

 *1759-2009*

250 Years of Exceptional Engineering

Building a Strong Platform for Recovery

Sir Kevin Smith – Chief Executive

Overview

- 2009 an extremely challenging year
 - Underlying revenues down £904m (31%)
- Realignment of Group operations crucial
 - Restructuring accelerated and extended
 - Automotive (including Powder Metallurgy) returns to profitability
- Successful cash conservation actions – net debt at lower end of target range
- Excellent contribution from Filton - £169m revenues and 9% underlying trading margin
- £423m rights issue provides clarity and a stronger capital base

Building a strong platform for recovery

Results summary – constant currency

| | 2009 | | | 2008 | Change £m |
|---------------------------------------|--------------------------|------------|----------|----------|--------------|
| | 5 months to May £m | June £m | H1 £m | H1 £m | |
| Management sales | 1,794 | 380 | 2,174 | 2,909 | (735) |
| Management trading profit | 1 | 22 | 23 | 197 | (174) |
| Profit/loss before tax ⁽¹⁾ | (25) | 17 | (8) | 167 | (175) |
| Net debt | 928 | | 800 | | |

June performance

- Automotive sales increased by 10% over May but down 32% on prior year - £4m trading profit
- Aerospace underlying sales up 6% - 36% including Filton – trading profit £20m
- OffHighway sales down 52% on prior year – £2m trading loss
- Net debt at lower end of target range

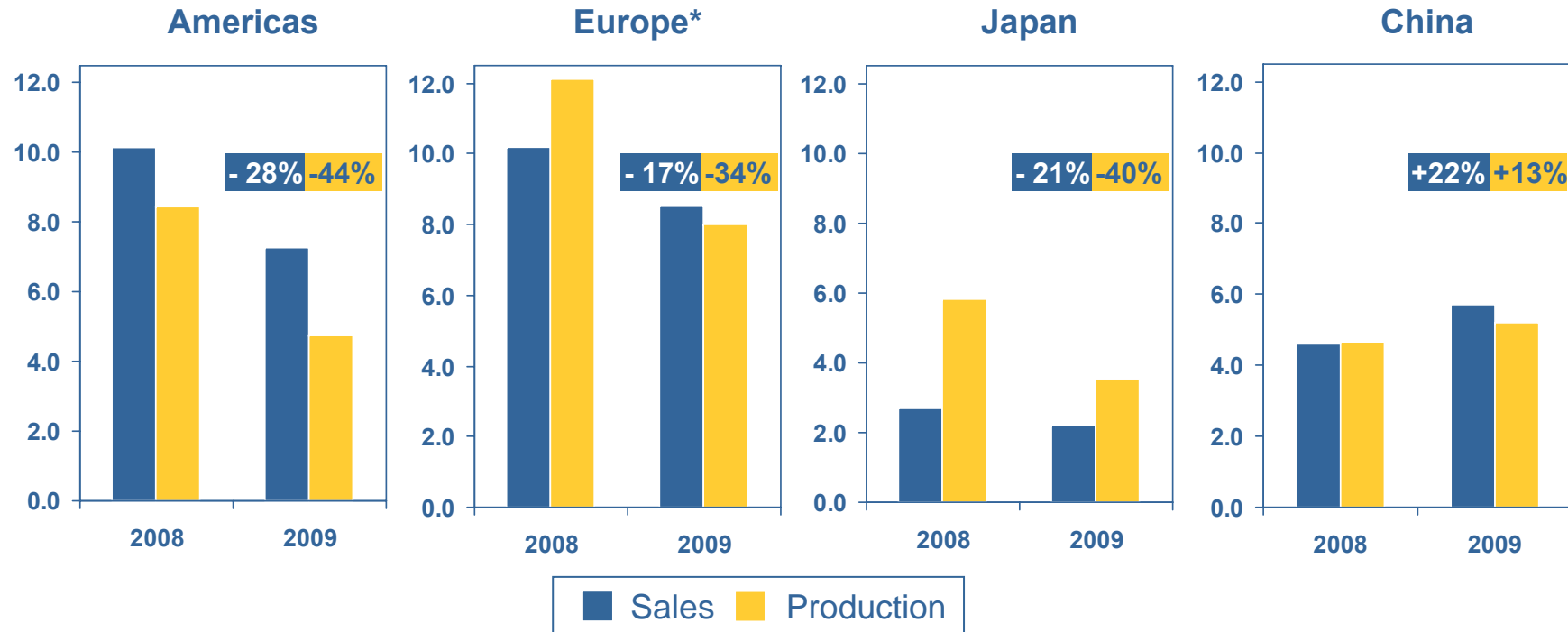
⁽¹⁾ Before restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations, profits and losses on sale or closures of businesses, changes in value of derivative and other financial instruments and other net financing costs.

Update on Restructuring

- > Programme announced in February
 - > **8 facility closures – 2,400 redundancies**
 - > **Cash costs £86m – annualised benefit £89m**
 - > **2009 short time working cost £24m – benefit £56m**
- > Market development
 - > Automotive - weaker Europe, North America and Japan
 - > OffHighway - sharp market decline
- > Programme accelerated and extended
 - > **13 facility closures – 3,600 redundancies**
 - > **Cash costs £103m – annualised benefit £107m**
 - > **2009 short time working cost £25m – benefit £80m**

**Further review end of third quarter – potential £10m to £15m
additional costs and benefits**

Light vehicle sales and production – first half comparison



Global light vehicle sales down 14% - Production down 30%

*Data based on car volumes as light vehicles data not available

Driveline

| Subsidiaries & JVs (constant currency) | First half 2009 £m | First half 2008 £m |
|--|-----------------------|-----------------------|
| Sales | 905 | 1,481 |
| Trading profit | (32) | 98 |

- > Driveline sales decline £576m (39%) – trading profit down £130m
- > Significant regional differences and market drivers

| | Driveline Sales | Light Vehicle Production |
|----------|-----------------|--------------------------|
| Americas | (39)% | (44)% |
| Europe | (36)% | (34)% |
| Japan | (61)% | (40)% |
| China | (2)% | 13% |

- > Americas – mix benefit from cars and strong market position in Brazil
- > Europe – fall off in export volumes and impact of small car incentives programmes
- > Japan – almost 70% of GKN supply destined for export markets
- > China – incentives boost small cars and non CVJ equipped minivans

Expect improvements relative to market as global economy recovers

Driveline

- > Strong management action returns to profitability in June – sales down 29%
 - > All regional markets except Japan breakeven or above
- > Restructuring activities extended
 - > 3 plant closures underway - 1,000 people released – further 800 by mid 2010
 - > Short time working reduced from 2,800 FTE in Q1 – 1,500 in Q2
- plan 800 in Q3
- > Strong focus on business development
 - > Limited new vehicle opportunities – 100% win rate on 12 replacement sideshaft programmes
 - > Heightened market interest in hybrid/electric drive products
 - > PSA Hybrid 4 – rear axle power control clutch
 - > Industry consortium – Government supported electric and hybrid vehicle technology programme

Q3 sales similar to Q2 – step up in September schedules

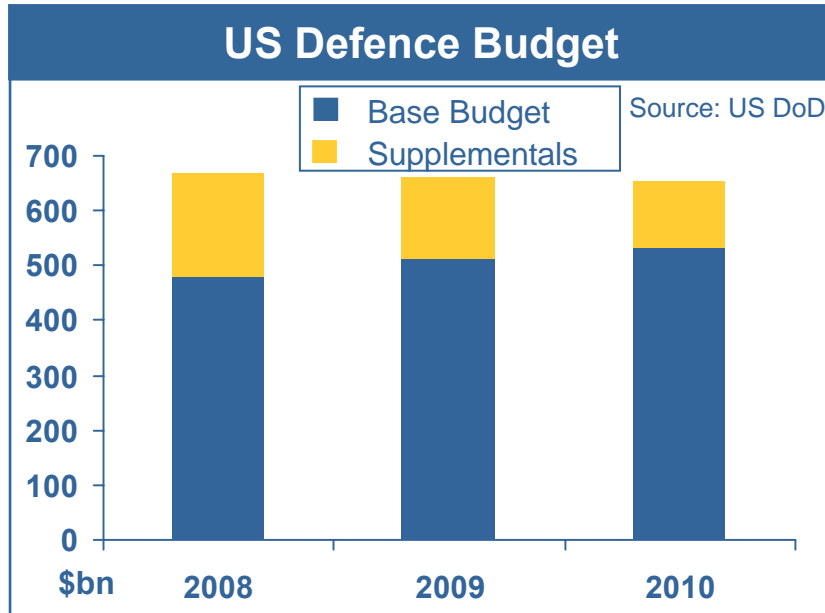
Powder Metallurgy

| Subsidiaries & JVs (constant currency) | First half 2009 £m | First half 2008 £m |
|--|-----------------------|-----------------------|
| Sales | 229 | 406 |
| Trading profit | (14) | 12 |

- > Powder Metallurgy sales down £177m (44%) – profits down £26m
 - > Sales decrease 47% North America, 45% in Europe
- > Restructuring activities progressing to plan
 - > 550 people released – 3 facility closures – further 100 people under announced programmes
 - > Short time working reduced from 800 average in Q1, 450 in Q2, plan 300 in Q3
- > Cost reduction actions move close to breakeven on sales down 39%
 - > Europe, Brazil and Asia profitable – North America slightly loss making
- > Excellent progress in winning new business
 - > New programme wins - £40m annualised sales
 - > Resourced components £15m annualised sales 2010 – target £30m

Improving volumes support return to profitability in September

Aerospace markets



Civil Aircraft Backlog

| Net orders | Backlog at end 2008 | H1 2009 net orders | Backlog at June 2009 |
|--------------|---------------------|--------------------|----------------------|
| Airbus | 3,715 | 68 | 3,529 |
| Boeing | 3,714 | 1 | 3,469 |
| Total | 7,429 | 69 | 6,998 |



Aerospace

| Subsidiaries & JVs (constant currency) | First half 2009 £m | First half 2008 £m |
|--|-----------------------|-----------------------|
| Sales | 770 | 572 |
| Trading profit | 79 | 59 |

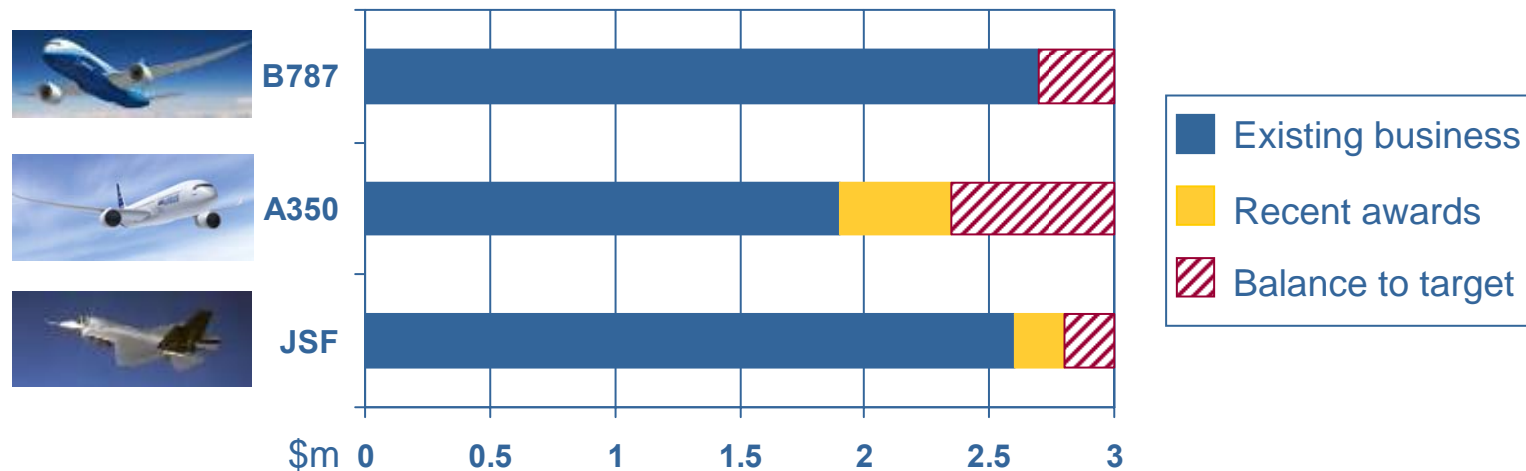
- Sales increased 35%, profits up £20m – Filton acquisition drives strong growth
 - Filton performance exceeds expectations – £169m sales, £18m trading profit – underlying margin 9%
 - Organic sales growth of 5%
 - Good growth in European and North America aerostructures – engine products revenues down
 - New programme launches hold back first half margins

Double digit margins to be sustained in H2

Aerospace

- > Business capture focused on new programmes
 - > Joint Strike Fighter, Boeing 787 and A350 – airframe and engines
 - > Recent awards \$200,000 per shipset on JSF and \$450,000 per shipset on A350

GKN Aerospace shipset contract values



Expect strong second half and resilience through civil downcycle

OffHighway

| Subsidiaries & JVs (currency adjusted) | First half 2009 £m | First half 2008 £m |
|--|-----------------------|-----------------------|
| Sales | 222 | 338 |
| Trading profit | (2) | 31 |

- OffHighway sales down £116m (34%) and profits down £33m
 - Sharp second quarter deterioration in all end markets
- Restructuring actions accelerated – headcount reduction of 510 – 2 European facility closures
 - Additional 275 employees to leave under announced programmes
 - Short time working to average over 400 FTE over third quarter
- Continued success from new business development
 - New contracts – 5 year global supply agreement with Kion Group
 - New products – launch of large multi part (46in to 63in) wheels for mining equipment

Challenging Q3 – more stable outlook in Q4

First half summary

2009 an extremely challenging year

- > Restructuring accelerated and extended
 - > Automotive returns to profitability
 - > Actions in OffHighway to stabilise performance
- > Group delivered a profitable second quarter
- > Aerospace becomes major element of Group
- > Successful cash conservation actions – net debt at bottom of our target range
- > Rights issue provides clarity and a stronger capital base

Building a strong platform for recovery

 1759-2009

250 Years of Exceptional Engineering

Bill Seeger – Finance Director

Results Summary

| | First half 2009 £m | First half 2008 £m | Increase/ (decrease) £m | % |
|---|--------------------------|--------------------------|-------------------------------|------------|
| Sales (subsidiaries & JVs) | 2,174 | 2,402 | (228) | (9) |
| Trading profit (subsidiaries & JVs) | 23 | 161 | (138) | |
| Profit/(loss) before tax¹ and other net financing charges | (8) | 132 | (140) | |
| Profit/(loss) before tax¹ | (32) | 131 | (163) | |
| Free cash flow | 23 | (29) | 52 | |
| Interim dividend - p | - | 4.5 | (4.5) | |

| | June 2009 £m | Dec 2008 £m | Increase £m |
|-----------------------|-----------------|----------------|----------------|
| Net borrowings | 800 | 708 | 92 |

(1) Before Restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations and change in value of derivative and other financial instruments

Income Statement

| | First half 2009 £m | First half 2008 £m |
|---|--------------------------|--------------------------|
| Sales (subsidiaries) | 2,062 | 2,270 |
| Trading profit | 15 | 146 |
| <i>Restructuring and impairment charges</i> | (62) | (4) |
| <i>Amortisation of non-operating intangible assets arising on business combinations</i> | (15) | (5) |
| <i>Change in value of derivative and other financial instruments</i> | 93 | (4) |
| Operating profit | 31 | 133 |
| Post-tax JV earnings | 7 | 12 |
| <i>Interest (net)</i> | (30) | (26) |
| <i>Other net financing charges</i> | (24) | (1) |
| Net financing costs | (54) | (27) |
| Profit/(loss) before tax | <u>(16)</u> | <u>118</u> |

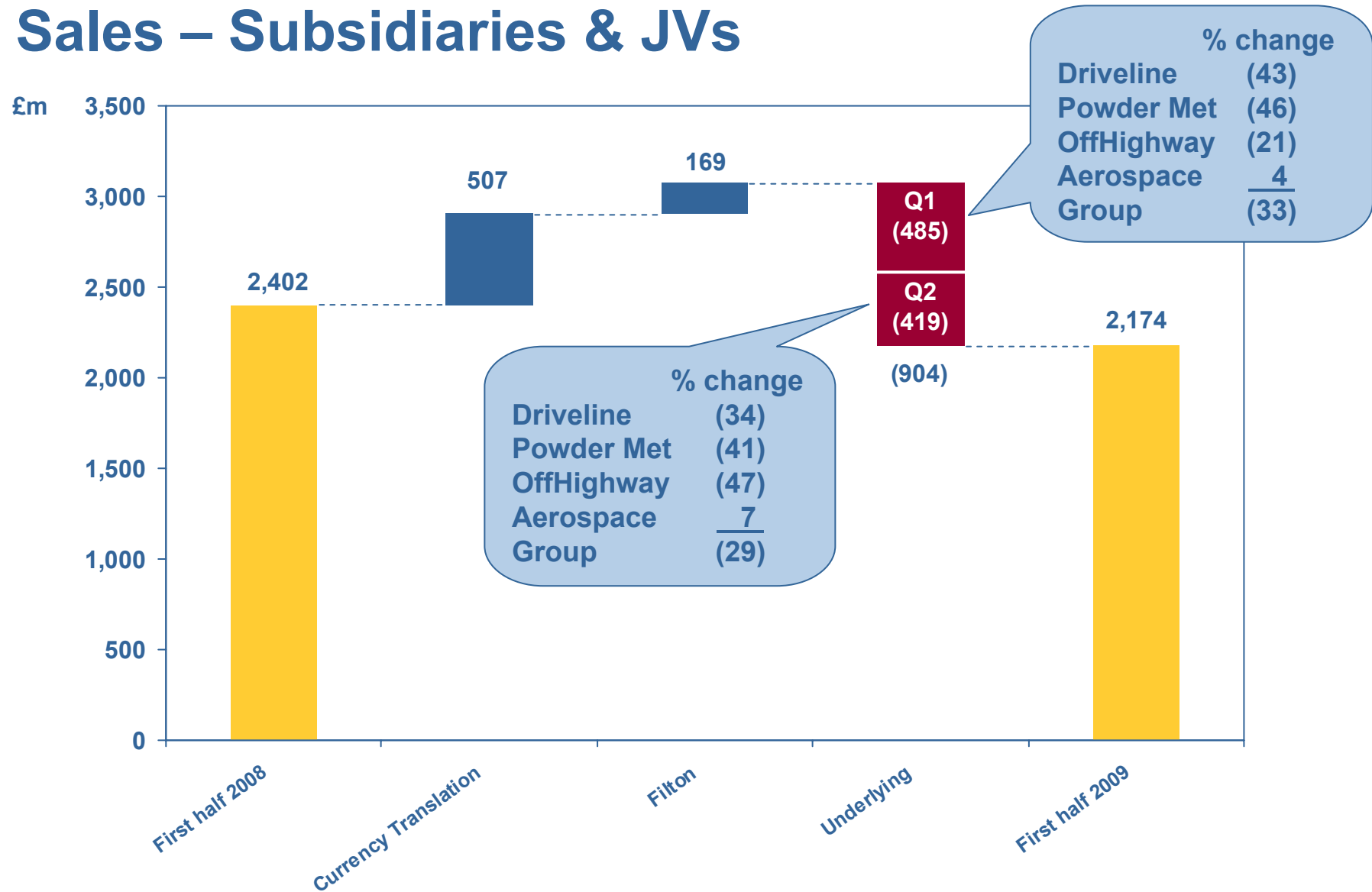
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| Operating profit¹ | 15 | 146 |
| Post-tax JV earnings | 7 | 12 |
| <i>Interest (net)</i> | (30) | (26) |
| <i>Other net financing charges</i> | | |
| Net financing costs | (30) | (26) |
| Profit/(loss) before tax² | <u>(8)</u> | <u>132</u> |

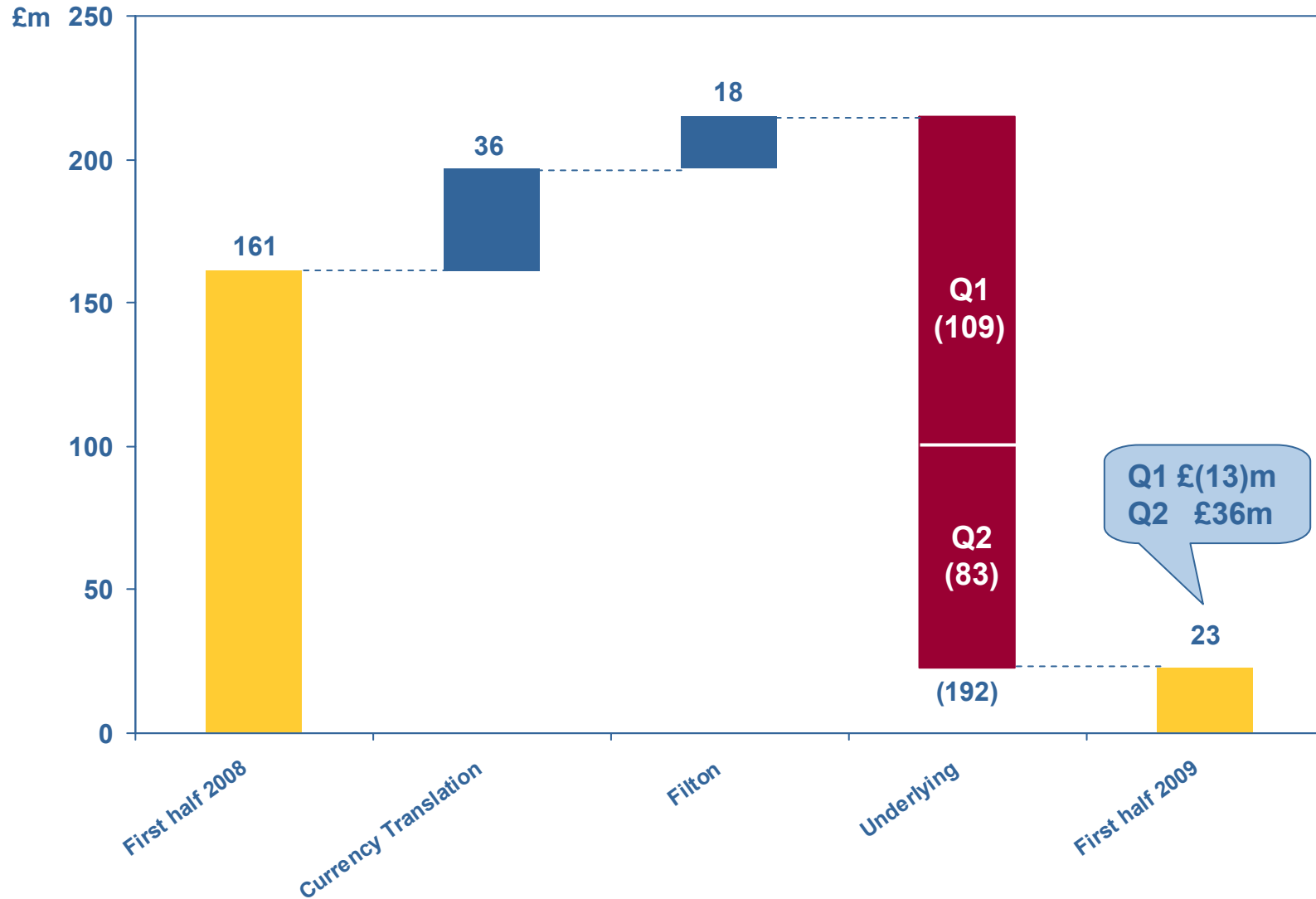
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(2) Before Restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations, change in value of derivative and other financial instruments and other net financing charges

Sales – Subsidiaries & JVs



Trading Profit – Subsidiaries & JVs



Current trading – six months to June 2009

| Subs & JVs | Q1 2009 £m | Q2 2009 £m | H1 2009 £m | H1 2008 £m |
|---|------------------|------------------|------------------|------------------|
| Sales | 1,079 | 1,095 | 2,174 | 2,402 |
| Trading profit/(loss) | (13) | 36 | 23 | 161 |
| <i>Automotive</i> | <i>(35)</i> | <i>(2)</i> | <i>(37)</i> | <i>84</i> |
| <i>Powder Metallurgy</i> | <i>(12)</i> | <i>(2)</i> | <i>(14)</i> | <i>11</i> |
| <i>Aerospace</i> | <i>34</i> | <i>45</i> | <i>79</i> | <i>47</i> |
| <i>OffHighway</i> | <i>2</i> | <i>(4)</i> | <i>(2)</i> | <i>25</i> |
| Profit/(loss) before tax¹ | (29) | 21 | (8) | 132 |

- Trading profit improved from Q1 £(13)m loss to Q2 £36m profit
- Results include one time net post-employment credits (£10m) and non-recurring Aerospace programme cost recovery (£5m)

(1) Before Restructuring and impairment charges, amortisation of non-operating intangible assets arising on business combinations, change in value of derivative and other financial instruments and other net financing charges

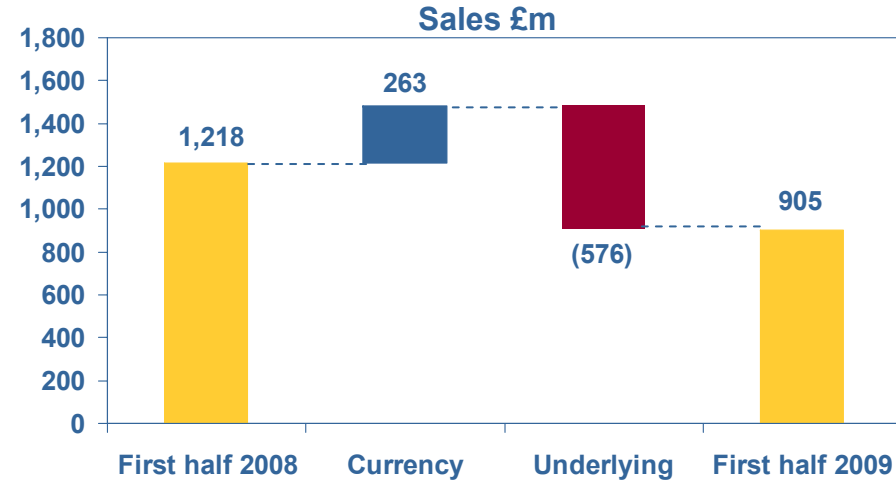
Impact of Currency

| | | | | Effect on | |
|---------------------|-------------------|------|-------------|-------------|-------------------------|
| | Half Year average | | Change % | Sales £m | Trading profit £m |
| | 2009 | 2008 | | | |
| US \$ | 1.49 | 1.98 | 24.7 | 236 | 13 |
| Euro | 1.12 | 1.30 | 13.8 | 143 | 16 |
| Yen | 143 | 208 | 31.3 | 85 | 4 |
| Other | - | - | - | 43 | 3 |
| Impact (subs & JVs) | | | | 507 | 36 |

- > Translational – £ has weakened against major currencies
- > Transactional – £2m adverse impact in 2009

Sales and Trading Profit: Driveline

| First half | 2009 | 2008 | Underlying change |
|---------------------|--------|-------|-------------------|
| Sales - £m | 905 | 1,218 | (39)% |
| Trading profit - £m | (32) | 81 | |
| Margin | (3.5)% | 6.7% | |



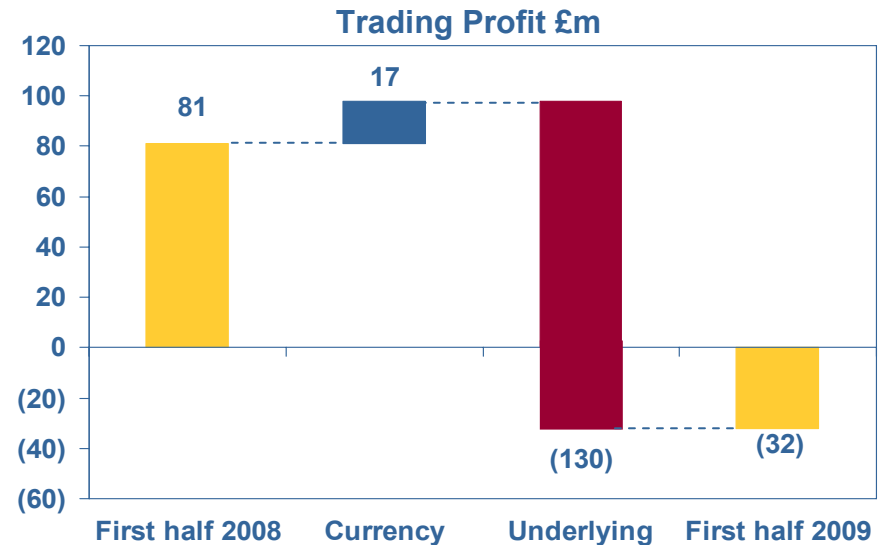
> Sales improving

- > Markets stabilising
- > Q1 ↓43% ... Q2 ↓34%

> Trading loss narrowing

- > Q1 loss £31m ... Q2 loss £1m

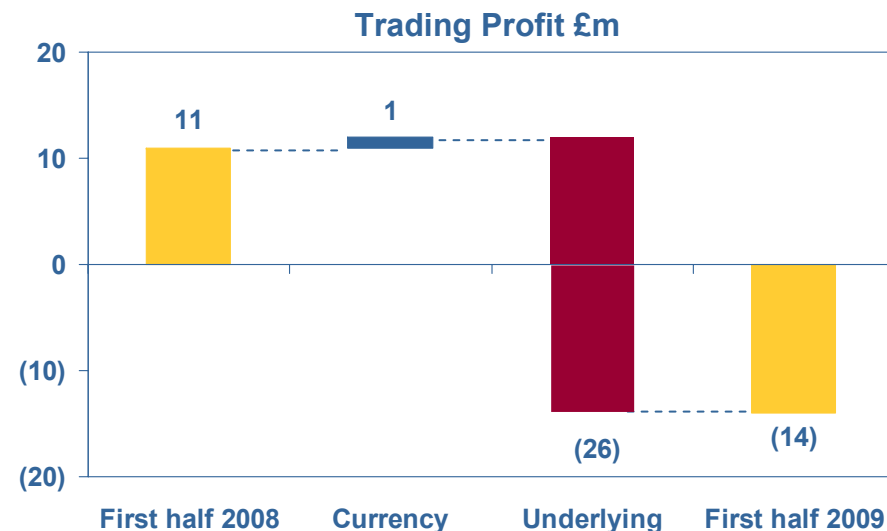
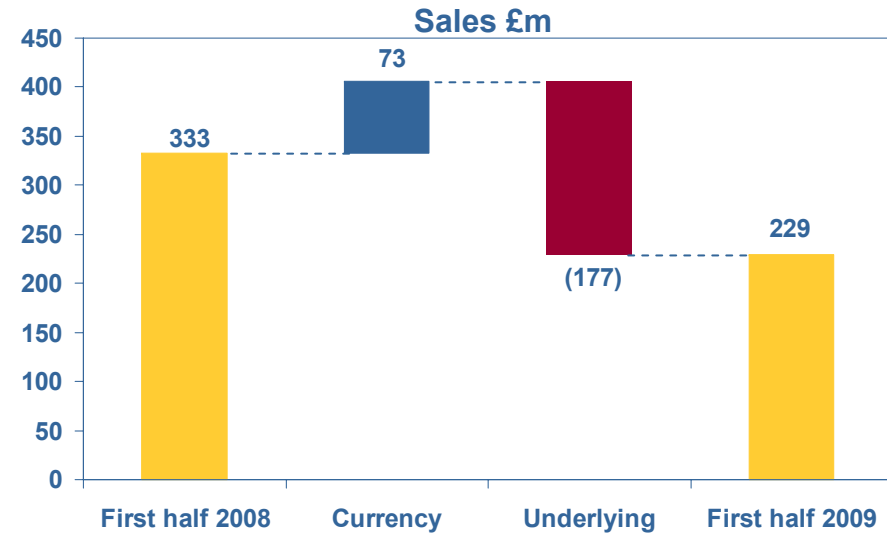
> Broad based improving trend across all regions



Sales and Trading Profit: Powder Metallurgy

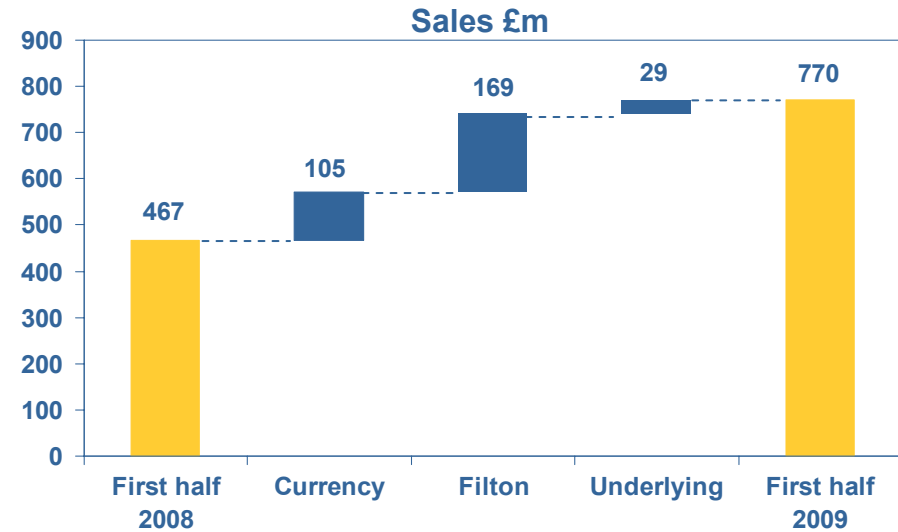
| First half | 2009 | 2008 | Underlying change |
|---------------------|--------|------|-------------------|
| Sales - £m | 229 | 333 | (44)% |
| Trading profit - £m | (14) | 11 | |
| Margin | (6.1)% | 3.3% | |

- > Sales decline narrowing
 - > Sales: Q1 ↓46% ... Q2 ↓41%
- > Trading loss improvement
 - > Q1 loss £12m ... Q2 loss £2m
- > All regions contributed to improvement

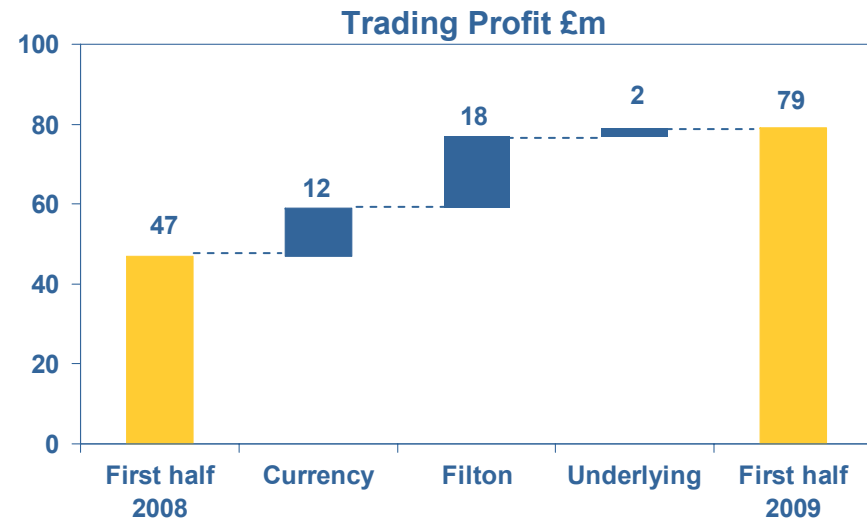


Sales and Trading Profit: Aerospace

| First half | 2009 | 2008 | Underlying change |
|---------------------|-------|-------|-------------------|
| Sales - £m | 770 | 467 | 5% |
| Trading profit - £m | 79 | 47 | |
| Margin | 10.3% | 10.1% | |



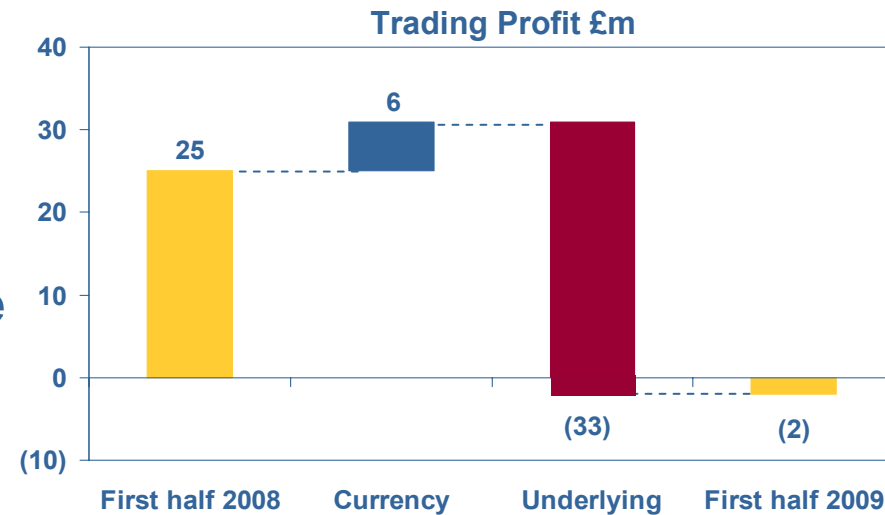
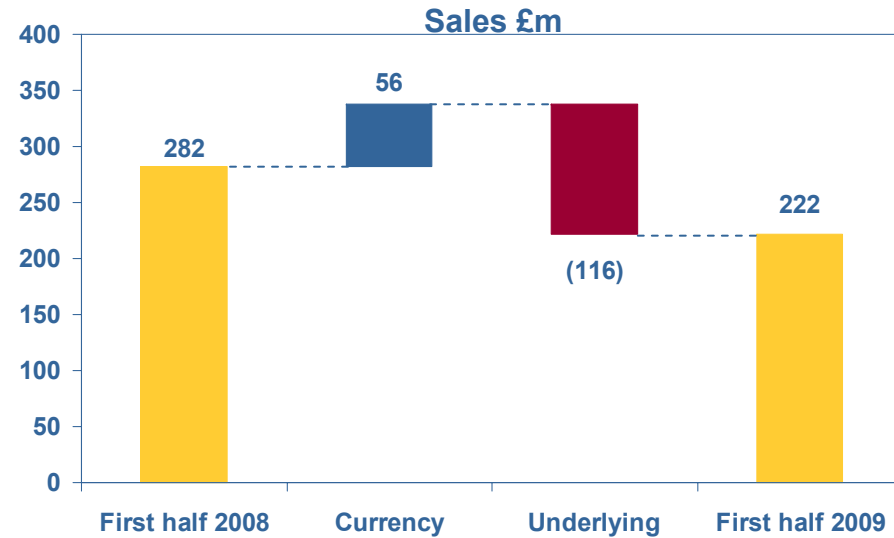
- > 35% of Group sales
 - > Defence stable (48% of sales)
 - > Civil softening (52% of sales)
- > Underlying growth
- > Strong performance at Filton



Sales and Trading Profit: OffHighway

| First half | 2009 | 2008 | Underlying change |
|---------------------|--------|------|-------------------|
| Sales - £m | 222 | 282 | (34)% |
| Trading profit - £m | (2) | 25 | |
| Margin | (0.9)% | 8.9% | |

- > **Market dropping faster than anticipated**
 - > Sales: Q1 ↓21% ... Q2 ↓47%
- > **Broad based market weakness**
- > **Impact on trading performance**
 - > Q1 profit £2m ... Q2 loss £4m



Restructuring – 2008 Programme

| | First half 2009 £m |
|-----------------|--------------------------|
| Redundancies | (38) |
| Short-time work | (20) |
| Reorganisation | (4) |
| Total | (62) |

**Cash spend
£49m**

- > Accelerated actions to respond to downturn
- > Redundancies
 - > Impact all regions and Divisions; facilities now affected = 13
 - > Includes Driveline UK plant rationalisation and additional actions in OffHighway
- > Short-time working predominantly Europe and Japan

Net Financing Costs

| | First half 2009 £m | First half 2008 £m |
|---------------------------------------|--------------------------|--------------------------|
| Net interest payable | (30) | (26) |
| Other net financing charges | (24) | (1) |
| Net financing costs | (54) | (27) |
| EBITDA/Net interest ratio (12 months) | 5.2x | 9.7x |

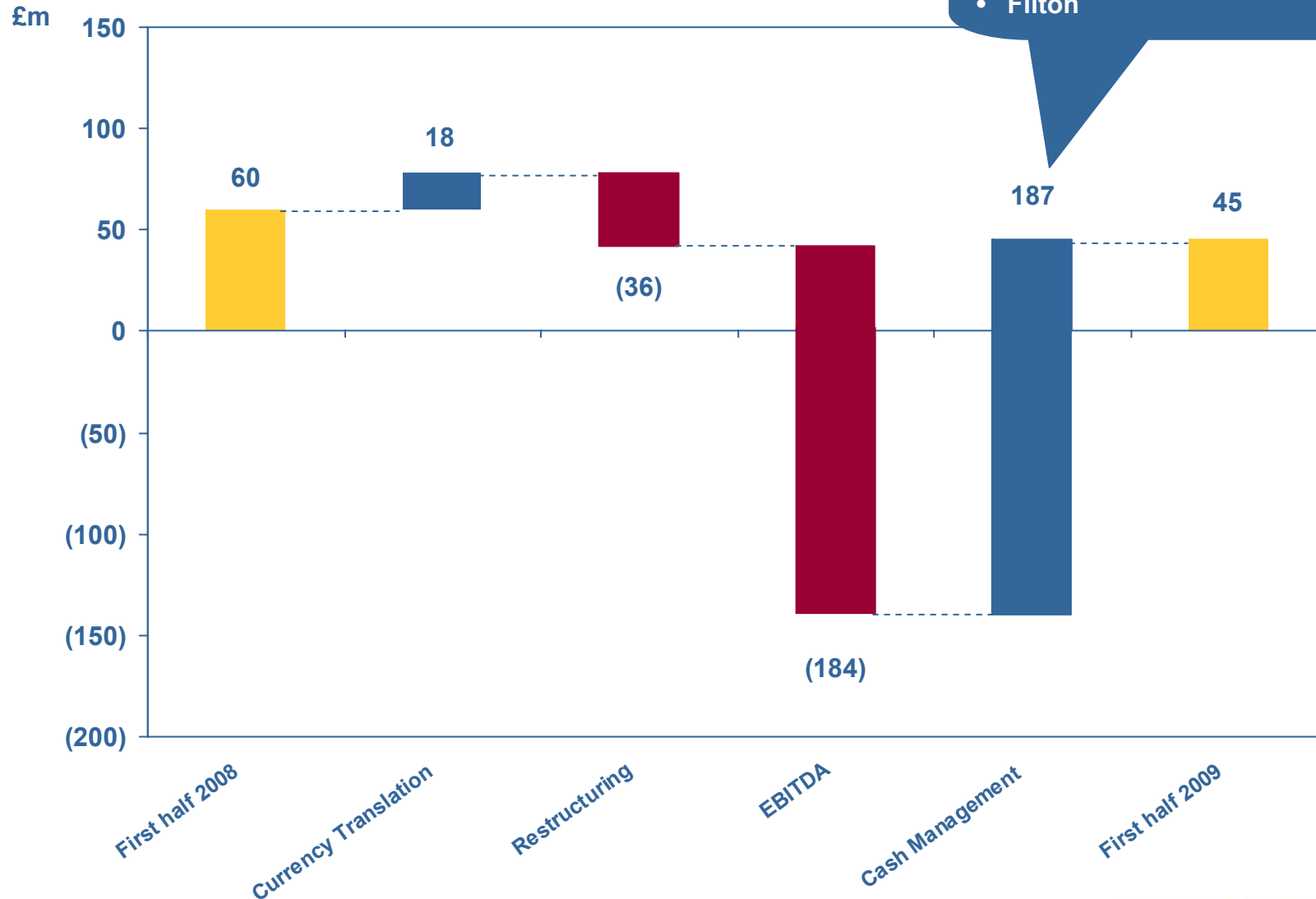
- > Net interest charge driven by bonds offset by lower interest rates despite higher indebtedness
- > Other net financing charges reflects decline in pension asset values in 2008
- > Interest cover at 5.2x (12 months to June)

Operating Cash Flow

| | First half 2009 £m | First half 2008 £m |
|---|--------------------------|--------------------------|
| Trading profit (subsidiaries) | 15 | 146 |
| Depreciation and amortisation | 104 | 85 |
| Change in working capital and provisions | 49 | (53) |
| Strategic restructuring | (52) | (13) |
| Post-employment obligation | (21) | (6) |
| Other | (3) | - |
| Subtotal | 92 | 159 |
| Proceeds from sale of fixed assets | 33 | 2 |
| Capital expenditure (tangible and intangible) | (80) | (101) |
| Operating cash flow | 45 | 60 |

Proceeds from sale of fixed assets in 2009 includes £32m on Aerospace NRC recovery

Operating Cash Flow



- Inventory turns improve
- Capex (0.7x Depreciation)
- Non-recurring costs recovery
- Filton

Free Cash Flow

| | First half 2009 £m | First half 2008 £m |
|-----------------------------------|--------------------------|--------------------------|
| Operating cash flow | 45 | 60 |
| Dividends from joint ventures | 13 | 20 |
| Interest | (26) | (30) |
| Tax | (9) | (14) |
| Dividends paid | - | (65) |
| Free cash flow | 23 | (29) |
| Acquisitions | (99) | (2) |
| Other (inc. currency) | (16) | 8 |
| Net movement in borrowings | (92) | (23) |

| | June 2009 £m | Dec 2008 £m | Increase £m |
|-----------------------|-----------------|----------------|----------------|
| Net borrowings | 800 | 708 | 92 |

Post-employment Obligations – Accounting Deficit

| | UK £m | Americas £m | RoW £m | Europe £m | Total £m |
|------------------------------|----------|----------------|-----------|--------------|-------------|
| 2009 Half Year | | | | | |
| Assets | 1,745 | 180 | 17 | 26 | 1,968 |
| Liabilities | (2,294) | (310) | (39) | (315) | (2,958) |
| Deficit | (549) | (130) | (22) | (289) | (990) |
| Movement since Dec 08 | (265) | 69 | 5 | 35 | (156) |

- **Key change in accounting deficit: UK increased by £265m**
 - Inflation 2.9% → 3.4%
 - Discount rate 6.5% → 6.2%
- **Tri-annual review 2010 on UK scheme**

Summary

- > Improving performance Q1 → Q2
- > Capital structure strengthened
- > Continue to focus on cash

Positioned for Recovery

Outlook

- > Outlook for major markets remains mixed
 - > Some improvement in automotive production
 - > Aerospace: military demand solid – no further declines in civil this year
 - > OffHighway markets depressed third quarter – begin to stabilise in quarter 4
- > GKN's second half performance
 - > Automotive (including Powder Metallurgy) demand in Q3 similar to Q2 – pick up September and Q4
 - > Aerospace sales to remain strong
 - > OffHighway down over 50% Q3 some recovery in Q4 demand
- > Restructuring activities extended and accelerated

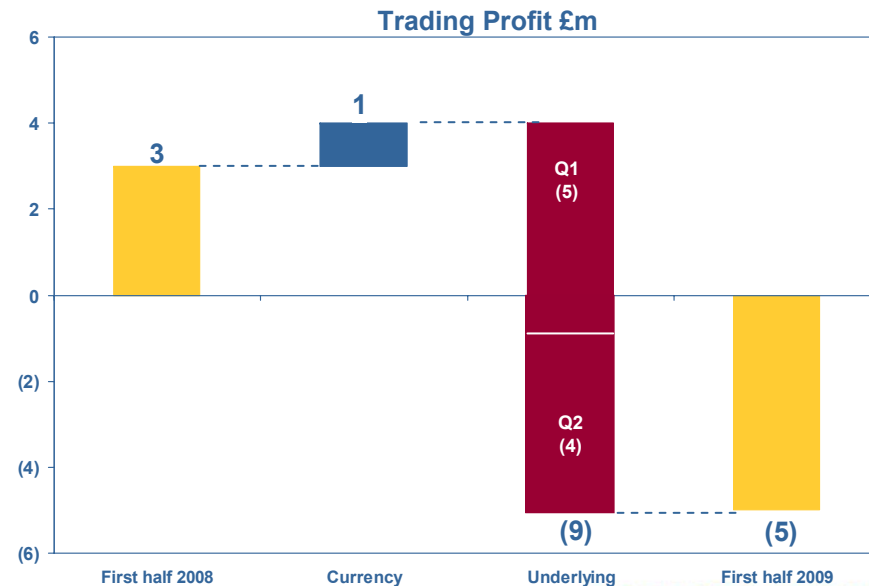
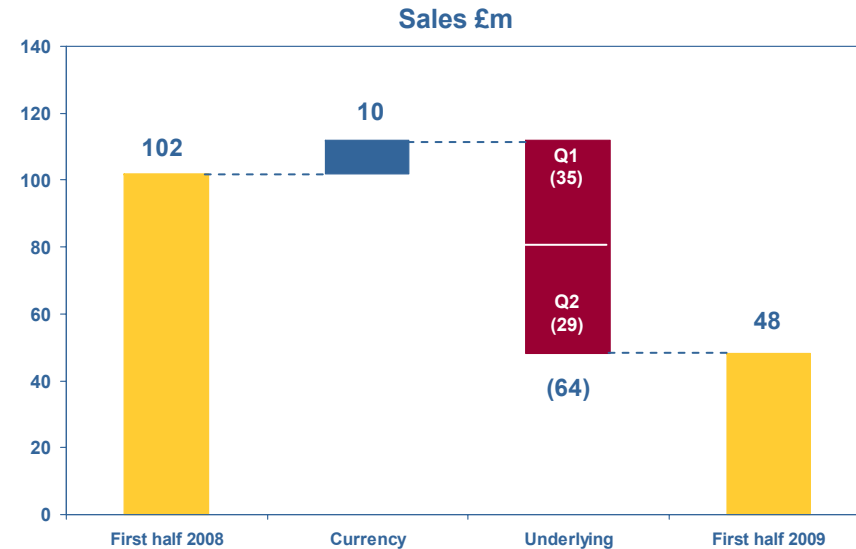
Group expects good progress in 2nd half

Appendix

Sales and trading profit: Other Automotive

| First half | 2009 | 2008 | Underlying change |
|---------------------|---------|------|-------------------|
| Sales - £m | 48 | 102 | (57.1)% |
| Trading profit - £m | (5) | 3 | |
| Margin | (10.4)% | 2.9% | |

- > UK structural chassis businesses severely impacted by volume shortfalls at JLR
- > Emitec's key business streams all adverse
- > Benefit of cost reduction activities coming through in Q2



Summary of planned actions and benefits

2008 Average Exchange Rates

| Restructuring Actions | Expected February 2009 | | | New Plans | | | Cash phasing £m |
|--------------------------------|------------------------|-----------------|---------------|---------------------|-----------------|---------------|--------------------|
| | Workforce Reduction | Cost £m | Benefit £m | Workforce Reduction | Cost £m | Benefit £m | |
| Cost Reduction Actions: | | | | | | | |
| 2008 | 2,800 | 20 ¹ | 45 | 2,800 | 20 ¹ | 45 | 4 |
| 2009 | 2,460 | 86 | 74 | 3,600 | 103 | 80 | 115 |
| 2010 | | - | 15 | | - | 27 | 29 |
| Short-time working - 2009 | | 24 | 56 | | 25 | 80 | |
| Total | | 130 | 190 | | 148 | 232 | 148 |

Note: Short-time working would unwind fully in 2010 with production rates of approx 62 million vehicles

(1) Includes £2m short-time working

Tax charge analysed by “Cash Tax”

| <u>Tax Analysis</u> | <u>H1 2009</u> <u>(£m)</u> | <u>H1 2008</u> <u>(£m)</u> | |
|---|-------------------------------|-------------------------------|--|
| <ul style="list-style-type: none"> Weighted average of tax rates in major countries in which we operate | (6) | 36 | Normally stable within +/-3% of 30% |
| <ul style="list-style-type: none"> Impact of GKN tax profile – profit mix, tax losses and other timing differences | 18 | (14) | Driven by profit profile & available tax losses |
| •“Cash Tax” charge | 12 | 22 | |
| <ul style="list-style-type: none"> Net deferred tax/provision movement | (17) | (1) | DT asset recognition/usage and tax settlement volatility |
| <ul style="list-style-type: none"> Tax impact of FX gains | 3 | - | Sterling movement against Euro/\$ and impact of intercompany loans |
| •Book Tax (credit)/charge | (2) | 21 | |

Capital Investments

| | First half 2009 £m | First half 2008 £m |
|----------------------|--------------------------|--------------------------|
| Tangible expenditure | 72 | 95 |
| Depreciation | 98 | 81 |
| Ratio (times) | 0.7 | 1.2 |

| | First half 2009 £m | First half 2008 £m |
|------------------------|--------------------------|--------------------------|
| Intangible expenditure | 8 | 6 |
| Amortisation | 6 | 4 |

| | | |
|---------------------------|-----------|------------|
| Total expenditures | 80 | 101 |
|---------------------------|-----------|------------|

Net Assets & Net Borrowings

| | First half 2009 £m | Full Year 2008 £m |
|---|--------------------------|-------------------------|
| Net operating assets | 2,394 | 2,709 |
| Current & deferred tax | (80) | (109) |
| Post-employment obligations | (990) | (834) |
| Net borrowings | (800) | (708) |
| Derivative financial instruments | (44) | (130) |
| Net assets | 480 | 928 |
| Return on average invested capital | 4% | 9% |



Contacts

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