

# GKN: Driving Growth: Delivering Results

**Nigel Stein - CFO**

Citigroup 20th Annual Global Industrial Manufacturing Conference  
March 2007

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# GKN Today



Sales\* 2006

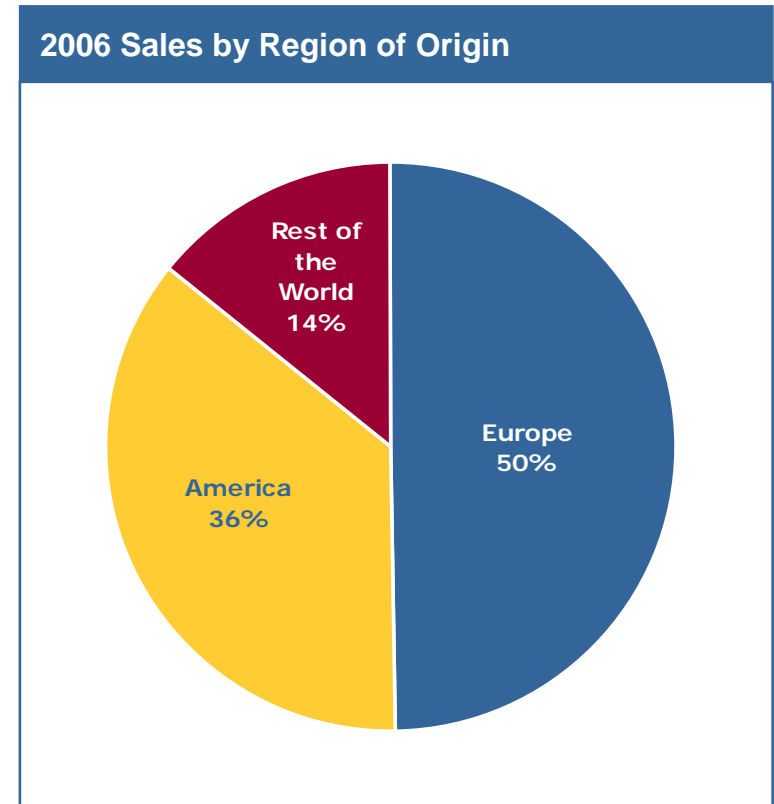
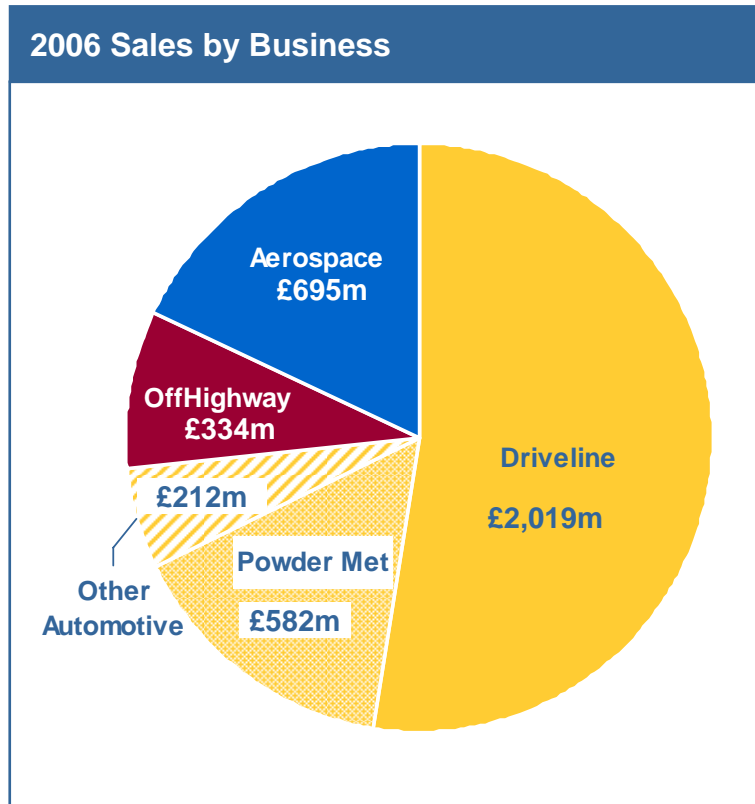
\*Subsidiaries + share of JVs

# Market leadership positions

- > Driveline
  - > World No 1 in production of constant velocity joints (CVJs) with around 40% global market share
  - > Market leader in torque management devices
- > Powder Metallurgy
  - > World No 1 in powder parts production with 16% market share and US No 1 in powder manufacture
- > OffHighway
  - > World No 1 in OffHighway wheels and PTO shafts
- > Aerospace
  - > Tier 1 supplier to aerospace primes – Airbus, Boeing, Lockheed Martin, Northrup Grumman, Rolls-Royce, GE, Pratt & Whitney
  - > World No 1 independent supplier of composite structures

# Overview of GKN- 2006 Sales by subsidiaries and joint ventures

Total sales £3.8bn



# 2006 - Driving Growth: Delivering Results

## > Improving Performance

- > US Sinter into profit – Powder Metallurgy profits double
- > Aerospace sales grow 11% and profits up 30%

## > Winning Business

- > Driveshaft wins 75% of sesh shafts externally sourced
- > Record levels of new business in Sinter – up 30%
- > \$850m of programme wins in Aerospace

## > New products

- > crosstrack™ and countertrack™ cv joints secure first orders
- > Range of torque products successfully launched

# 2006 - Driving Growth: Delivering Results

## > Acquisitions

- > Stellex secures leadership in titanium aircraft structures
- > Rockford creates No1 in offhighway driveline – Liuzhou establishes global wheels business

## > Emerging market expansion

- > In China – new plants for Sinter, Torque and Driveshafts
- > In India – new plants for Driveline and Sinter

## > Restructuring

- > Final stage of strategic restructuring underway

# Results summary

	2006 £m	2005 £m	Change
Sales (subsidiaries)	3,634	3,648	-
Trading profit* (subsidiaries)	242	229	6%
Profit before tax*	221	204	8%
Earnings per share*	28.8p	22.3p	29%
Net borrowings	(426)	(65)	(361)
Dividend per share	12.8p	12.2p	5%

13%  
before tax  
change

## Subsidiaries & JVs

Sales	3,842	3,823	-
Trading profit*	263	243	8%

\* Before restructuring and impairment charges amortisation of non-operating intangible assets arising on business combinations, profits on sale of businesses and change in the fair value of derivative financial instruments

## Trading profit - summary

Subsidiaries	2006 £m	2005 £m	Increase/ (decrease) £m	Increase/ (decrease ) including JVs
Driveline	140	155	(15)	(13)
Powder Metallurgy	31	12	19	19
Other Automotive	(10)	(2)	(8)	(3)
Automotive	161	165	(4)	3
OffHighway	23	20	3	3
Aerospace	70	54	16	16
Corporate	(12)	(10)	(2)	(2)
	242	229	13	20

# Trading profit margins

<i>Subsidiaries</i>	2006 %	2005 %
Driveline	7.3	7.8
Powder Metallurgy	5.3	2.0
Other Automotive	(8.3)	(1.5)
OffHighway	6.9	6.5
Aerospace	10.1	8.6
<b>Group*</b>	<b>6.7</b>	<b>6.3</b>

<b>2006 continuing businesses inc JVs %</b>
<b>7.1</b>

\* Including unallocated corporate stewardship costs

# 2006 Group Automotive Results

## > Continuing businesses\*

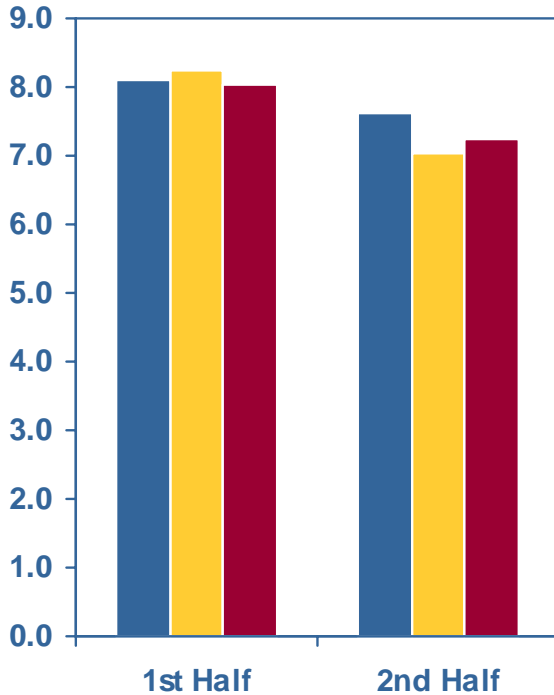
Subsidiaries & JVs	2006 £m	2005 £m	Increase/ (decrease)
Sales	2,781	2,816	(1)%
Trading profit	189	179	6%
Operating margin	6.8%	6.4%	40 basis points

## > Quality businesses deliver creditable performance

\*Excluding Fujiwa and UK cylinder liners

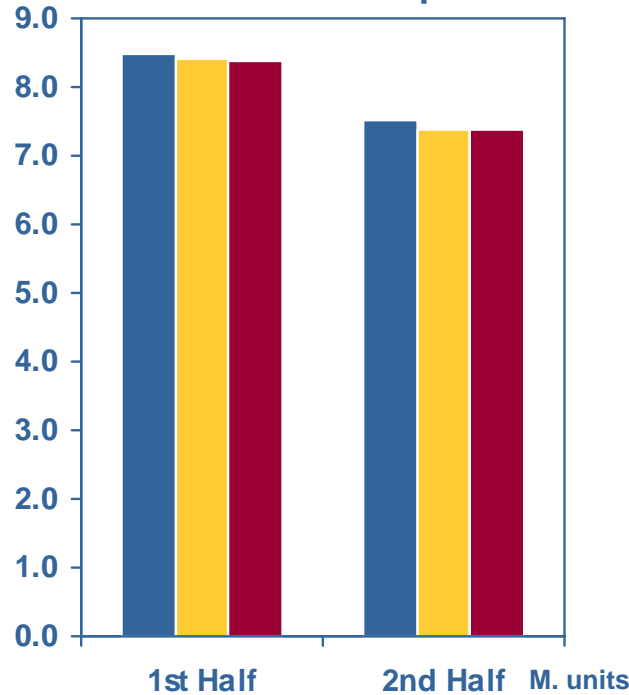
# Light Vehicle Production

### North America



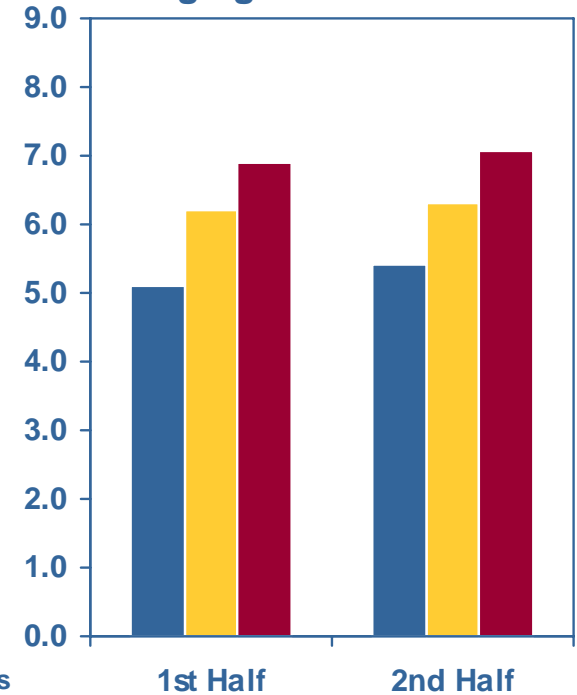
2005 actual – 15.74m  
 2006 actual – 15.30m  
 2007 forecast 15.27m

### Western Europe



2005 actual – 16.02m  
 2006 actual – 15.79m  
 2007 forecast 15.77m

### Emerging Asia\* and Brazil



2005 actual – 10.54m  
 2006 actual – 12.51m  
 2007 forecast 13.99m

\* India, Thailand, China & Malaysia



Source: Global Insight - DRI

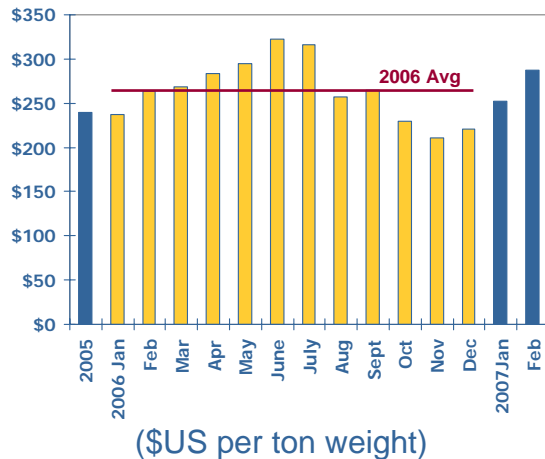
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## Global Light Vehicle Production – impact of 2<sup>nd</sup> half turbulence

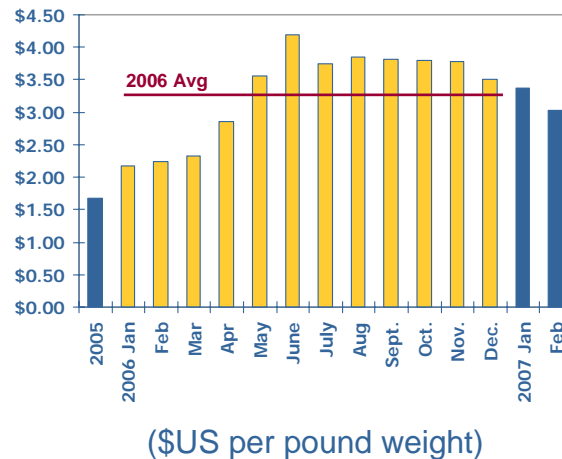
- Shifts in demand challenge operational management
- North America
  - Overall production decrease of 7%
    - US down 11%, Mexico up 11%
  - Consumer preference impacts mix
    - SUVs and minivans lose, crossovers and cars gain
- Western Europe
  - Overall production 3% decrease – Q3 down 6%
  - Italy up 11% - France down 13%
- Sharply escalating raw material costs – scrap steel, copper, nickel

# Raw material costs have risen

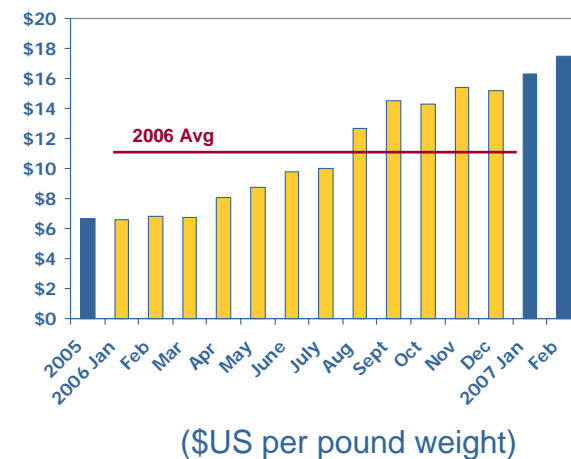
## Scrap steel



## Copper



## Nickel

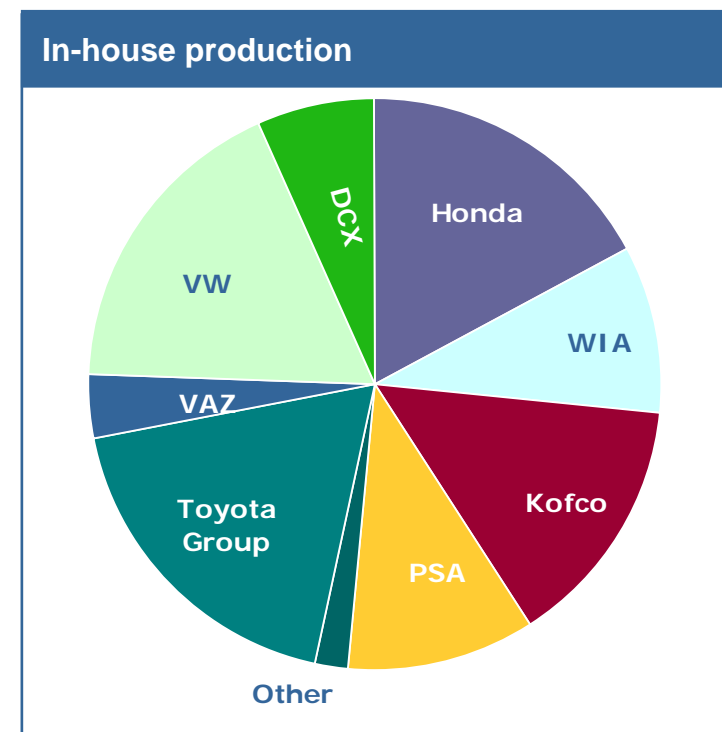
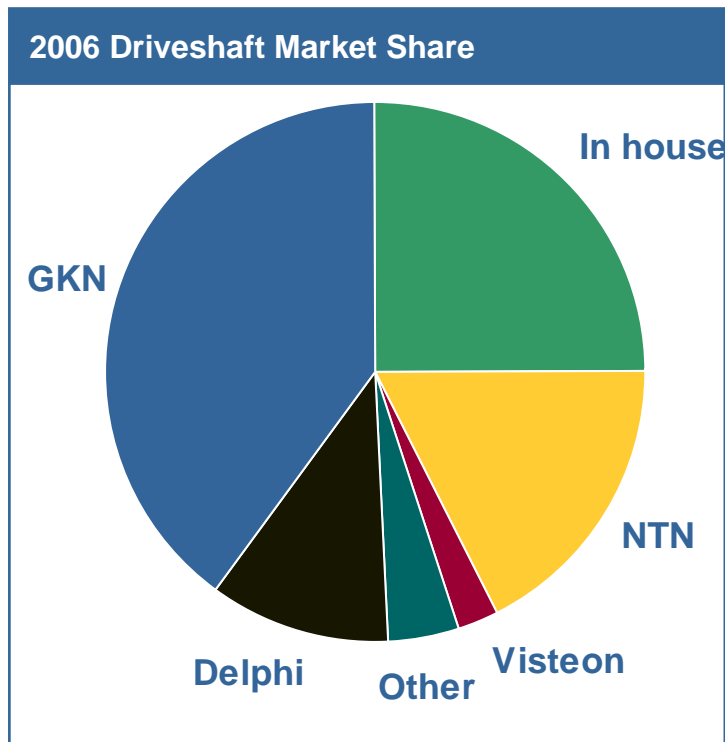


- High steel and copper prices in May, June & July added to Q3 costs
- Impact mainly in Driveline; Powder Metallurgy helped by hedging
- Managing commodity prices now part of “business-as-usual”

## Driveline – Driveshafts

*The World Leader in a Growing Market*

- World number 1 with around 40% market share
- Global trend towards outsourcing



# Driveline

Subsidiaries & JVs	2006 £m	2005 £m
Sales	2,019	2,097
Trading profit	153	166
Margin	7.6%	7.9%

- > Driveline underlying sales almost level - profits down
  - > China and India perform strongly
- > Continued exceptional business winning performance
  - > 75% of externally sourced CVJ vehicle sets secured
- > Premium crosstrack™ and countertrack™ products secure first orders
- > Final phase of strategic restructuring underway
- > Driveline to recover lost ground in 2007 and secure growth from 2008



countertrack™ fixed joint



VW Touran

# Driveline - Torque

- Globalisation of Torque Technology business continues apace
  - Successful launch of PTU technology in US all wheel drive segment
  - New China manufacturing facility – volume production for GM in 2007
  - Industry-leading Electronic Torque Manager launched with DCX in Europe
  - New electronic, passive and geared products for European, US and Japanese customers



Mercedes M-Class



Nissan Micra



Land Rover Discovery

# Powder Metallurgy

Subsidiaries	2006 £m	2005 £m
Sales	582	588
Trading profit	31	12
Margin	5.3%	2.0%

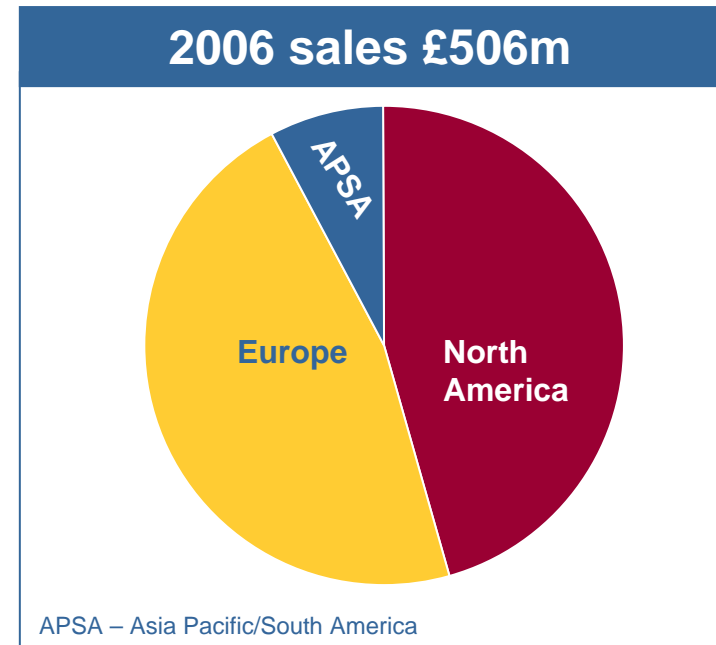
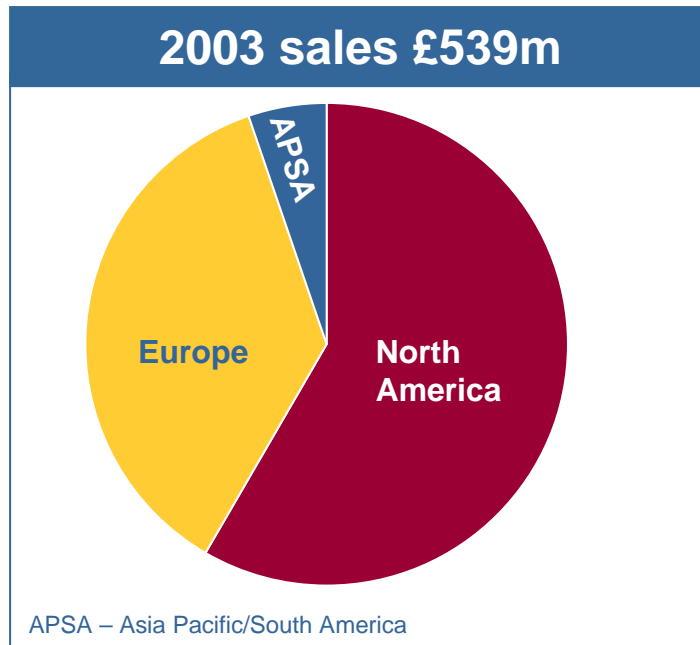
- > Profits double on flat sales – margin moves over 5%
  - > US sales reductions offset by growth in Europe, Asia and South America
  - > US Sinter back into profit – Europe margins improve
  - > Hoeganaes delivers improved profits from reduced volumes
- > Restructuring activity accelerated and extended
  - > 4 plant closures completed – one underway
  - > Final closure announced – to conclude in 2007



Transmission Gear

# Powder Metallurgy

## Sinter Metals' changing global footprint



- Record business wins - \$235m of annualised sales – swell order books globally
- Powder Metallurgy set for a sustained period of growth
- 6% plus top-line growth in 2007 and further margin expansion

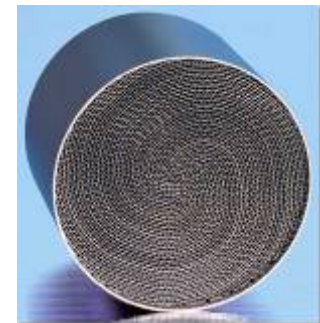
## Other Automotive

Subsidiaries & JVs	2006 £m	2005 £m
Sales	212	197
Trading (loss)/profit	(2)	1
Margin	(0.9)%	0.5%

- > Cylinder liner sales down - £9m loss
  - > Cessation of UK production – complete 2007
  - > China operation successfully established
- > Autostructures makes useful contribution despite poor UK market conditions

### Emitec

- > Sales and profits growth from new diesel products
  - > Sales up 50% and 6% margin achieved



Emitec substrate

# OffHighway

Subsidiaries	2006 £m	2005 £m
Sales	334	314
Trading/profit Margin	23 6.9%	20 6.4%

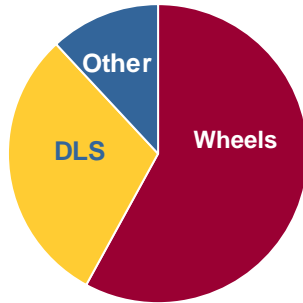
- Underlying sales and profits broadly level – acquisitions deliver growth
  - Soft US agricultural market, stable in Europe, strong growth in US construction
- Acquisitions and product transfer secure market leadership positions
  - Rockford and DUJ transfer strengthens driveline and increases exposure to US construction sector
  - Liuzhou Wheels secures China entry and adds to strong positions in Europe and US

Rockford Driveshaft



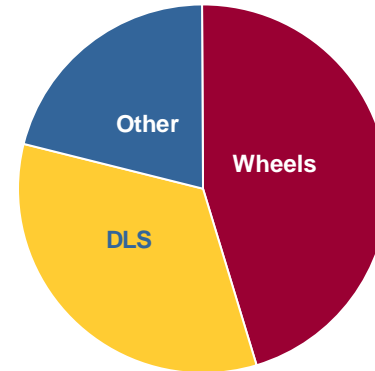
Double Universal Joint

# Improving the OffHighway portfolio balance

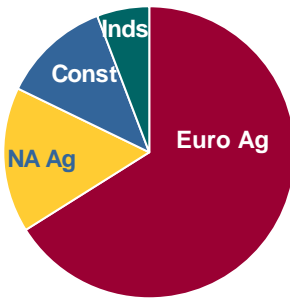


2003 sales **£244m**  
(continuing businesses)

Improving the  
product mix

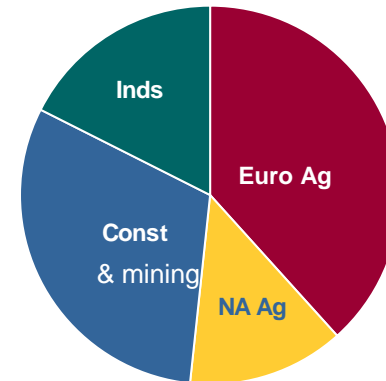


2006 pro forma sales **£405m**  
(incl acquisitions and transfers)



2003 sales **£244m**  
(continuing businesses)

Improving end  
market mix

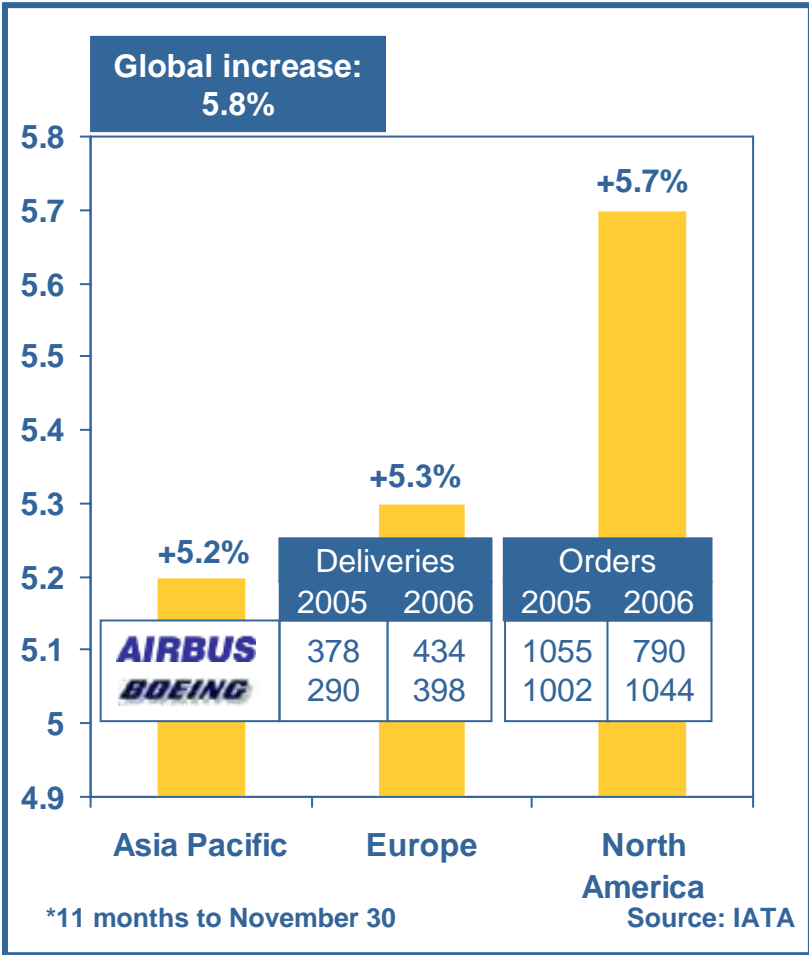


2006 pro forma sales **£405m**  
(incl acquisitions and transfers)

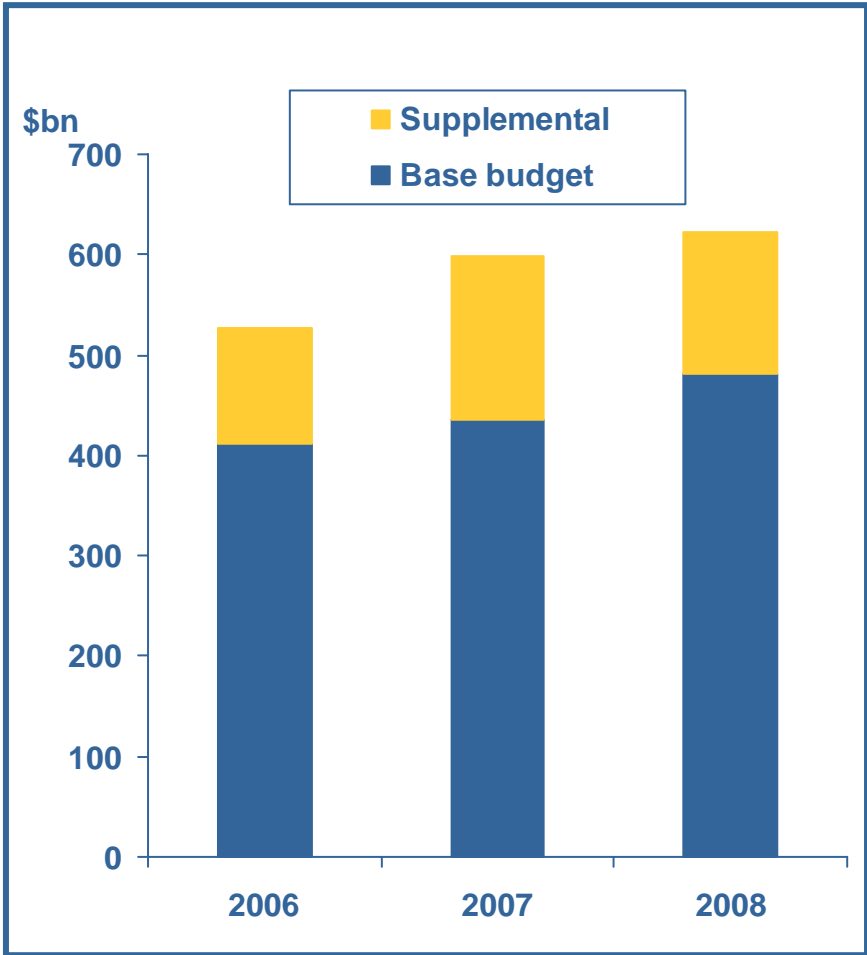
**OffHighway to deliver more substantial contribution to 2007 sales and profits**

# Aerospace market profiles

## Growth in Revenue Passenger Miles supporting strong aircraft order books



## Military – US defence budget supports continued growth



# Aerospace

Subsidiaries	2006 £m	2005 £m
Sales	695	627
Trading profit	70	54
Margin	10.1%	8.6%

- > Continued excellent progress in Aerospace
  - > Sales up 11%, profits up 30% - double digit margin achieved
  - > Stellex creates leader in titanium products and increases civil sector exposure
- > \$850m of new business won across range of civil and military programmes
  - > New business jet nacelle programme
  - > Future Lynx – complete aircraft structure



Future Lynx

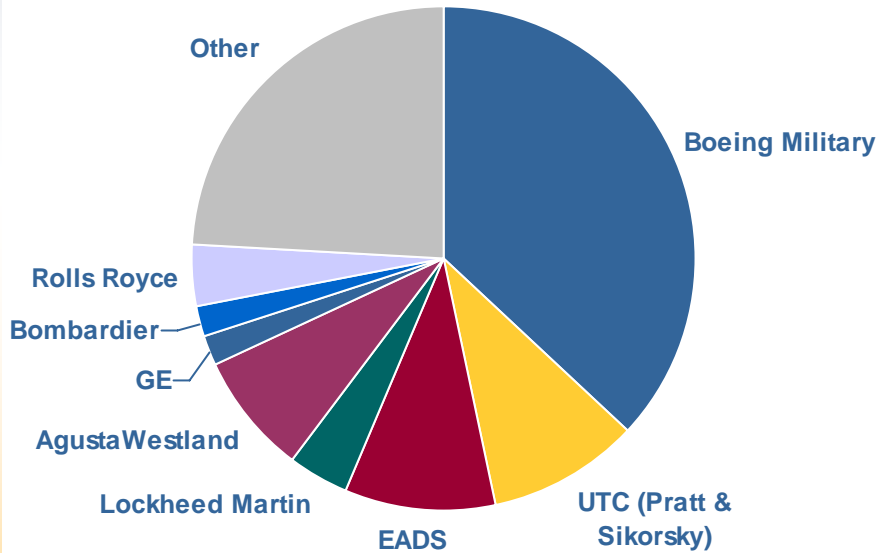
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# Aerospace customers – 2003 vs 2006

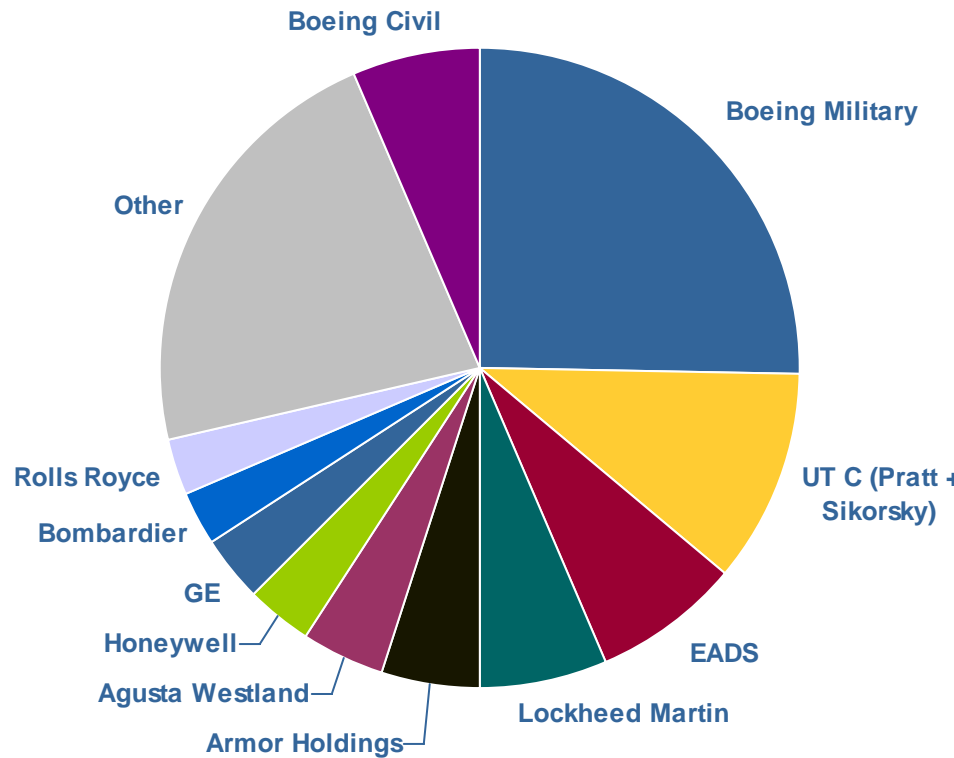
## Revenue by customer – US\$

2003

2006 (inc Stellex pro forma)

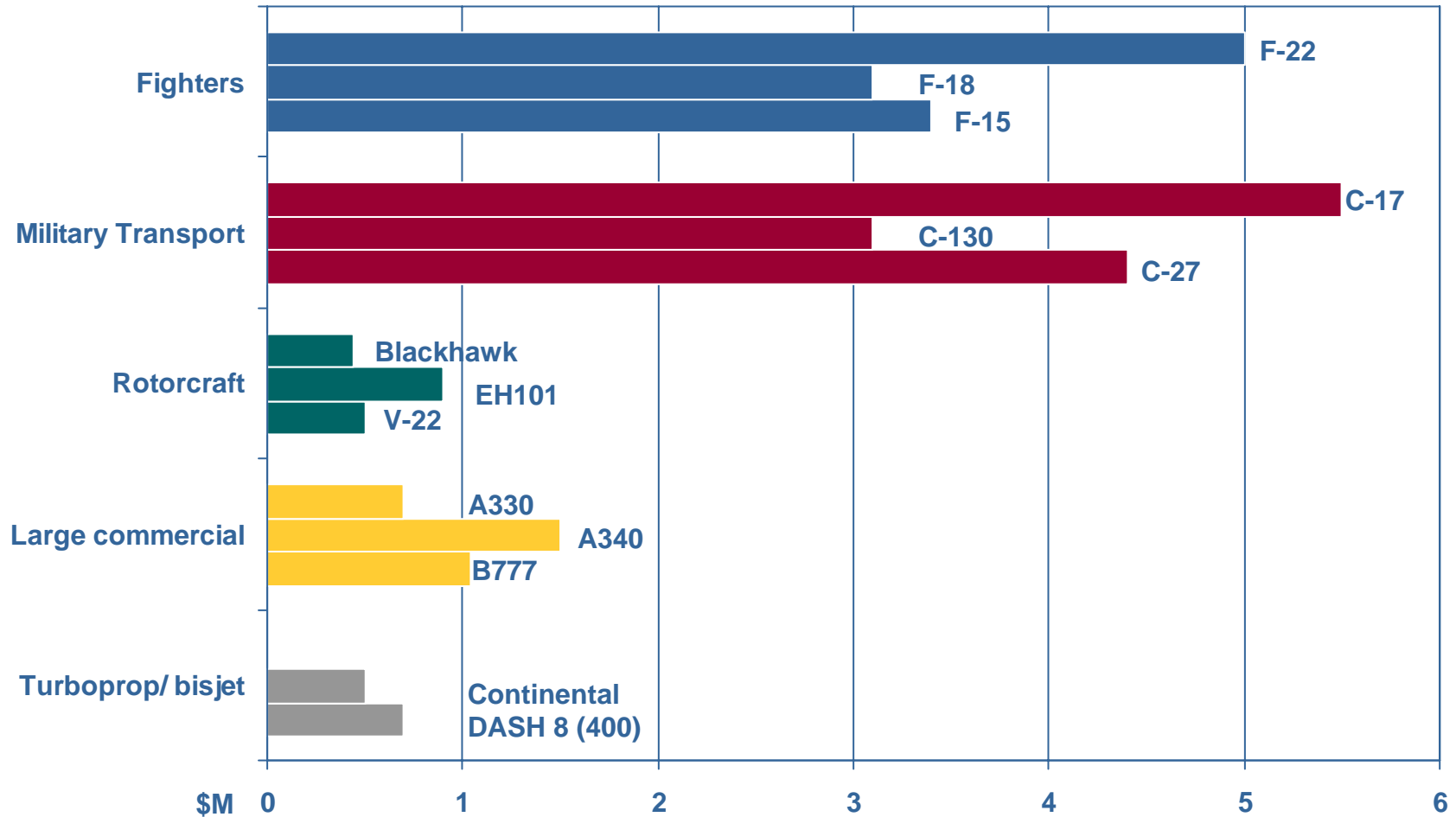


Total \$920m

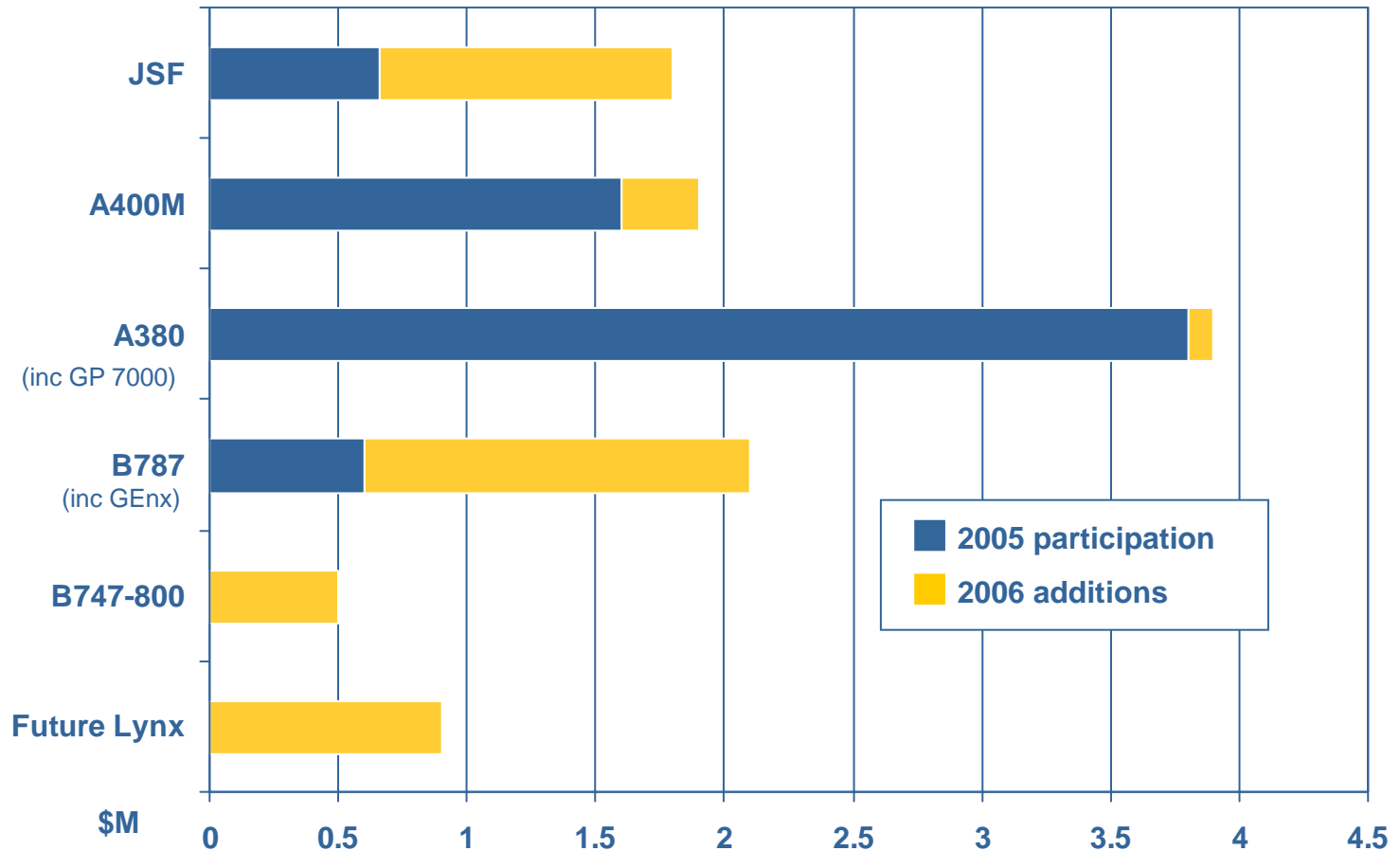


Total \$1.4bn

# Strong portfolio in production - approx shipset values US\$



# Growing potential in development - approx shipset values US\$



**Current order books to deliver \$3 billion of revenue**

# Driving growth - Aerospace

Exciting potential in launch phase



A350 XWB



Naval UCAS



CH 53K



Hondajet

Exceptional programme positioning to drive growth

# Positive outlook for major markets in 2007

- > Automotive
  - > Overall growth 3-4% with W Europe and North America broadly level
  - > Good emerging market growth – including China and India
- > OffHighway
  - > North America slightly down but sentiment improving
  - > Europe and mining, heavy construction sectors good
- > Aerospace
  - > All sectors to remain strong
- > Looking for another year of good progress
  - > Benefits of re-structuring
  - > Strong order backlog in Powder Metallurgy and Aerospace
  - > Rockford and Stellex acquisitions

# Currency

<u>2006</u>	<u>£m</u>	
Transactional	(7)	Mainly in Driveline
Translational	(1)	Average rates little changed
	<u>(8)</u>	

Average exchange rates used for translation of sales and profits

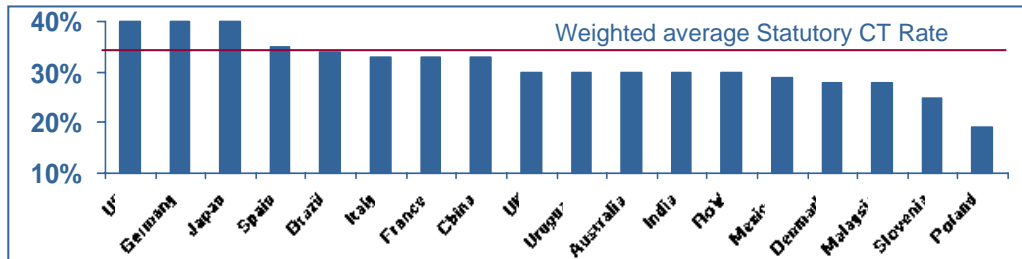
	2006	2005
Euro	1.47	1.46
US\$	1.84	1.82

<u>2007</u>		
Transactional	(4)	Est – cover mostly in place
Translational	??	Dependent on future rate movements

Profit impact

Euro – 1% movement = £1.1m  
 US\$ – 1% movement = £0.4m

# Tax charge analysed by “cash tax” and other



- > Weighted average of tax rates in major countries in which we operate
- > Benefits of GKN tax profile – tax losses and other factors
- > “Cash tax” rate re 2006 profits
- > Movement in provision against challenges etc (2006 and prior years - net)
- > Deferred tax charge (net)

%

34%

(15%)

19%

(7%)

(4%)

8%

Future rate effect

↓ Slightly down  
subject to acquisitions

↓ Slightly down

Volatile

## 2006 - Driving Growth: Delivering Results

- > Developing winners
  - > Leader in automotive Driveline power distribution and control
  - > Global technology leader in Powder Metallurgy
  - > Market leader in wheels and driveline products in OffHighway
  - > Leading Tier 1 in lightweight, complex aircraft and engine structures
- > Sustaining winners
  - > Rigorous application of “lean enterprise” – focus on people development
  - > Stunning improvements in delivered quality and health and safety
  - > 83% of all waste recycled and carbon footprint reduced by 45,000 tonnes since 2004

**Driving sustainable growth in all four major businesses**

# **GKN: Driving Growth: Delivering Results**

## **Appendix**

**Nigel Stein - CFO**

## Strategic restructuring programme

P&L charges	Impairments £m	Reorganisation charges £m	Cash outflow £m
<b>Plan</b>	<b>96</b>	<b>166</b>	<b>166</b>
<b>2004/5</b>	<b>99</b>	<b>78</b>	<b>52</b>
<b>2006</b>	<b>2</b>	<b>61</b>	<b>57</b>
<b>2007 forecast to complete</b>	<b>101</b>	<b>139</b>	<b>109</b>
	<b>-</b>	<b>37</b>	<b>60-65</b>
	<b>101</b>	<b>176</b>	<b>169-174</b>

Anticipated benefits	Annual on completion £m	2006 exit run rate (pa) £m
<b>Driveline</b>	<b>40</b>	<b>30</b>
<b>Powder Metallurgy</b>	<b>23</b>	<b>15</b>
<b>Other</b>	<b>10</b>	<b>10</b>
	<b>73</b>	<b>55</b>

Driveline £29m  
Sinter £8m

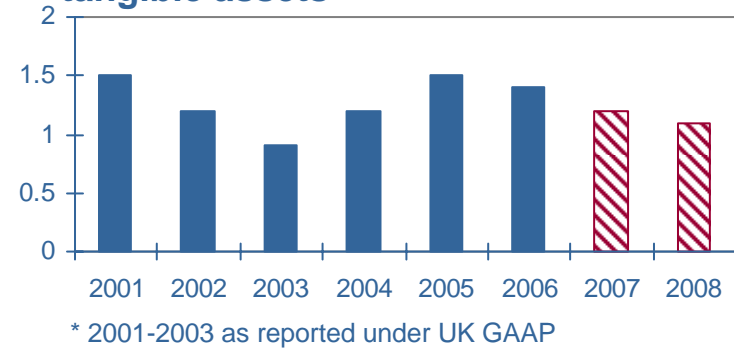
# Cash flow from operations

	2006 £m	2005 £m
Trading profit	242	229
Depreciation and amortisation	145	151
Change in working capital and provisions	(7)	5
Strategic restructuring	(57)	(36)
Post-employment obligation	(205)	(39)
Other	(1)	(2)
	117	308
Proceeds from sale of fixed assets	13	9
Capital expenditure net (tangible and intangible)	(230)	(229)
Operating cash flow	(100)	88

# Capital expenditure

	2006 £m	2005 £m
Tangible expenditure	197	206
Depreciation	137	142
Ratio (times)	1.4	1.5

Capex to depreciation ratio – tangible assets



	2006 £m	2005 £m
Intangible expenditure	33	23
Amortisation	8	9
<b>Total expenditure</b>	<b>230</b>	<b>229</b>

# Free Cash Flow

	2006 £m	2005 £m
Operating cash flow after capex	(100)	88
Dividends from joint ventures and associates	7	6
Interest and minority dividends	(34)	(14)
Tax	(31)	(35)
Dividends Paid	(88)	(86)
<b>Free cash flow (after dividend)</b>	<b>(246)</b>	<b>(41)</b>
Acquisitions	(126)	(51)
Divestments	13	1
Share buy back	(40)	(30)
Other (incl currency)	38	(9)
Net movement in borrowings	(361)	(130)

**Includes**  
 Pension contribution 200  
 Restructuring 57

# Net Assets and Net Borrowing

	2006 £m	2005 £m
Net operating assets	1,844	1,739
Deferred tax asset (net)	51	112
Post employment obligations	(561)	(885)
Net borrowings	(426)	(65)
<b>Net Equity</b>	<b>908</b>	<b>901</b>

# Contacts

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