powder Metallurgy a fall of 17% and 27% respectively, and for OffHighway a decline of 35% and 43% respectively. Details of market conditions can be found on pages 12 to 27.

The Group trading margin in 2009 of 3.4% was heavily influenced by market conditions in Automotive and OffHighway. GKN Driveline margin was 0.8% and Powder Metallurgy was (1.4)%. OffHighway was loss-making throughout the year with a margin of (3.3)%. Aerospace margin was 11.4%. Reflecting the improvement in performance as the year progressed, final quarter margins were: Group — 6.5%, GKN Driveline — 5.9%, Powder Metallurgy — 3.4%.

As a result of reduced levels of profitability, Group ROIC fell to 6.0% in 2009. If trading performance in the fourth quarter of 2009 was annualised, Group ROIC would increase to 12.3%. Aerospace was the only division to exceed the target threshold, achieving ROIC of 24.2%. Details of divisional ROIC performance are given on pages 12 to 27.

Free cash flow before dividend amounted to £136 million reflecting the strong focus on operating cash generation throughout 2009 including: maintaining the capital expenditure reinvestment ratio at 0.7 times, realisation of Aerospace programme investments (£41 million), receipt of government refundable advances (£28 million), and the interest cash cost of the buy-back of Group bonds (£5 million).

## Five year record



## 2009 performance

Performance in AFR and ASR continued to improve in 2009 with AFR falling to 2.1, and ASR falling to 60.



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Due to prevailing recessionary conditions in 2009, performance in relation to energy, CO<sub>2</sub> and water consumption deteriorated in most divisions. Overall, performance in relation to waste generation and recycling improved.



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FOR FURTHER INFORMATION