

Chairman's Statement



Roy Brown

Chairman

'We are confident that our leading market positions, coupled with a strong product, technology and customer base, will enable us to take full advantage of opportunities that arise as markets recover.'

This time last year we were experiencing an unprecedented decline in global automotive production, the world's major economies were in the middle of the most severe global recession for more than 60 years and we continued to face significant economic uncertainty and a lack of liquidity in financial markets. Despite this backdrop, we were also looking forward to celebrating our 250th anniversary. 2009 was an extraordinary year.

Performance

GKN reacted swiftly to mitigate the impact of declining end markets with significant cost cutting from the fourth quarter of 2008. That decisive action continued throughout 2009 and, as the year progressed, the benefits became increasingly apparent.

Our Automotive and Powder Metallurgy businesses returned to profitability in the second half of 2009. Aerospace had another excellent year, supported by the successful integration of Filton. In OffHighway, however, the decline in sales volumes accelerated as the year progressed, fuelled by the prevailing economic conditions and extensive de-stocking actions within the supply chain.

Overall, the Group moved from reporting a management loss before tax in the first quarter to a management profit before tax in the second and remaining quarters of the year. Given the market backdrop, this was an excellent performance.

Financing

The rights issue launched in June was strongly supported by shareholders, with over 95% acceptances, and raised £423 million before expenses. With a strong

balance sheet and having achieved excellent cash generation during the year, we have been able to repay our revolving credit facilities and buy back £124 million of our 2012 bond, thereby reducing interest costs going forward.

Dividend

We are mindful that dividends are an extremely important part of shareholder return. Whilst the Board has decided not to pay a dividend for 2009, it is our intention to resume payments, commencing with an interim dividend in 2010, commensurate with earnings and taking into account the outlook for our end markets at that time.

In the medium term, it is the intention to resume a progressive dividend policy based on an underlying earnings cover ratio of around 2.5 times.

Board composition

Our Board continues to evolve and in September we were delighted to welcome Michael Turner as a new non-executive Director. With over 40 years' service at BAE Systems, Michael brings to the Board extensive experience of the aerospace industry.

At this year's Annual General Meeting both Sir Peter Williams and Sir Christopher Meyer will retire from the Board having served for nine years and over six years respectively as non-executive Directors. Sir Peter has also been Chairman of the Remuneration Committee since January 2006 and Senior Independent Director since January 2008. Richard Parry-Jones will take over from Sir Peter as Remuneration Committee Chairman and Michael Turner will succeed him as Senior

Independent Director, both with effect from 6 May 2010. I would like to take this opportunity to thank both Sir Peter and Sir Christopher for the valuable contributions they have made during their time on the Board.

250 Years of GKN

2009 was also a year of celebration. September marked the 250th anniversary of the Group's founding in Dowlais, South Wales, in 1759 and employees around the world joined together to celebrate GKN's heritage and achievements of the past 250 years. We are immensely proud of this milestone.

Looking to the future

During the final quarter of 2009, the Board considered the outcome of a comprehensive strategic review by the executive team which is summarised on pages 6 and 7 of this report. Enhancing shareholder value remains paramount in the development and execution of our strategy. We are confident that our leading market positions, coupled with a strong product, technology and customer base, will enable us to take full advantage of opportunities that arise as markets recover.

Finally, I would like to thank each and every GKN employee for the commitment they have shown during 2009 and to express my gratitude to you, our shareholders, for your continued support.