

## Directors' Report

### Business review

A review of the Group's businesses, their activities and performance in 2009 and likely future development, together with information regarding post-balance sheet events, use of financial instruments, key performance indicators, principal risks and uncertainties, research and development activities and corporate social responsibility matters is set out on pages 2 to 38, which are incorporated into this Directors' report by reference.

### Capital reorganisation and rights issue

Following shareholder approval given in July 2009, the Company undertook a capital reorganisation and rights issue. Pursuant to the capital reorganisation, effected immediately prior to the rights issue, each 50p ordinary share in issue was sub-divided into one ordinary share of 10p and one deferred share of 40p, and each unissued 50p ordinary share was sub-divided into five ordinary shares of 10p. A total of 846,623,629 10p ordinary shares were issued as a result of the rights issue, the terms of which offered shareholders six 10p ordinary shares for every five 10p ordinary shares held at a price of 50p per share.

### Share capital

At 31 December 2009, the authorised share capital of the Company was £608 million divided into 3,104,384,224 ordinary shares of 10p and 743,903,944 deferred shares of 40p, representing 51.1% and 48.9% respectively of the authorised share capital at that date. At the end of 2009, 1,590,527,573 ordinary shares of 10p and 743,903,944 deferred shares of 40p were in issue, including 38,199,579 ordinary shares of 10p and 38,384,253 deferred shares of 40p (4.2% of the issued share capital) held in treasury. A total of 184,674 ordinary shares of 10p were transferred out of treasury during the year in connection with the exercise of options under the Company's share option schemes. Each ordinary share carries the right to one vote on a poll at a general meeting of the Company. The treasury shares and deferred shares carry no voting rights.

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 Depositary. The ADRs trade in the US over-the-counter market where each ADR represents one GKN ordinary share.

At the General Meeting held in July 2009, the Company was authorised to purchase up to 155,214,332 of its ordinary shares. No shares were purchased under this authority in 2009.

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. At the 2010 AGM, shareholders will be asked to adopt new articles of association which incorporate a number of amendments to the existing articles, predominantly to reflect those provisions of the Companies Act 2006 which came into effect on 1 October 2009 and the implementation of the Shareholders' Rights Directive in the UK.

The circular containing the notice of meeting sets out details of the amendments to the articles of association which will be proposed at the AGM and where the full text of those amendments can be inspected.

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 56, 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

As at 24 February 2010\* the Company had been notified of the following holdings of voting rights in its shares under Rule 5 of the Disclosure Rules and Transparency Rules of the Financial Services Authority:

Shareholder	Nature of interest	% of issued capital held
Standard Life Investments Ltd	Direct	7.80
	Indirect	5.24
	Total	13.04
Lloyds Banking Group plc	Direct	0.57
	Indirect	6.56
	Total	7.13
BlackRock, Inc.	Indirect	3.92
	Contracts for difference	1.08
	Total	5.00
Legal & General Group plc	Direct	3.65
Deutsche Bank AG	Direct	3.24
	Indirect	0.02
	Total	3.26
Ignis Investment Services Ltd	Indirect	2.69
	Contracts for difference	0.32
	Total	3.01

\* See footnote on page 44.

## Annual General Meeting

The Annual General Meeting of the Company will be held at 2.00 pm on Thursday, 6 May 2010 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

No interim dividend was paid and, as noted in the Chairman's statement on page 3, no final dividend will be paid in respect of 2009.

## Directors

Membership of the Board and biographical details of the Directors in office at the date of this report are shown on pages 40 and 41. Further details relating to Board and Committee composition are disclosed in the corporate governance statement on pages 45 to 49.

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 pages 47 and 48 (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 buy-back of shares.

With the exception of Sir Christopher Meyer and Sir Peter Williams, both of whom will retire from the Board following the conclusion of the AGM, all Directors who were serving at the time of GKN's rights issue, completed in July 2009, will retire and offer themselves for re-election at the 2010 AGM. This is in accordance with guidelines issued by the Association of British Insurers on the allotment of shares in connection with rights issues. Michael Turner, having been appointed to the Board in September 2009, is retiring and offering himself for re-election in accordance with the provisions of the Company's articles of association.

The Directors' remuneration report is set out on pages 52 to 62. This contains details of Directors' interests in GKN shares (pages 60 to 62).

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 together with the service contracts of the executive Directors and the letters 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.

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### Donations

Charitable donations made by Group companies around the world totalled £482,400 in 2009, of which £191,400 was to UK registered charities. Further details of the Group's community activities are given on page 37.

In addition, the GKN Millennium Trust, a UK charitable trust established in 1995, donated a total of £137,000 to the Engineering Development Trust and Young Enterprise in 2009. The GKN Foundation, an independent US charitable body established in 1951, supported more than 200 organisations in the United States in 2009 with contributions totalling over \$670,000.

In January 2010, the Company donated £25,000 to the Disasters Emergency Committee to support victims of the earthquake in Haiti.

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2009.

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 2009.

### Corporate governance

The Board's statement on corporate governance is given on pages 45 to 49 and is incorporated into this Directors' report by reference.

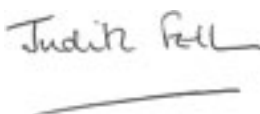
### Auditors

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



**Judith Felton**  
Company Secretary  
24 February 2010

As at 28 February 2010 the Company had not been advised of any changes or additions to the notifiable interests set out on page 43.