



Driving for **growth**



Driving for **growth**

Kevin Smith – Chief Executive

EXPECT > MORE

Driving for Growth – 1st Half Highlights

> Benefits of “hard work” in current results

- > US Sinter back into profit
- > Aerospace profits up 33% - improved margins

> Improved competitiveness driving growth

- > Driveshafts - won 75% of sideshafts externally sourced
- > Torque Technology - win rate exceeds 50% of programmes bid
- > Sinter - record levels of new business – up 38%
- > Aerospace - \$400m of new business

Driving for Growth – 1st Half Highlights

> Acquisitions create two new market leadership positions

- > Adds \$200m to 2007 revenues with good contribution to profits

> The emphasis is changing

- > Restructuring progressing strongly
- > Technology and manufacturing programmes delivering
- > Our focus is moving to accelerate growth

GKN entering exciting new phase

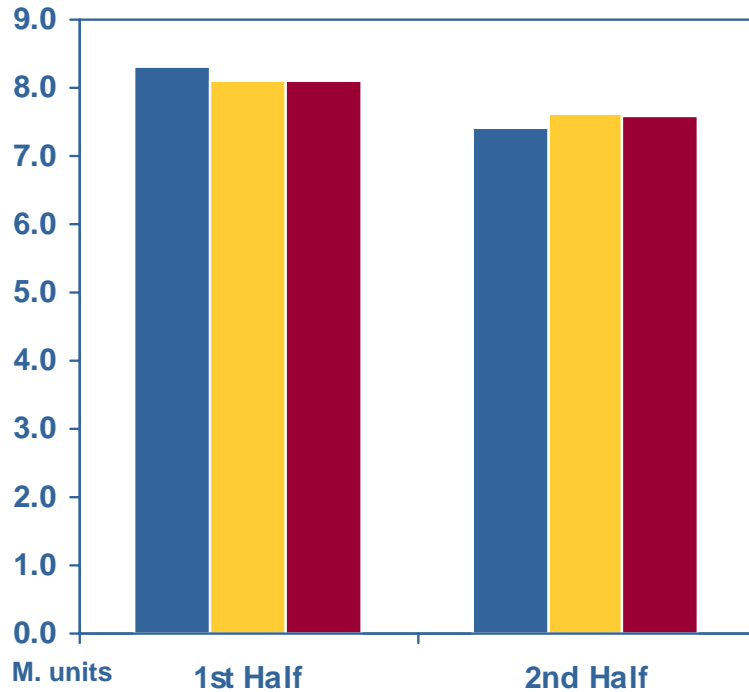
Results summary

	First half 2006 £m	First half 2005 £m	Increase/ (Decrease) %
Sales (subsidiaries & JVs)	2,001	1,940	+3%
Trading profit* (subsidiaries & JVs)	130	122	+7%
Profit before tax *	112	103	+9%
Earnings per share	12.9p	10.5p	+23%
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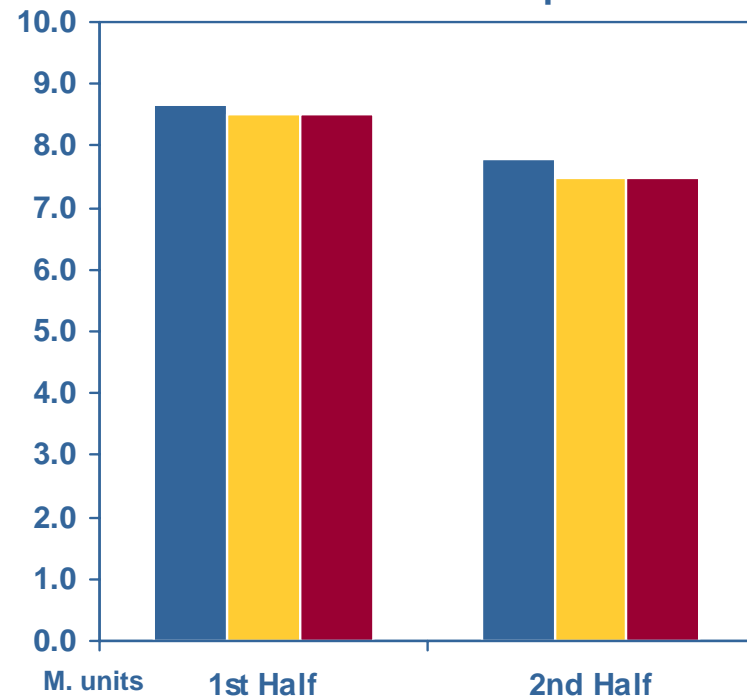
Major automotive markets - Light Vehicle Production

North America



2004 actual – 15.75m 2005 actual – 15.74m
2006 forecast 15.70m

Western Europe

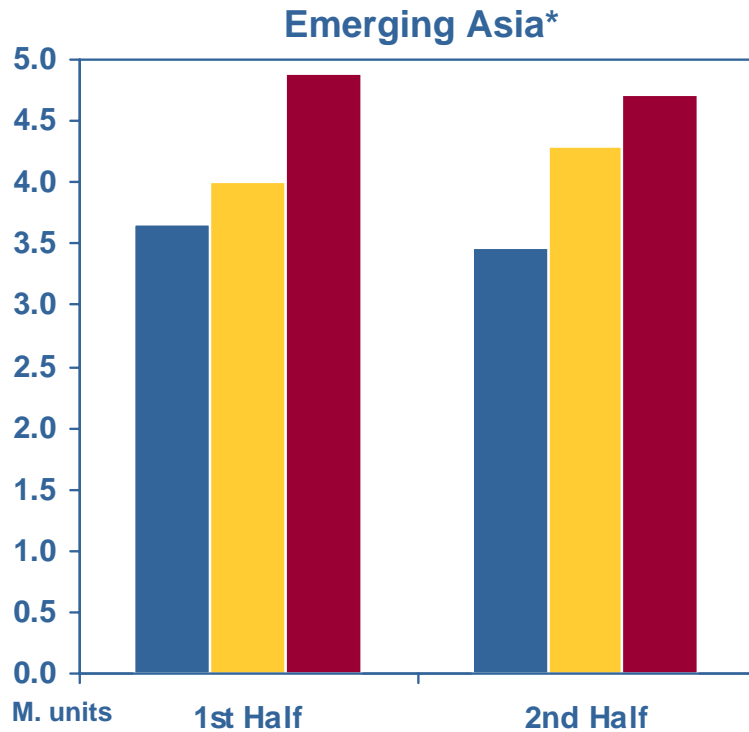


2004 actual – 16.43m 2005 actual – 16.01m
2006 forecast 16.02m

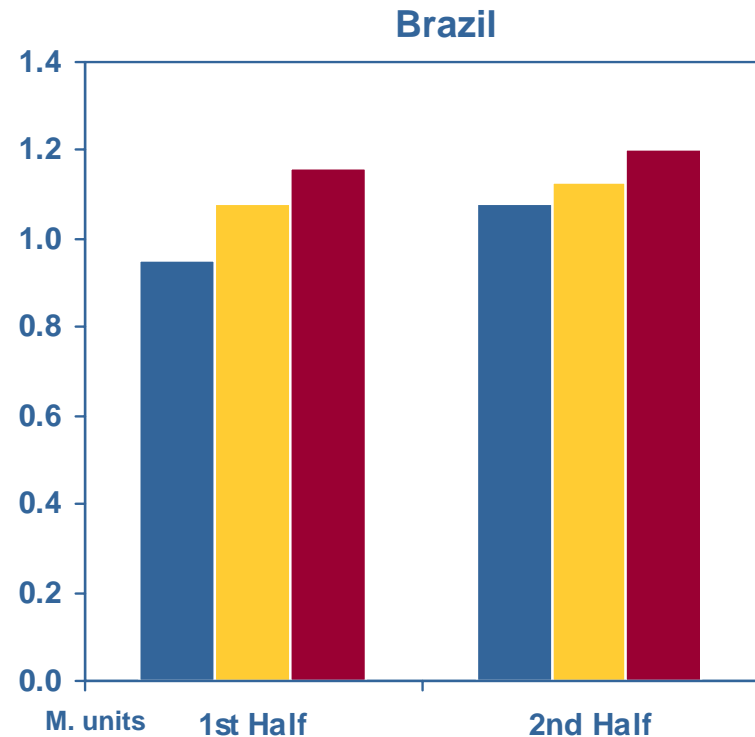


Source: Global Insight - DRI

Emerging markets - Light Vehicle Production



2004 actual – 7.11m 2005 actual – 8.31m
2006 forecast 9.6m



2004 actual – 2.03m 2005 actual – 2.21m
2006 forecast 2.4m



* India, Thailand, China & Malaysia

Source: Global Insight - DRI

Driveline

Subsidiaries	First half 2006	First half 2005
Sales	£1,011m	£1,019m
Trading profit	£76m	£76m

- > Driveline subsidiary sales down slightly and trading profits level
- > Strong contribution from JVs brings overall sales level and a small improvement in profits

Driveshafts

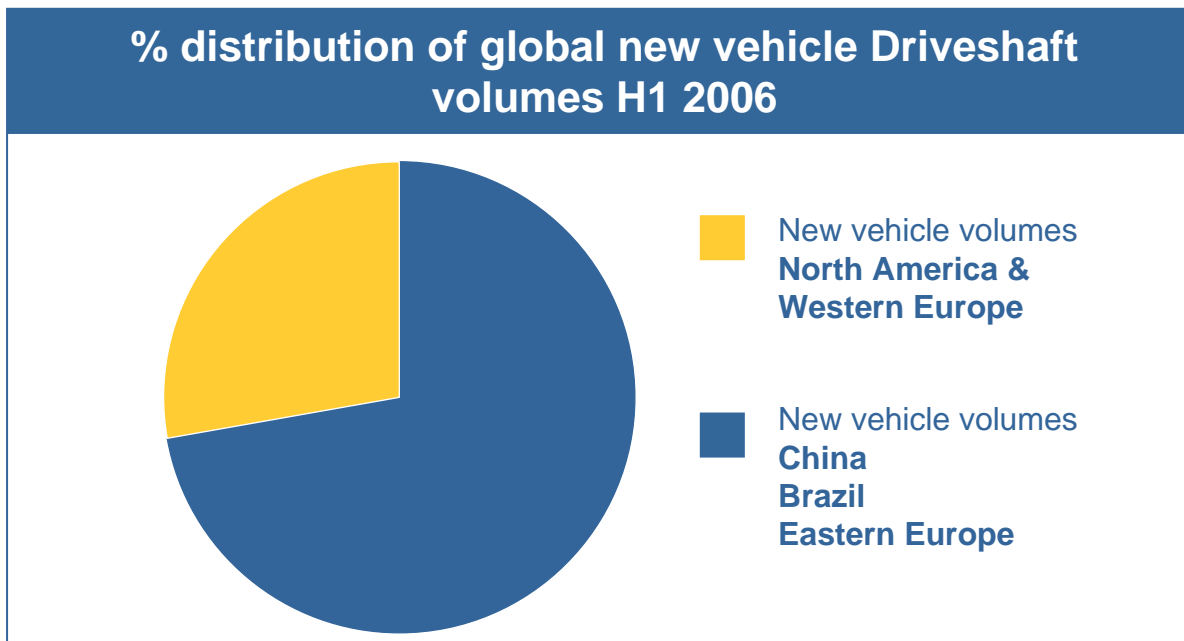
- > Exceptional business winning performance
 - > 37 out of 45 programmes
 - > Return to above market growth in 2008
- > Crosstrack and Countertrack well received and creating premium segment
- > Restructuring plan remains on track
 - > Final phase announcements around year end



Crosstrack technology

Benefit from emerging markets to driveshaft growth

- > 16 programmes on new vehicles won in period
- > 70% of volume from new vehicles built in emerging markets



Driveline

Torque Technology

- > Fujiwa disposal completes Torque Technology reorganisation
 - > £5m gain - sales and profits down as a result
- > GKN capability - strong market recognition
 - > New European partnerships with ZF and Bosch
 - > Joint driveline development with Toyota, Renault and Nissan
- > Strong growth in geared, active and passive torque devices
 - > Successful North American penetration
 - > Win rate over 50% of programmes bid
- > Order book supports growth from 2008 onwards



Electronic Torque Vectoring

Powder Metallurgy

Subsidiaries	First half 2006	First half 2005
Sales	£313m	£300m
Trading profit	£13m	£9m

- > Powder metallurgy headline sales increase and good profits growth
- > Hoeganaes sales level and profits reduce
 - > Timing of material surcharges support sales
 - > 8% volume reduction impacts profits
- > Solid first half in Sinter Metals
 - > Underlying sales up 1% - profits up £5m
- > Restructuring progressing to plan
 - > 4 plant closures completed by October
 - > New plants in India and China



GKN Sinter Metals, new China plant

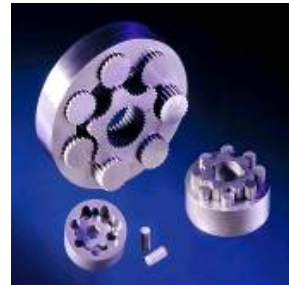
Powder Metallurgy

- > \$125m of new business secured in half
 - > 38% up on 2005
 - > Asia Pacific/South America accounts for 20% - twice 2005 level
- > Technology driven growth is accelerating
- > Looking forward to a sustained period of strong revenue growth and margin expansion

Geared component



Pumps



Planetary carrier



Other Automotive

Subsidiaries	First half 2006	First half 2005
Sales	£64m	£68m
Trading loss	£(9)m	£(1)m

Autostructures and cylinder liners

- > Including CSL JV sales broadly level but profits down £6m
 - > UK cylinder liner business restructuring
 - > New facility ramp up in China
 - > Good chassis systems contribution (T5)



T5 platform vehicles

Emitec Reported in Joint Ventures

- > Recovery underway, sales and profits improve
- > Strong demand for OE and retrofit diesel products



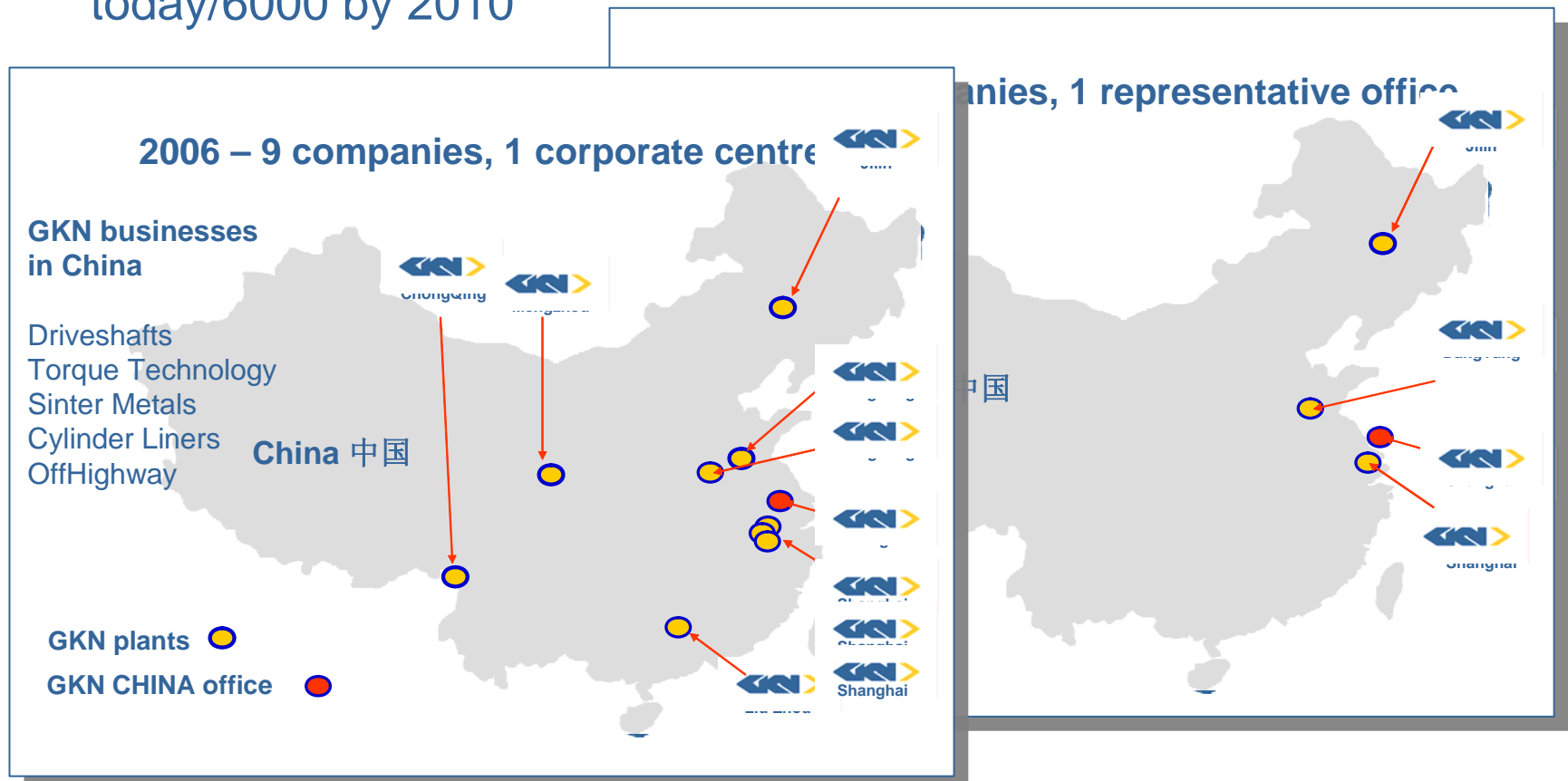
OffHighway

Subsidiaries	First half 2006	First half 2005
Sales	£174m	£173m
Trading profit	£12m	£13m

- > Sales level and profits down slightly
- > European agriculture market down and US flat - construction sector growth continues
- > Softer agricultural market conditions offset by market share gains and acquisitions
- > Acquisition of Rockford Powertrain creates new market leader in Offhighway driveshaft components
 - > Leader in high speed driveshafts
 - > 95% of business US and 85% in construction helps business balance

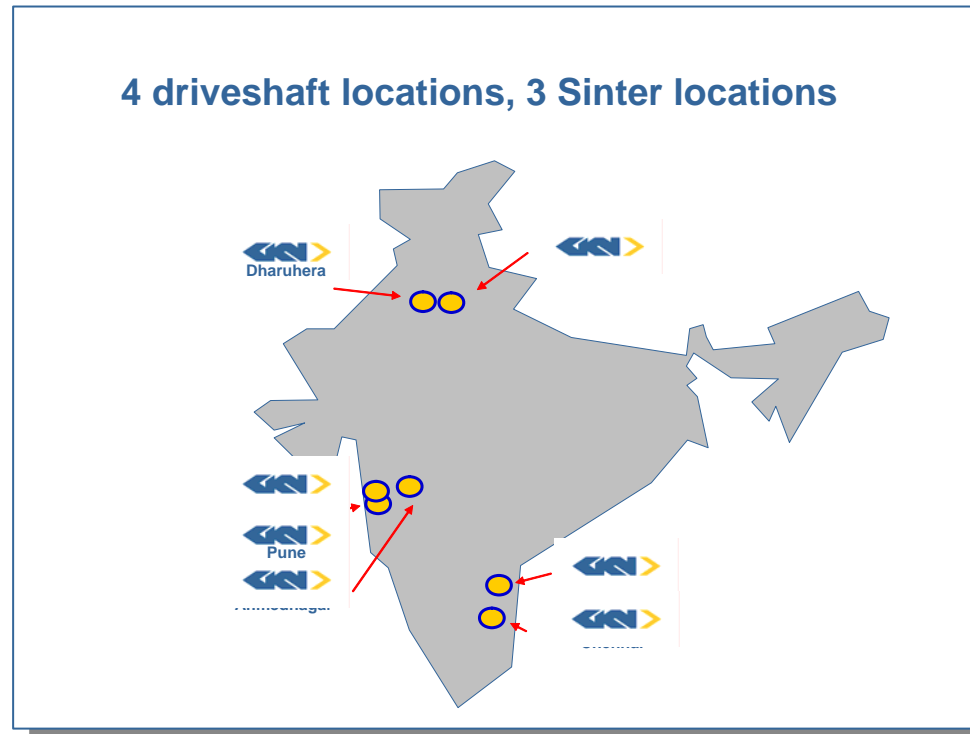
China

- > China – 33% of global light vehicle growth to 2011
- > Rapid growth in GKN presence underway – 2000 people today/6000 by 2010

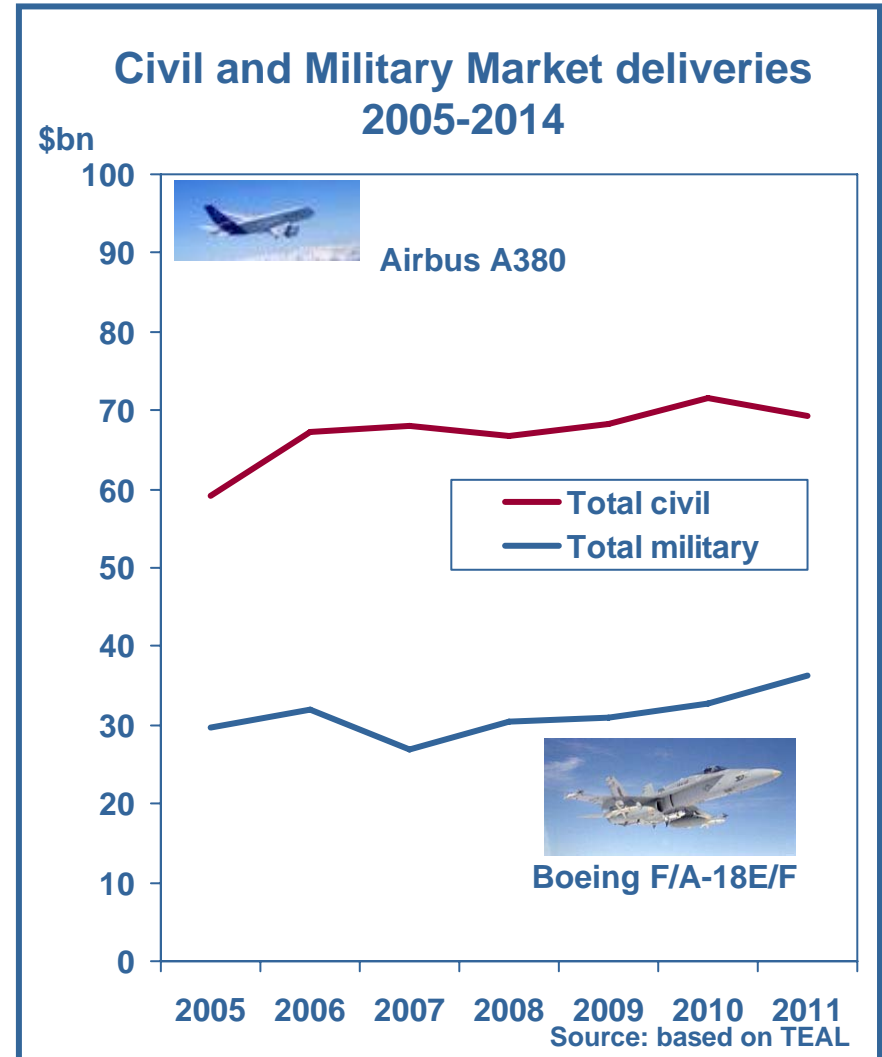
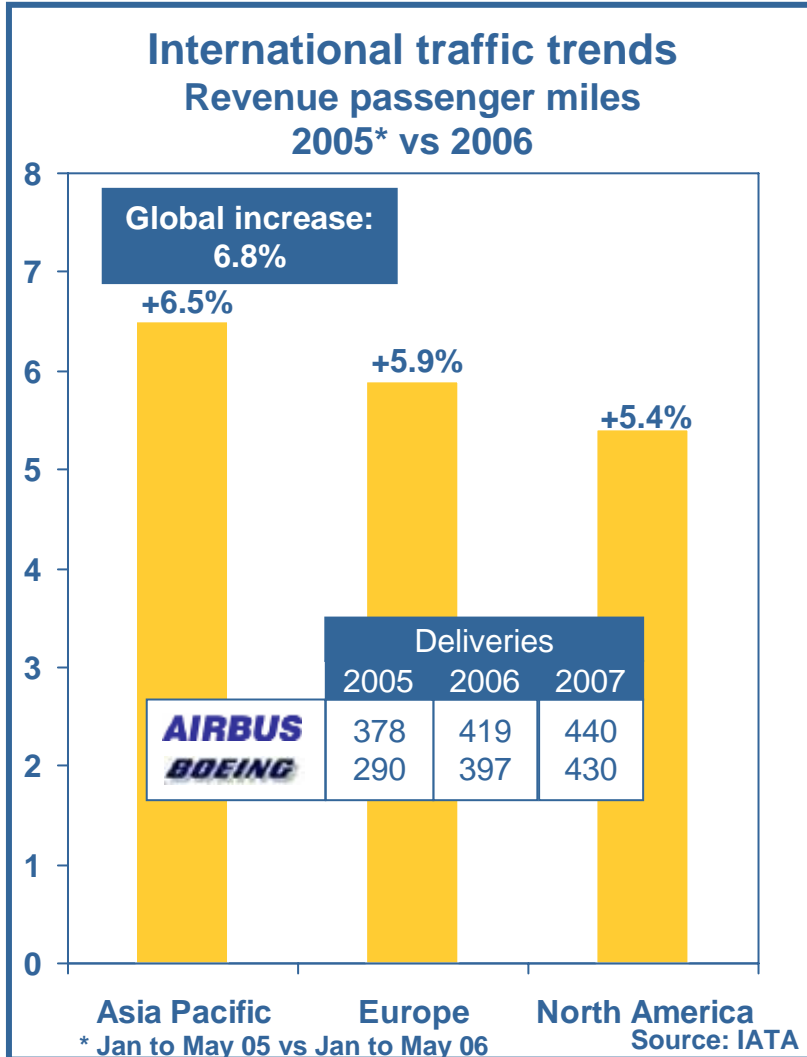


India

- > India – 15% of global light vehicle growth to 2011
- > Production capacity triples to 3.5m by 2010 – India becomes small car export centre for Europe
- > GKN employment doubles to 2000 by 2011



Aerospace market profiles



Aerospace

Subsidiaries	First half 2006	First half 2005
Sales	£334m	£299m
Trading profit	£33m	£24m

- > Strong performance – underlying sales up 8% profits up 33%
 - > Revenue growth in defence and civil
 - > Margin progression in Aerostructures and PSSP
- > Significant new business on new programmes
 - > Future Lynx structure
 - > Nacelle system for new business jet
- > And on existing programmes
 - > A380 now around \$3.5m per aircraft
 - > F/A-22 approaching \$5.5m per aircraft
 - > 2nd application of electro-thermal de-icing on JSF engine
- > Over \$400m of new business won



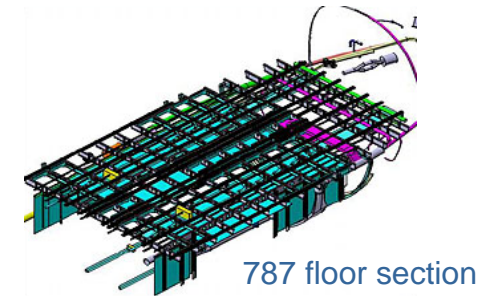
Airbus A380



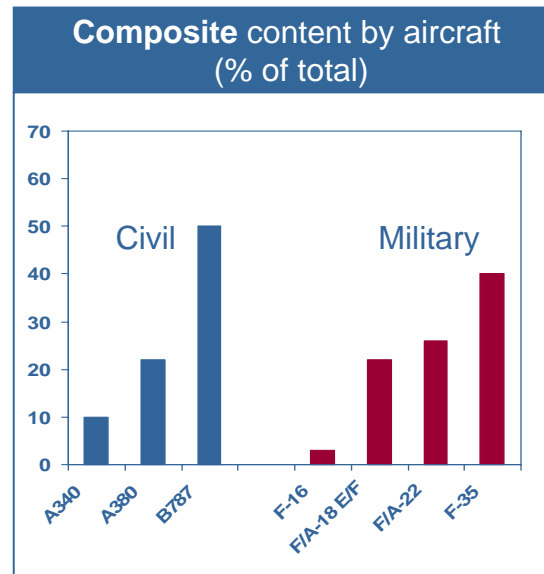
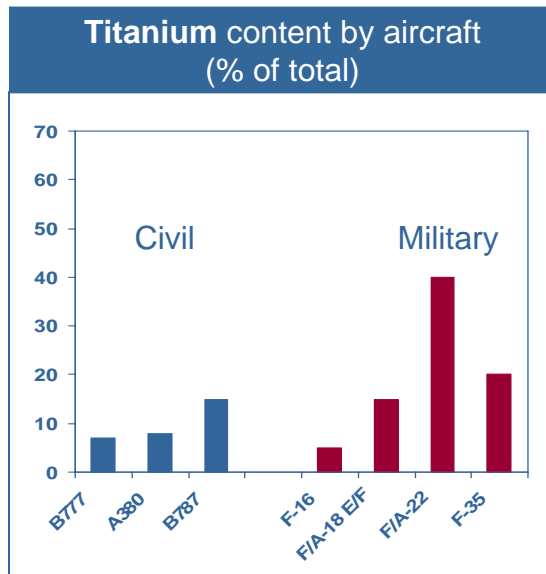
F/A-22

Aerospace

- > Acquisition of Stellex creates market leadership position in complex titanium aerostructures
 - > Highly synergistic with St Louis operation
- > 65% commercial and 35% defence
 - > 787 and 777
 - > JSF and F/A-22



JSF Bulkhead



Source: GKN estimates

GKN entering exciting new phase

- Strong growth platform built in all our core businesses
- Market leadership positions, new technology products and global footprint aligned for growth
- Order books in all businesses support above market growth
- Acquisitions will supplement organic growth profile

Driving for growth

GKN Global No 1

CVJ sideshafts

Power take off units

Passive torque management devices

Active torque management devices

Premium propshafts

Powder metal components

Automotive MIM applications

Powder Forging for heavy truck applications

Powder Metal Filter applications

Powder Metal Bearing applications

Powder Metal Power train applications

Powder Metal Body / Chassis applications

GKN Global No 1

High speed driveshafts for construction

Low speed PTO shafts for agriculture

Independent composite aircraft structures supplier

Composite aeroengine structures

Electro thermal de-icing

Military aircraft canopy systems

Complex titanium structures



No 1



Driving for **growth**

Nigel Stein – Finance Director

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Encouraging set of results

- GKN's market leading positions a major factor
- A challenging 6 months
- Strength of businesses showing through
- Results delivered as planned

Results summary

	First half 2006 £m	First half 2005 £m	Increase/ (Decrease) %
Sales (subsidiaries)	1,896	1,859	+2%
Trading profit* (subsidiaries)	119	115	+3%
Profit before tax *	112	103	+9%
Earnings per share	12.9p	10.5p	+23%
Net debt	(358)	(72)	-
Dividend per share	4.1p	4.0p	2.5%

* Operating profit before restructuring and impairment charges, profits on sale of businesses and changes in fair value of derivative financial instruments.

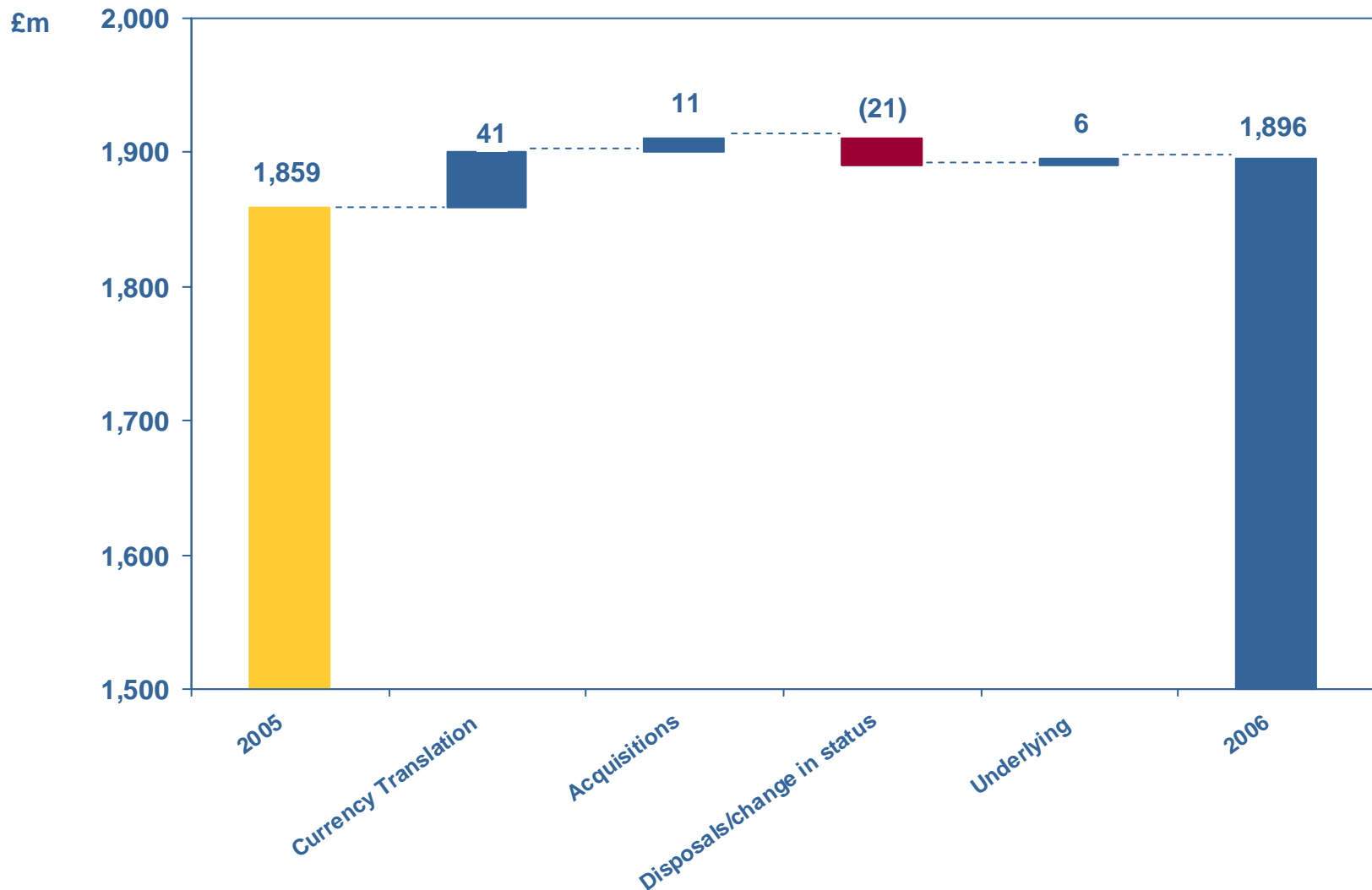
Income statement

<i>Statutory presentation</i>	First half 2006 £m	First half 2005 £m
Sales of Subsidiaries	1,896	1,859
Trading profit	119	115
<i>Restructuring and impairment charges</i>	(24)	(19)
<i>Profits on sale of businesses</i>	5	-
<i>Fair value re-measurement – IAS39</i>	29	(24)
Operating profit	129	72
Post-tax joint venture earnings	8	5
<i>Interest (net)</i>	(13)	(6)
<i>Other financing charges</i>	(2)	(11)
Net financing costs	(15)	(17)
Profit before tax	<u>122</u>	<u>60</u>

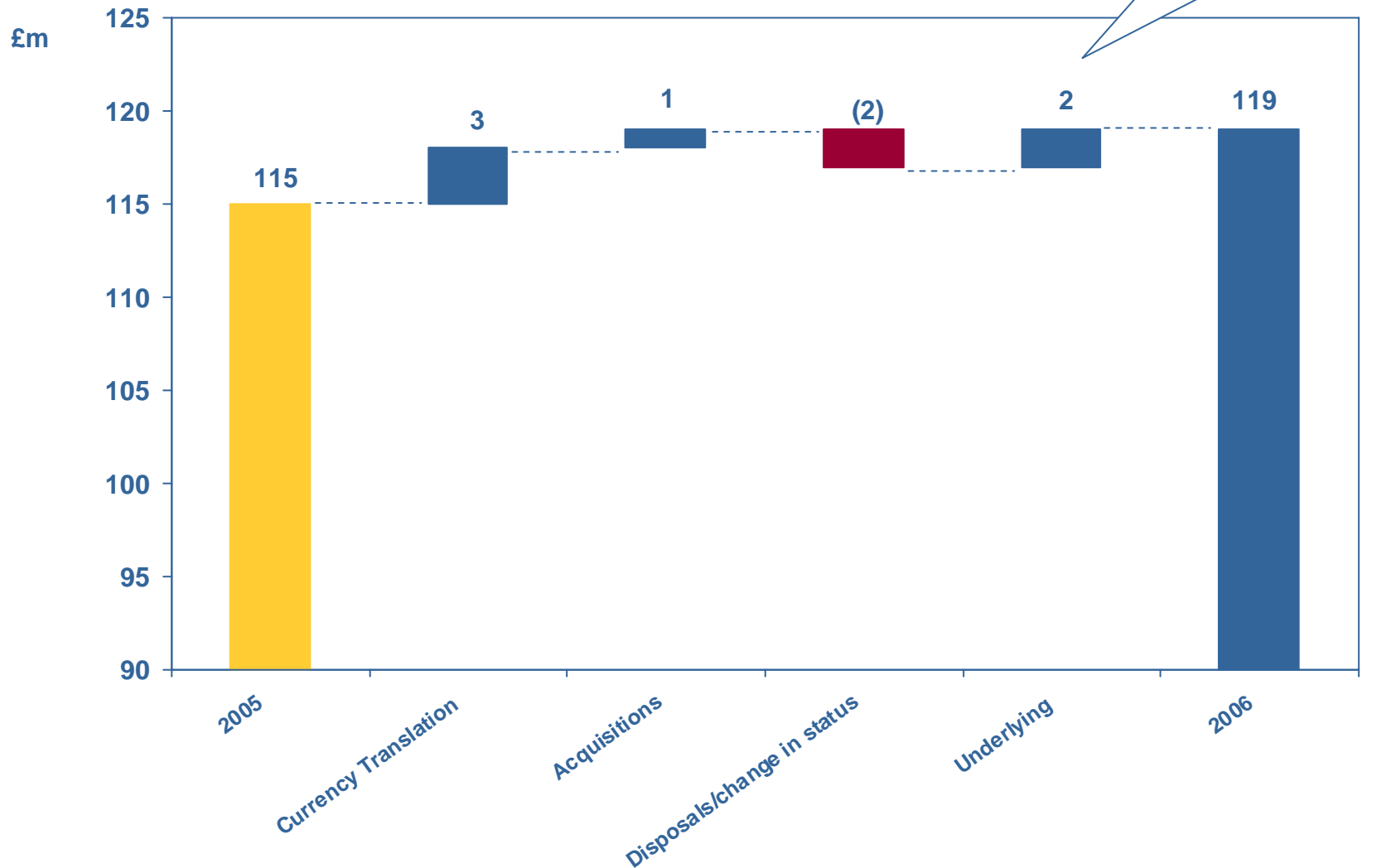
Income statement

<i>Alternative presentation showing underlying performance</i>	First half 2006 £m	First half 2005 £m
Sales of Subsidiaries	1,896	1,859
Trading profit	119	115
Operating profit	119	115
Post-tax JV and associate earnings	8	5
<i>Interest (net)</i>	(13)	(6)
<i>Other financing charges</i>	(2)	(11)
Net financing costs	(15)	(17)
Profit before tax	<u>112</u>	<u>103</u>

Sales – subsidiaries



Trading profit - subsidiaries



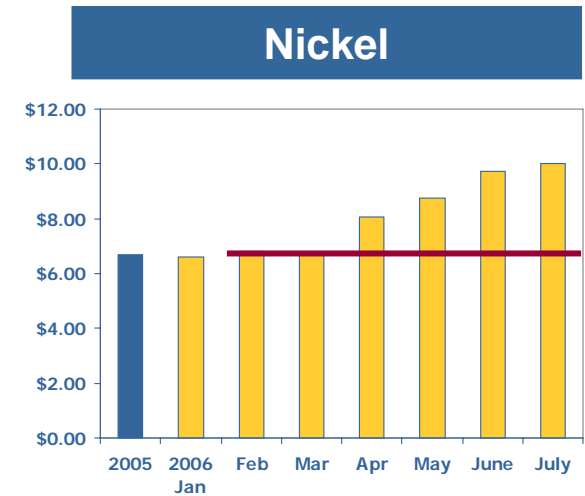
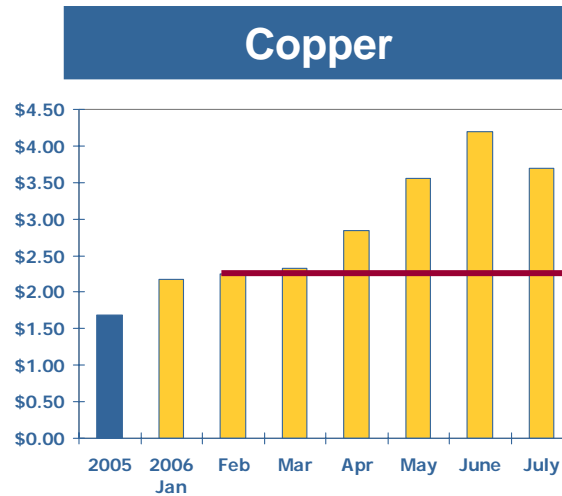
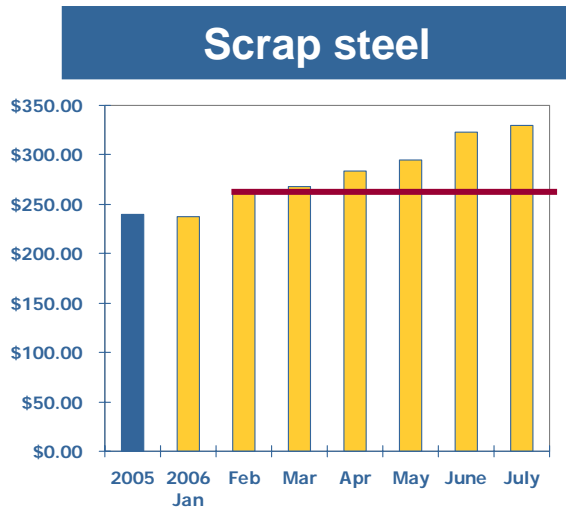
Automotive Sales

Subsidiaries	First half 2006 £m	First half 2005 £m	Increase/ (Decrease) %	Like for like Change %
Driveline	1,011	1,019	(1)	(1)
Powder Metallurgy	313	300	4	1
Other Automotive	64	68	(6)	(6)
Total	1,388	1,387	-	(1)

Automotive – underlying movement in trading profit

Subsidiaries	First half 2005 £m	Currency Translation £m	Acq/Di/ Change of Status £m	Underlying Change £m	First half 2006 £m
Driveline	76	2	(1)	(1)	76
Powder Metallurgy	9	-	-	4	13
Other Automotive	(1)	-	-	(8)	(9)
Total	84	2	(1)	(5)	80

Raw material costs have risen



(\$US per pound weight)

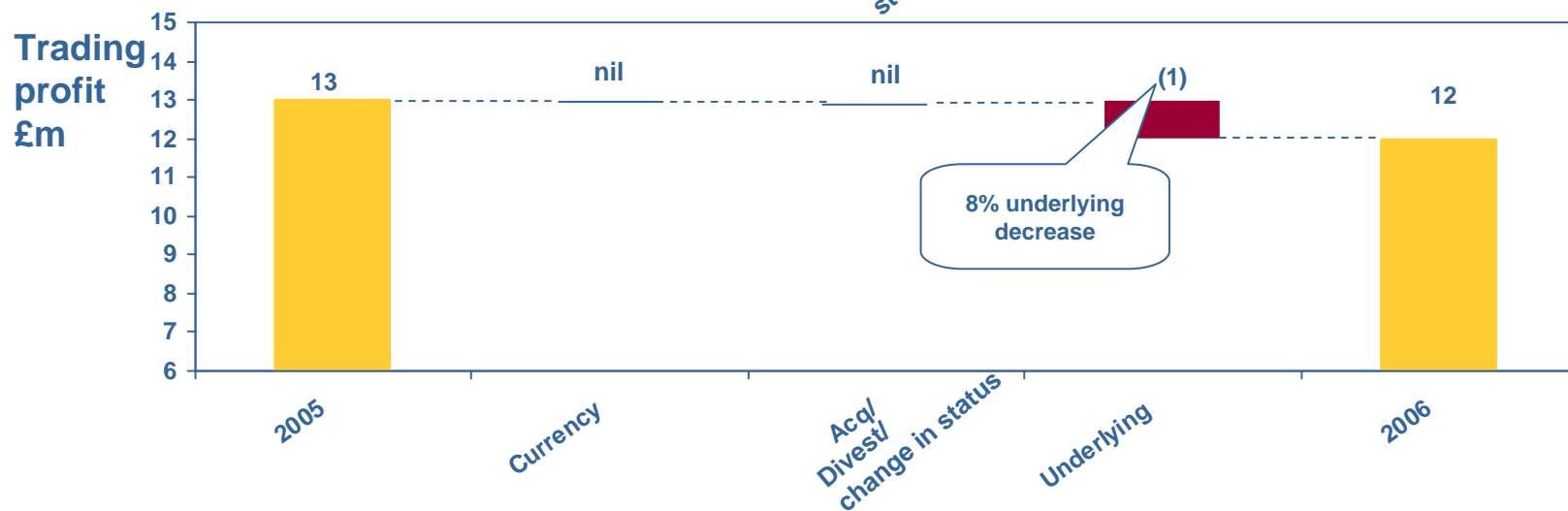
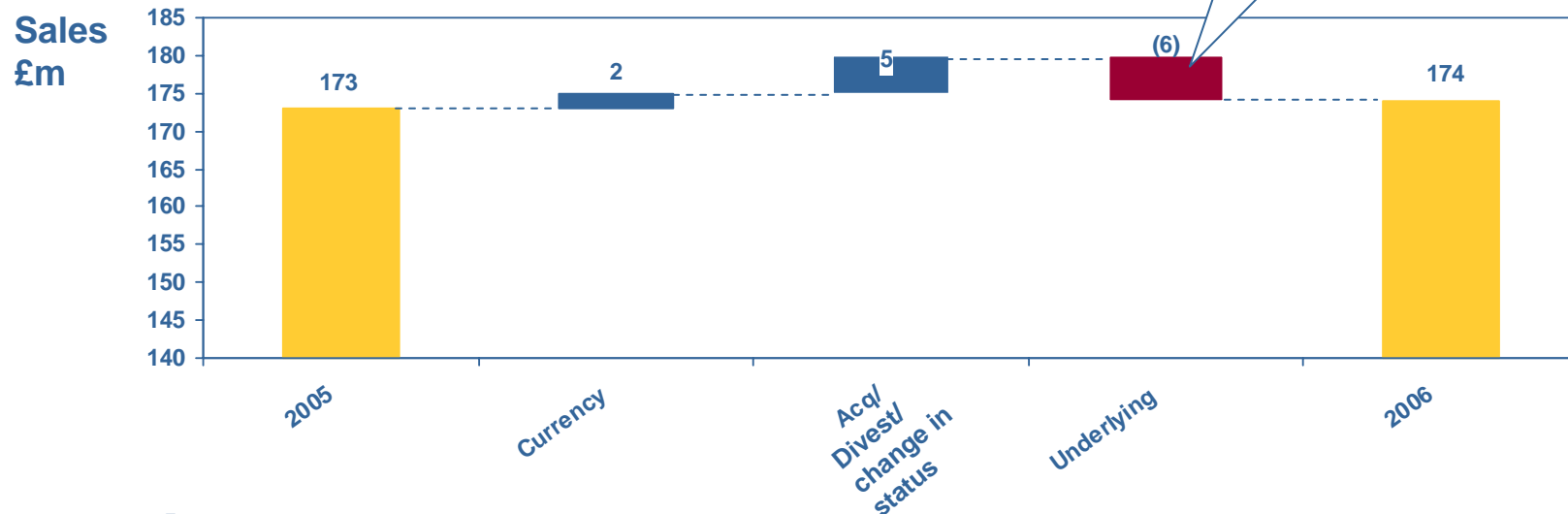
- > H1 – impact fairly modest
- > Risk of £5-6m headwind in H2
- > Energy – estimated impact for year remains around £9m

Automotive – summary

<i>Subsidiaries</i>	First half 2006 £m	First half 2005 £m
Sales	1,388	1,387
Trading profit	80	84
Margin %	5.8%	6.1%

<i>Margin %</i>		
<i>Including JVs</i>	6.1%	6.2%
<i>Before Cylinder Liner losses</i>	6.6%	

OffHighway

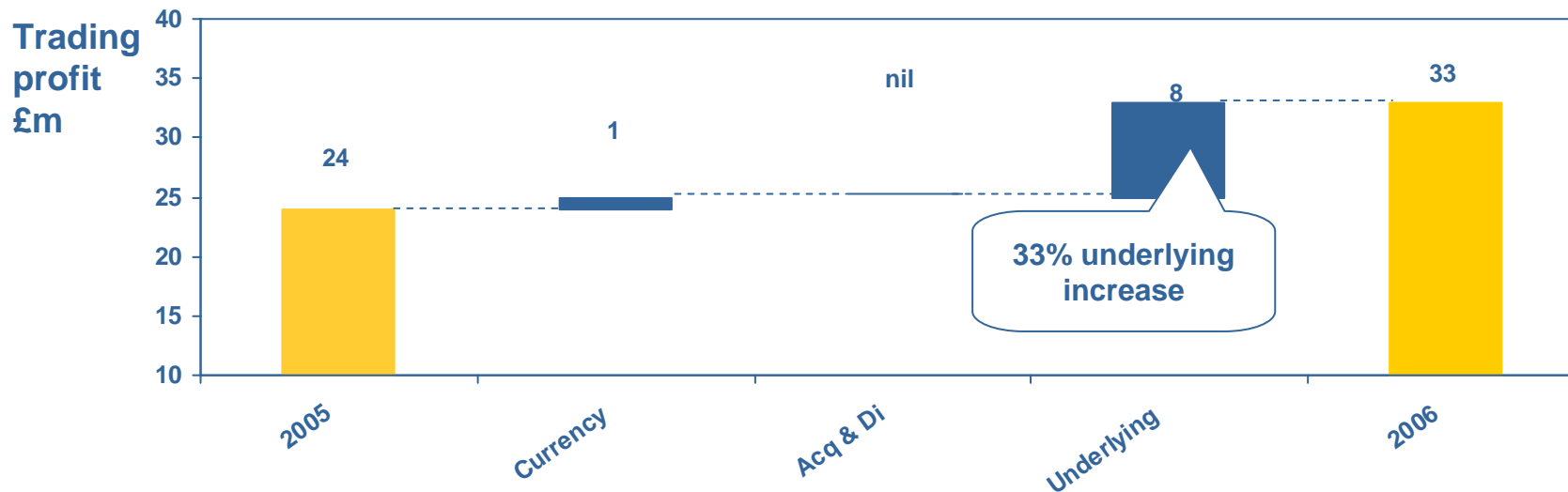
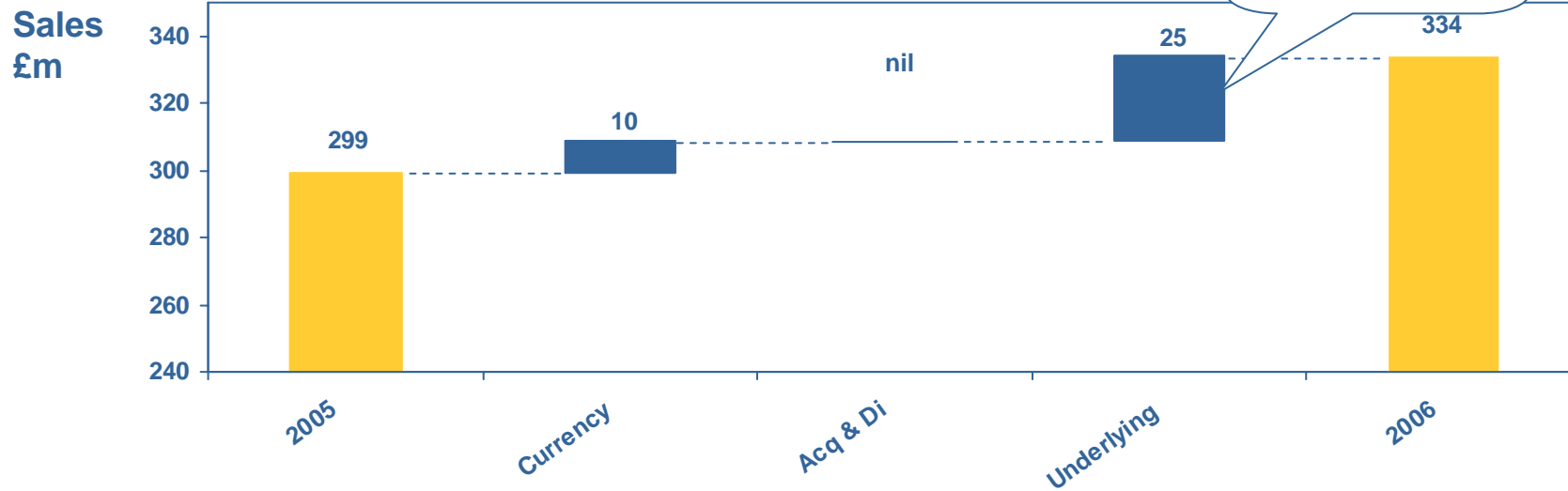


OffHighway

<i>Subsidiaries</i>	First half 2006 £m	First half 2005 £m
Sales	174	173
Trading profit	12	13
Margin %	6.9%	7.5%

- Wheels continued to perform well
- PTO shafts impacted by lower demand

Aerospace sales and trading profit



Aerospace

<i>Subsidiaries</i>	First half 2006 £m	First half 2005 £m
Sales	334	299
Trading profit	33	24
Margin %	9.9%	8.0%

Trading profit - subsidiaries

	First half 2006 £m	First half 2005 £m	Increase/ (Decrease) £m	% of Group trading profit
Driveline	76	76	-	64%
Powder Metallurgy	13	9	4	11%
Other Automotive	(9)	(1)	(8)	(8)%
Automotive	80	84	(4)	67%
OffHighway	12	13	(1)	10%
Aerospace	33	24	9	28%
Corporate	(6)	(6)	-	(5)%
	119	115	4	100%

Trading profit margins – subsidiaries

<i>Subsidiaries</i>	First half 2006 %	First half 2005 %
Driveline	7.5	7.5
Powder Metallurgy	4.2	3.0
Other Automotive	(14.1)	(1.5)
OffHighway	6.9	7.5
Aerospace	9.9	8.0
Group*	6.3	6.2

* Including unallocated corporate stewardship costs

Joint Ventures

<i>Subsidiaries</i>	First half 2006 £m	First half 2005 £m
Sales	105	81
Profit after tax	8	5

Includes Driveline's Chinese JVs, Emitec, Chassis Systems and other smaller JVs

- Strong performance in Driveline China
- Chassis Systems ran well
- Emitec showed good recovery: growth in diesel particulate filters

Strategic restructuring programme

		P&L charges	Non cash £m	Cash Costs £m
Per February results presentation	2004		63	37
	2005		36	41
	2006 <i>forecast</i>		—	70-80
Latest view	2006 H1		—	24
	2006 H2		—	40-50 est

Anticipated benefits	Benefits from 2007 (pa) £m	Estimated benefits realised to date (pa) £m
Driveline	40	20
Powder Metallurgy	20	10
Other	10	10
	70	40

Interest

	First half 2006 £m	First half 2005 £m
Net interest (payable)	(13)	(6)
Post-employment financing charges	(2)	(11)
Net financing costs	(15)	(17)

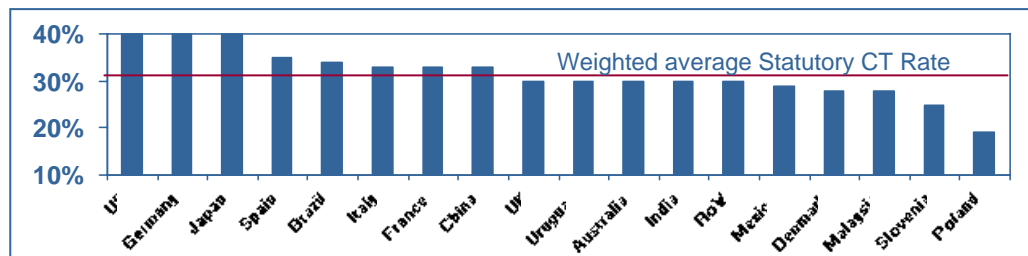
- Net interest higher due to:
 - £200m UK pension payment
 - Higher interest rates on US borrowings - £4m
- Post-employment financing charges lower due to £200m and strong 2005 investment performance

Taxation

	First half 2006 £m	First half 2005 £m
Tax on trading profit	20	25
Tax credit on restructuring and impairment	(6)	(2)
Tax on businesses sold	2	-
Tax on IAS 39	2	(5)
Taxation per P&L account	18	18
Profit before taxation of subsidiaries*	104	98
Underlying tax rate on normal trading	19%	26%

* Before restructuring and impairment charges, profits on sale of businesses and changes in the fair value of derivative financial instruments

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 H1 profits
- > Movement in provision against challenges etc (2006 and prior years - net)
- > Deferred tax charge (net)

%

32%

(15%)

17%

(6%)

8%

19%

Future rate effect

Slightly down

Down

Volatile but down

Cash flow from operations

	First half 2006 £m	First half 2005 £m
Trading profit	119	115
Depreciation and amortisation	75	75
Change in working capital and provisions	(66)	(67)
Exceptional spend	(27)	(13)
Post-employment obligation	(199)	(4)
Other	-	1
Sub-total	(98)	107
Proceeds from sale of fixed assets	6	1
Capital expenditure net (tangible and intangible)	(106)	(112)
Operating cash flow	(198)	(4)

Capital expenditure

	First half 2006 £m	First half 2005 £m
Tangible expenditure	93	104
Depreciation	70	71
Ratio (times)	1.3 times	1.5 times

	First half 2006 £m	First half 2005 £m
Intangible expenditure	13	8
Amortisation	5	4
Ratio (times)	2.6 times	2.0 times
Total expenditure	106	112

Free Cash Flow

	First half 2006 £m	First half 2005 £m
Operating cash flow after capex	(198)	(4)
Dividends from joint ventures	2	6
Interest	(18)	(20)
Tax	(10)	(12)
Dividends Paid	(59)	(58)
Free cash flow	(283)	(88)

(Including £200m pension contribution)

➤ £22m spent in period on share buy-back. £82m to date

Net Assets

	June 2006 £m	December 2005 £m
Net debt	(358)	(65)
Post employment obligations	(549)	(921)
	(907)	(986)
Net assets	952	893

➤ Interim dividend increased by 2.5%

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- Encouraging first half. Growth in sales, profit and EPS
- Businesses delivered as planned
- Leading market positions and technology
- Driving for growth



Driving for **growth**

Group Outlook

EXPECT > MORE

Outlook

- Markets relatively stable – in line with expectations
- Automotive markets:
 - Little change in North America and Western Europe
 - Asia and South America continue to show growth
- Offhighway markets:
 - Agricultural demand stabilised
 - Construction market remains strong
- Aerospace markets:
 - Military and civil remain strong

Outlook

- > Group expects continued good progress notwithstanding higher input costs
- > Acquisitions in Aerospace and OffHighway should make a good contribution to 2007
- > Group remains confident
 - > Strategic restructuring largely complete by end 2006
 - > Strong new business wins underpinning growth
 - > Further focused acquisitions

GKN well positioned and driving for growth



Driving for **growth**