

## The GKN Way

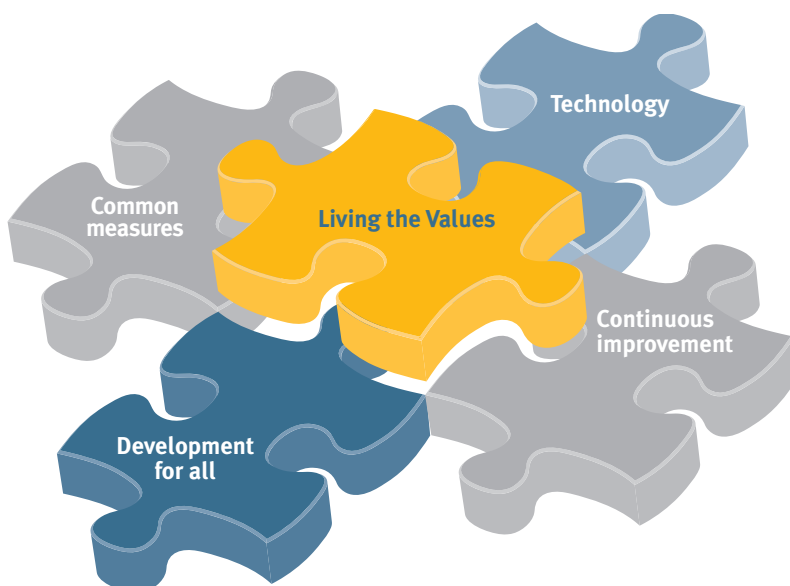
### How we sustain and develop our business

GKN's operations impact a diverse group of stakeholders including shareholders, customers, suppliers, our employees and the communities in which we operate. Our relationships with all these stakeholders are guided by our Values. In pursuit of the Values, the GKN Code together with a series of related policies provides a framework for the behaviour of all our employees, whatever their job and wherever they work.

#### GKN's Values and the main principles of the GKN Code

- > We will comply with all relevant laws and regulations wherever we operate and conduct our business with integrity and in such a manner as to reinforce our reputation.
- > We will deal honestly and fairly with our suppliers and subcontractors.
- > We aim to maximise shareholder value whilst safeguarding shareholders' investment by combining high standards of business performance with high standards of corporate governance and risk management.
- > We aim to provide excellent products and services to our customers and seek to win new business through fair competition.
- > We will treat our employees justly and with respect, recognising their abilities and differences, and reward them for their achievements.
- > We will provide employees with a healthy and safe working environment.
- > We will play our part in the protection of the environment in both the operation of our facilities and the design of our products.
- > We will contribute positively to the communities in which we operate.

#### Living the Values — the GKN Way



The essence of GKN's Values has been captured in 12 promises — 6 promises from GKN to employees and 6 promises from employees to GKN. They form a central part of what we know today as the GKN Way — a common set of behaviours which brings all our employees together as one team.

The GKN Way encompasses a culture of continuous improvement, a focus on technology, and development of all our people to raise their capability and achieve their potential. We use a common set of measures Group-wide, based on the EFQM (European Foundation for Quality Management) Business Excellence model, to drive improvements in our business.

Over the next few pages we provide more detail on how we live the Values — the GKN Way.



### Conducting our business with integrity

Our ethical standards policy requires all employees to maintain the highest standards of integrity, honesty and fair dealing. We support the Universal Declaration of Human Rights and do not tolerate the use of child labour or forced labour in our own operations and, through our supplier management policy, we require equivalent standards through our supply chain. We will continue to reinforce our reputation through high standards of conduct to underpin shareholder value.

### Working with our suppliers

Our suppliers play an integral part in the sustainability of our business and it is essential that they conduct their business in a manner that supports our commitment to world class performance. Our supplier management policy encourages Group companies to develop and maintain value adding relationships with our supply base. It prohibits companies from engaging suppliers that offer inadequate health and safety standards for employees, infringe internationally accepted standards of workers' rights, use child or forced labour, adopt unsound environmental practices, have poor standards of social responsibility or that fail to comply with relevant laws and regulations. During the difficult trading conditions that prevailed in 2009 we continued to monitor closely the financial

health of our suppliers to ensure that we were aware of any issues and could provide assistance where appropriate; we are continuing to work closely with our suppliers as we trade through 2010.

### Safeguarding shareholders' interests

We describe on pages 45 to 49 the governance and control procedures we have adopted to ensure that strong stewardship of the Group contributes to the sustainability of our business. The Governance and Risk Sub-Committee of the Board plays a central role in this with responsibility for developing strategy and for providing oversight and direction on all matters relating to governance, risk management and corporate social responsibility. As part of our internal control procedures, Group companies are required to confirm compliance with the GKN Code and policies.

A summary of those risks which could have a material impact on the Group is given on pages 30 and 31. All Group companies must have a business continuity plan so that, should a risk materialise which threatens GKN assets, employees, production or the environment in which we operate, we are in a position to minimise disruption of our business with the least inconvenience to our customers. Each plan must conform to Group guidelines and be prepared following

consultation with all key internal and external stakeholders.

### A continuous improvement culture

At the very core of how we operate in GKN is a culture of continuous improvement, which is reinforced through the application of Lean Enterprise techniques in our business and production processes worldwide. All sites are required to develop an annual continuous improvement plan, aligned to their business objectives, which engages every employee in driving the flow of value through the business.

During 2009 there was a strong focus on developing GKN's leaders to enable them to deploy



Lean Enterprise techniques to maximum effect. 110 leaders graduated through the Mastering Continuous Improvement Leadership (MCIL) programme with a further 240 graduations planned for 2010. The programme comprises three phases covering excellence in production, business process and employee involvement and includes on-site learning on a cross-divisional basis to facilitate knowledge sharing.

## The GKN Way

A key project launched in 2009 focused on inventory management to match the dramatic changes in customer demand caused by the recessionary conditions in many of GKN's markets. This required a more robust customer demand management process to facilitate a rapid response to market conditions whilst at the same time maintaining a relatively level production schedule. A reduction of some £130 million in productive inventory was achieved during 2009. We are continuing our focus on inventory management during 2010.

GKN's businesses use the EFQM Business Excellence model to assess their performance in their 'journey towards excellence' and to identify improvement actions. These are then implemented through the continuous improvement planning process. More fundamentally, Business Excellence is also an important tool in the development of business strategy.

### Delivering advanced technology

One of our key strategic objectives is the delivery of first class engineering capability to our customers. During the year the Group Technology Strategy Board was established, replacing the Technology Sub-Committee, sponsored by the Chief Executive Sir Kevin Smith and chaired by the Group's Principal Engineer. Its key areas of focus are the Group's technology plan, development of technologies across the Group and the strengthening of external relationships including access to sources of funding.

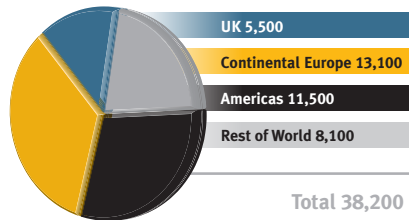
## technologyfirst

In June, as part of the Group's strategic planning process, some 40 senior executives attended a two day technology workshop supported by Cambridge University to examine major global trends in GKN's markets and the potential impact of these trends for GKN's businesses going forward.

GKN Aerospace is a founding member of the UK's National Composites Network and in November joined tier one industry partners, Vestas, Airbus and Rolls-Royce, in celebrating the Government's announcement of a new National Composites Centre in the south west

### Employees by region

as at 31 December 2009



of England close to two of GKN Aerospace's key UK facilities. The Centre will enable UK manufacturing to develop new composite material applications.

### Developing our people

Ensuring that we have highly capable people is integral to the success of our business and we are committed to the development of our employees

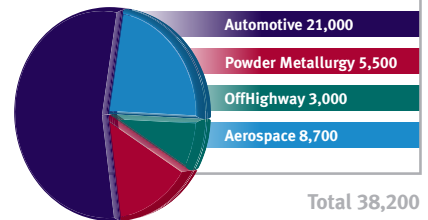


to enable them to contribute to their full potential. An individual's development needs are identified through the performance development process (PDP) and discussed with his or her manager against the GKN Leadership Framework, which defines what is needed to be successful at every level in the organisation. The output from these discussions is also used in the succession planning process. In this way the capability and potential of our people are matched to the strategic and operational requirements of the Group. Some 66% of senior management appointments were made internally through this process in 2009.

GKN's leadership development programmes were further expanded during the year to include, in addition to the Executive Development Programme and the Essential Leadership Programme, the new Advanced Leadership Programme to support managers in creating and developing high performance teams.

### Employees by business

as at 31 December 2009



For such teams to contribute fully to the delivery of GKN's strategy they must be engaged in the business with a clear understanding of their individual contribution. We measure this level of engagement through a common global survey supplemented by monthly questions and dialogue to create a Positive Climate Index. This also provides employees with the opportunity to highlight, discuss and resolve issues at a local level.

Communication with employees has been enhanced during the year through regular business updates, via conference call, by the Chief Executive and other members of the Executive Committee to some 700 senior managers, who in turn brief their teams. Other face to face communication mechanisms include daily team meetings, weekly employee involvement sessions and monthly team briefings. Formal consultation mechanisms exist worldwide across the Group to provide open communication between management and employees whether or not unionised. The European Forum, which covers all European businesses, has operated since 1995.

Under our employment policy all Group businesses must adopt practices which ensure that employees are treated justly and with respect and that their abilities, differences and achievements are recognised, thereby ensuring a positive, inclusive working environment. Employment decisions must be based on qualifications and merit and all businesses must ensure a working environment free from all forms of

discrimination and from any form of conduct which could be considered to be harassing, coercive or disruptive, together with working conditions which are safe and healthy.

Employee-related policies are designed to encourage individuals to report and discuss problems on a confidential basis and provide expeditious and confidential grievance procedures. GKN operates international whistleblowing hotlines run by external and independent third parties which are available 24 hours a day. The hotlines ensure that employees can make (on an anonymous basis if preferred) confidential disclosures about suspected impropriety and wrongdoing. The policy requires that employees are able to make such disclosures without fear of retribution. Any matters reported are investigated and escalated to the Audit Committee as appropriate. Initial feedback is given to the relevant employee within 14 days.

We recognise outstanding contributions from our employees through the annual GKN Excellence Awards covering Production and Business Process, Product Quality, Technology, Customer Service, People, Health and Safety, the Environment and Community Contribution.

### Health, safety and environmental performance

GKN is committed to continuous improvement in health, safety and environmental performance. With regard to health and safety our goal is zero preventable accidents. Our commitment to protecting the environment is focused both on minimising the impact of our operations and on making a contribution towards a sustainable future through the design of our products. Compliance with applicable health, safety and environmental laws and regulations is a fundamental obligation for all our businesses.

There are two internationally recognised standards by which management systems for safety and environmental performance are assessed: OHSAS 18001 for safety and ISO 14001 for environmental performance. We continue to make progress towards our goal

of achieving certification to both standards at all our locations worldwide. 115 locations, representing over 92% of the workforce, have achieved certification to ISO 14001. Over 50% of locations have either achieved or are awaiting formal certification to OHSAS 18001.

The Specialists Forum, formed in 2008 with a cross-divisional membership, continues to share best practice, identify emerging issues and provide support for continuous improvement in safety and environmental performance. In 2009 a focus of activity was the expansion of RADAR (Risk Awareness, Detection, Action and Review), a behaviour based safety programme launched Group-wide in 2008, to encompass environmental behaviours. During 2010 all employees will receive RADAR training in this revised format. Other areas of activity for the Forum during the year included the promotion of enhanced risk assessments for all machinery to reduce the number of accidents; a cross-divisional audit programme to improve sharing of best practice; and the use of Lean Enterprise techniques to drive energy efficiency improvements.

The Specialists Forum also participates in formal incident investigation root cause analysis for any serious accident or incident in GKN and the findings, together with resultant actions, are communicated to all GKN locations.

Our performance against the key health and safety and environmental indicators is measured on a regular basis, with reports made to the Governance and Risk Sub-Committee, the Executive Committee and to the Board. Significant health and safety and environmental incidents are reported to Executive Committee members within 24 hours and reviewed at the Committee's next meeting.

Accident frequency rate (AFR) and accident severity rate (ASR) are key health and safety performance indicators for the Group. 2009 is the twelfth consecutive year of performance improvement. Over that period our AFR and ASR performance have improved by 94% and 87% respectively and

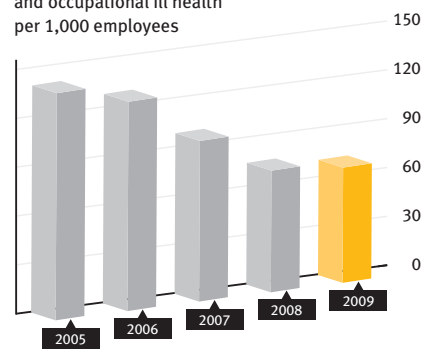
### Accident frequency rate (AFR)

Number of lost time accidents per 1,000 employees



### Accident severity rate (ASR)

Number of days/shifts lost due to accidents and occupational ill health per 1,000 employees



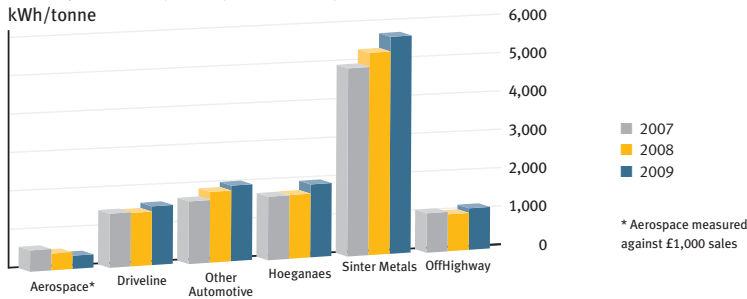
our serious injury rate (SIR) has improved by 87%. External benchmarking of our AFR performance indicates that we continue to outperform significantly against industry averages in the UK, Germany and the US.

Each business is required to target aggressive annual performance improvements. Targets are set primarily at plant level where they can best reflect the particular needs, risks, and priorities of each site. In 2009, 79% of plants maintained or improved their excellent AFR performance and 75% met their AFR targets. For ASR, performance was maintained or improved by 79% of plants, and 77% met their targets.

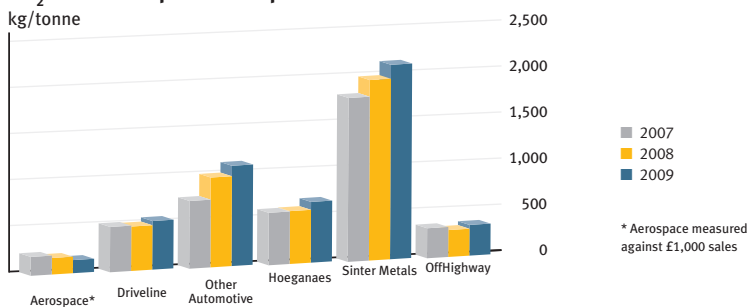
During 2009 there were seven health and safety enforcement actions against GKN companies with fines totalling \$54,510 issued by the relevant authorities. There were no fatalities of employees or contractors on GKN sites.

## The GKN Way

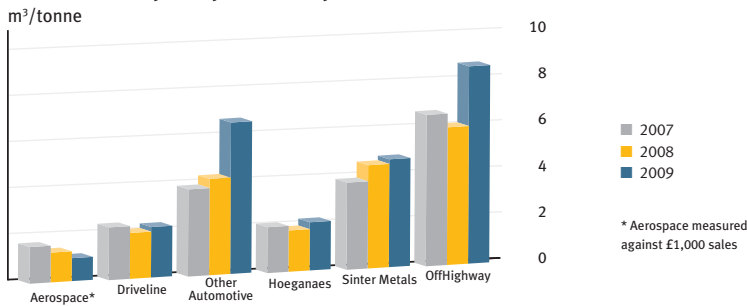
### Energy consumption per unit of production



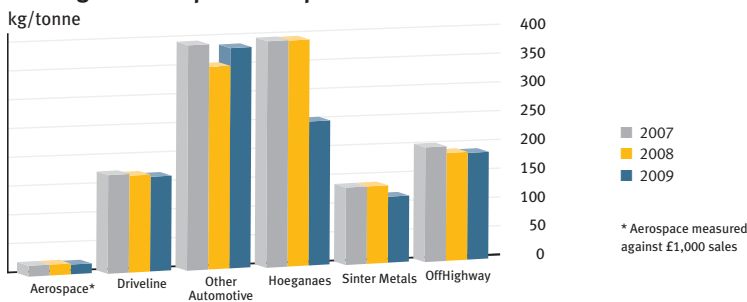
### CO<sub>2</sub> emissions per unit of production



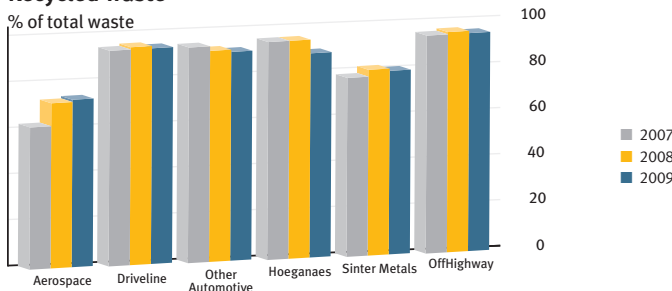
### Water consumption per unit of production



### Waste generation per unit of production



### Recycled waste



We measure the impact of our operations on the environment against the key performance indicators of energy consumption and associated carbon dioxide (CO<sub>2</sub>) emissions (both direct and indirect), water usage, waste generation and recycled waste. Given our diverse range of businesses we measure against these KPIs on a divisional basis, by reference to tonnes of product shipped in all businesses except Aerospace where sales is a more appropriate metric due to the move towards lighter aerospace components.

Operating sites are required to set targets, particularly on energy consumption, water use and waste generation, in line with our commitment to continuous improvement.

Despite a significant reduction in production levels during the year, it was not possible to reduce energy consumption by a corresponding amount due to continuous production processes as well as a required baseload of energy consumption. As a result, energy efficiency worsened at five of the six reporting units. A similar pattern was evident for CO<sub>2</sub> emissions. Going forward the Group has set an energy efficiency target of 15% improvement over the five years to 2014 from a 2009 base. Every division is required to set targets that reflect this objective. For similar reasons, water consumption relative to production increased in five of the six reporting units.

Waste minimisation programmes throughout the Group resulted in a reduction in waste generated per unit of production in five of the six reporting units. The percentage of waste recycled remained at high levels, averaging around 90% for the Group as a whole.

During 2009 there were nine environmental enforcement actions against GKN companies with fines totalling \$12,300 issued by the relevant authorities. We experienced no major spills or environmental incidents.

A common theme across both our Automotive and Aerospace businesses is the drive through technology developments to produce lighter weight products, offering opportunities for manufacturers of car and light vehicles and of aircraft to improve fuel

economy and thereby reduce CO<sub>2</sub> emissions. Examples of these are given throughout this annual report.

### Contributing to our communities

Our Hearts of Gold project, in which employees are encouraged to make a contribution to their local communities, continued in 2009 providing many examples throughout the Group of activities that have made a sustainable difference to the lives of people in the communities of which we are a part.

Our African projects, undertaken with the international charity Global Angels and which we commenced in 2007 as part of the GKN Mission Everest endeavour, are close to finalisation. Overall, we donated some US \$1 million to projects in Kenya, Mozambique and Sierra Leone and also provided project management skills to help ensure their success. The projects involved the provision of

dormitories, school buildings, fresh water supplies, protection against malaria and other diseases and an infant care programme.

In 2009, as part of our 250th anniversary celebrations, we launched the Evolve competition. Designed to foster long term, sustainable links in local educational establishments whilst at the same time supporting an environmental theme, Evolve encouraged employees to design and promote a science and engineering-based teaching and learning legacy in our communities worldwide.

Although the competition coincided with a period of challenging economic conditions for a number of GKN's businesses, the high quality of project proposals submitted demonstrates the commitment of employees to develop an understanding of the issues



and opportunities within their communities and to forge special relationships with educational partners.

The funding of the three prizes, which will be used to support the implementation of the winning projects, was provided by the GKN Millennium Trust, a charitable trust the principal object of which is the advancement of engineering education. The award winning projects are described below.

**1st prize:** £100,000  
**Winner:** GKN Sinter Metals,  
Pune in India

#### Project:

#### ***Finishing Schools for Rural Youths***

Our winning project will work with an existing organisation, Vigyan Ashram, to develop a finishing school facility and new educational module to provide young people with skills in agriculture and basic engineering. The prize money will support the refurbishment of a teaching and accommodation centre in Pabal and the purchase of machinery that will be used to teach relevant skills. The Pabal centre will be the hub of the training initiative and will be linked through video conferencing to satellite centres in other regions of India. GKN will help create the industry learning module and will participate in lecturing, teacher training and advisory support as well as offering site visits to students. It is anticipated that 300 students per year will benefit from the finishing school training module.

# evolve

**2nd prize:** £50,000  
**Winner:** GKN Sinter Metals,  
Chivilcoy in Argentina

#### Project:

#### ***Powder Metallurgy Technology Course***

The GKN Sinter Metals team will work with Chivilcoy Technical College to develop a specialised Powder Metallurgy (PM) technology course. The project includes the creation of a mini PM production line and laboratory providing students with practical experience of the PM process as well as the opportunity to carry out research and development. The project is a pilot for the development of a module for the national school curriculum.

**3rd prize:** £25,000  
**Winner:** GKN Aerospace,  
Filton in the UK

#### Project:

#### ***Teaching and Innovation Facility***

Leveraging GKN's involvement in the UK National Composites Network, the project will establish a pilot education programme, with academia in the Bristol area, supporting the use of composites in engineering and manufacturing. Students will learn how composite design can contribute to reducing the lifecycle environmental impact of products. The training modules will be aimed at 14 to 19 year olds and will provide practical experience of composite design and manufacture.