

**Winning** new business

Shaping up for the **future**

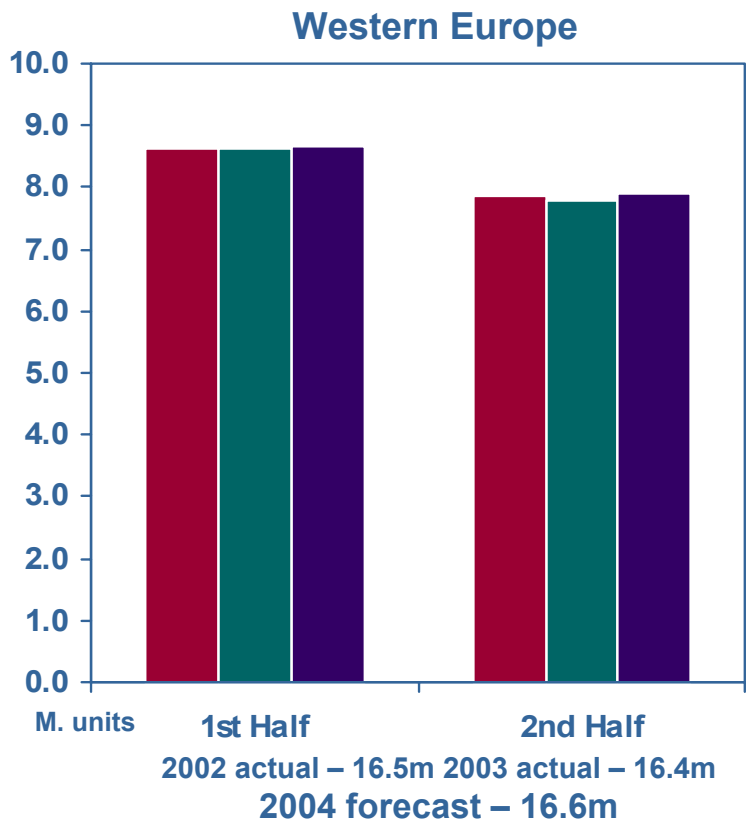
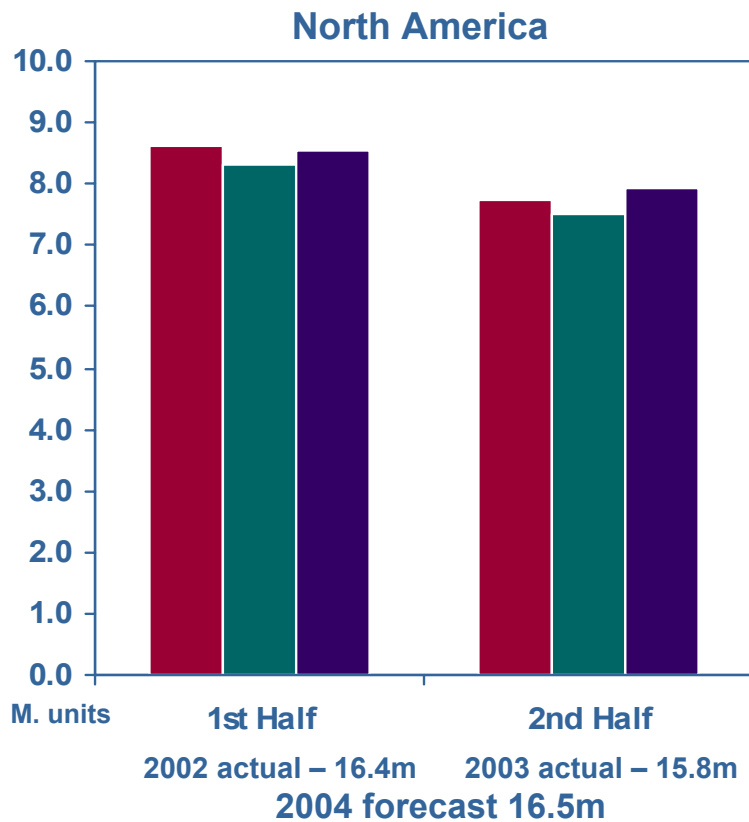


- Major markets soft – but predictable
- Disciplined management produces results at higher end of expectations
- Strong performance in Driveline and AgustaWestland
- Programme extensions and new wins in Aerospace - \$2bn potential
- Powder Metallurgy continues operational improvements – financial recovery slowed
- Review of global operations provides new opportunities for Driveline

	2003 £m	2002 £m	Increase/ (Decrease) %
<b>Sales</b>	<b>4,585</b>	<b>4,452</b>	<b>3.0</b>
<b>Operating profit</b> (before UK pension deficit charge)*	<b>325</b>	<b>321</b>	<b>1.2</b>
<b>Profit before tax*</b>	<b>246</b>	<b>267</b>	<b>(7.9)</b>
<b>Net Borrowings</b>	<b>(793)</b>	<b>(834)</b>	<b>-</b>
<b>Dividend per share</b>	<b>11.6p</b>	<b>11.3p</b>	<b>2.7</b>

\* Before goodwill amortisation and impairment and exceptional items

- > Combined 2.1% decline in auto production in North America, Western Europe and Japan
- > Continued strong growth in auto production in emerging markets
  - China + 37%
  - India + 26%



■ 2002    ■ 2003    ■ 2004

Source: Global Insight - DRI



GKN PLC

**Driveline**

**2003 Sales £1,938m**

**(2002 £1,826m)**

- > Underlying sales increase despite production downturns in Western Europe (0.7%), North America (3.2%)
- > Growing contribution from Emerging Markets. Asia-Pacific\* – 77% increase in CVJ output in 3 years
- > Driveline takes 50% of key Chinese JV and forms new JVs in Thailand
- > Wins 29 of 41 new programmes and maintains market share

\* Excludes Japan and South Korea

- > Torque Systems Group sales increase to £300m and on track to achieve £800m sales by 2008
- > Exciting new products in development and under test
  - Electronic Torque Management systems, Final Drive Units, Power Take-Off units, new generation active control systems, composite high speed propshafts



ETM

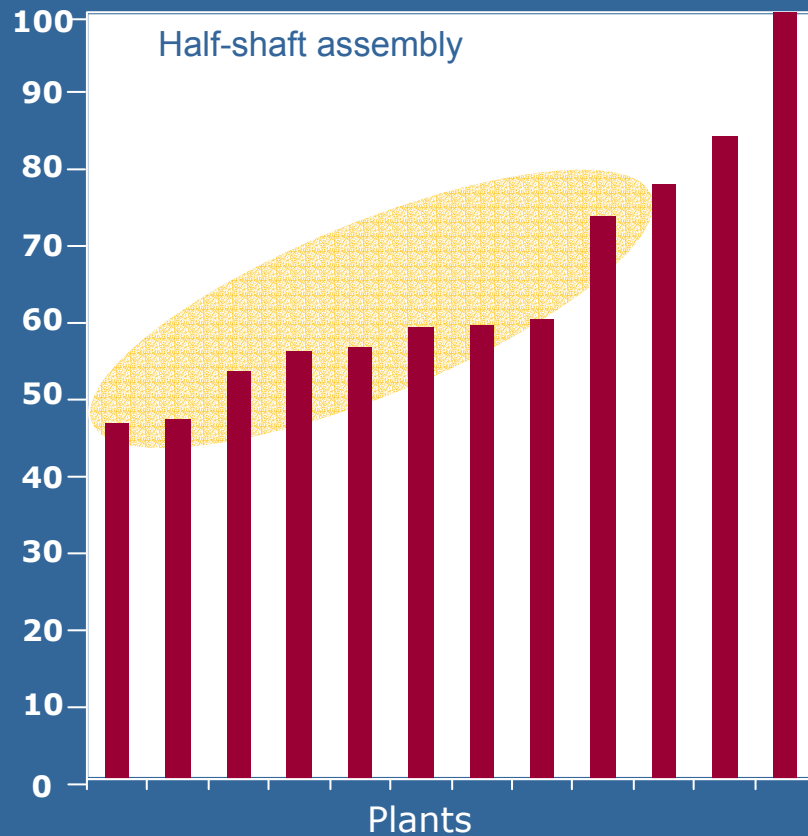


PTU

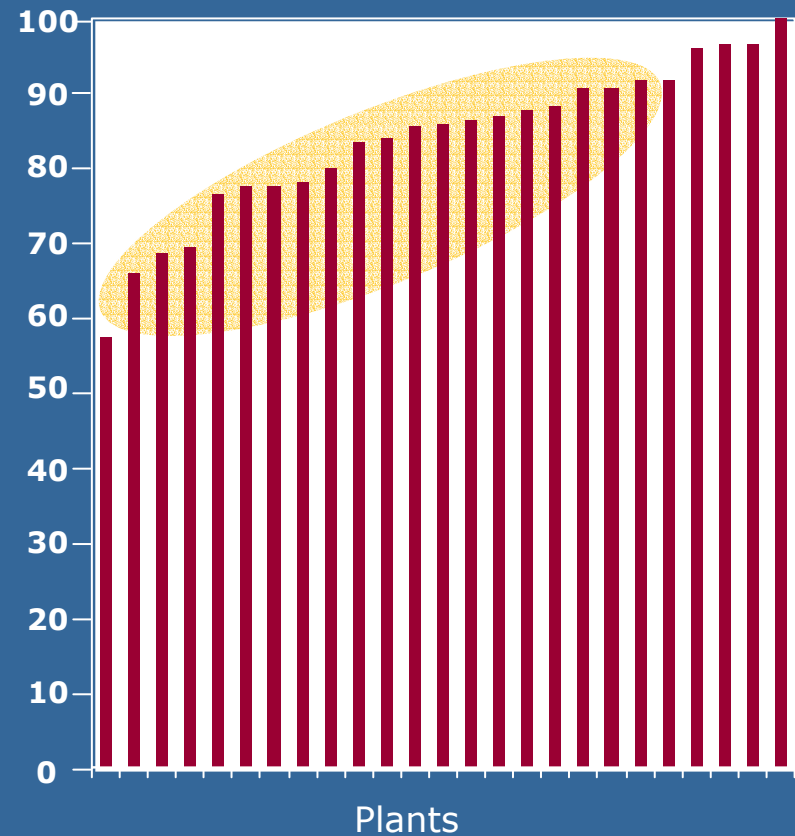


FDU

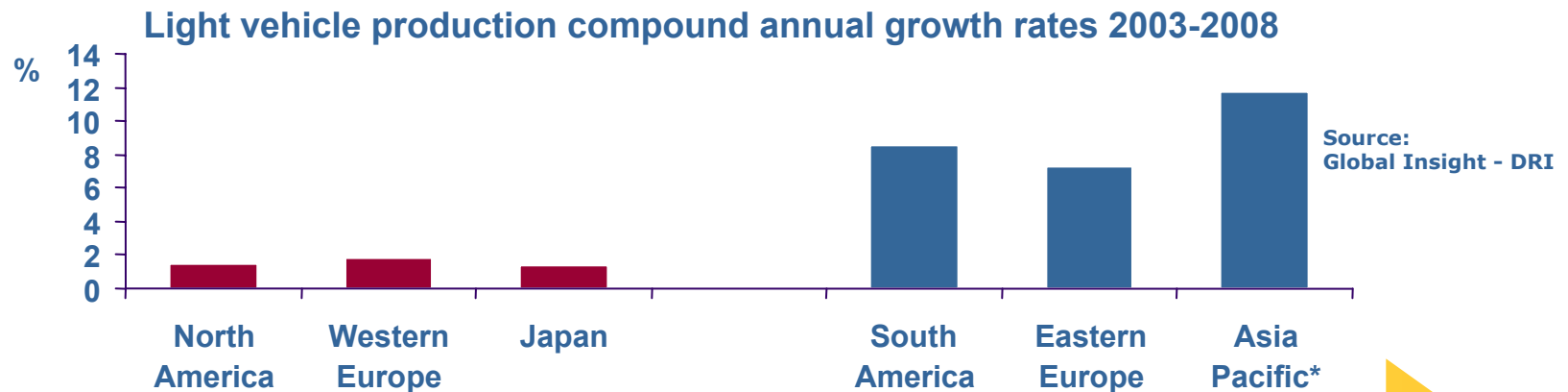
Operator performance - N America/Europe



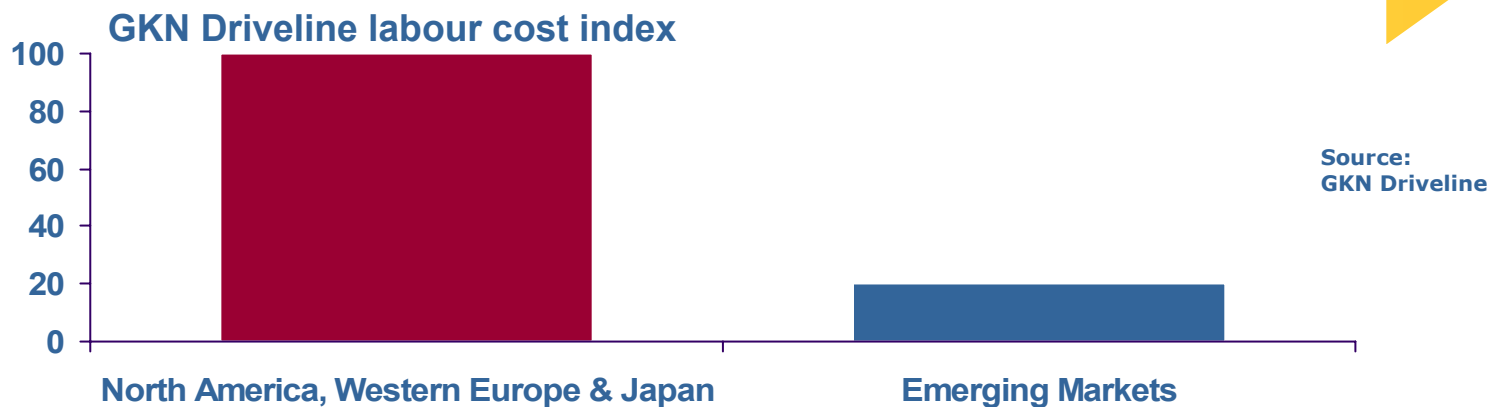
Overall equipment performance - Global



Opportunity for improvement      Index = 100



**50%+ CVJ output in high-growth, low-cost economies**



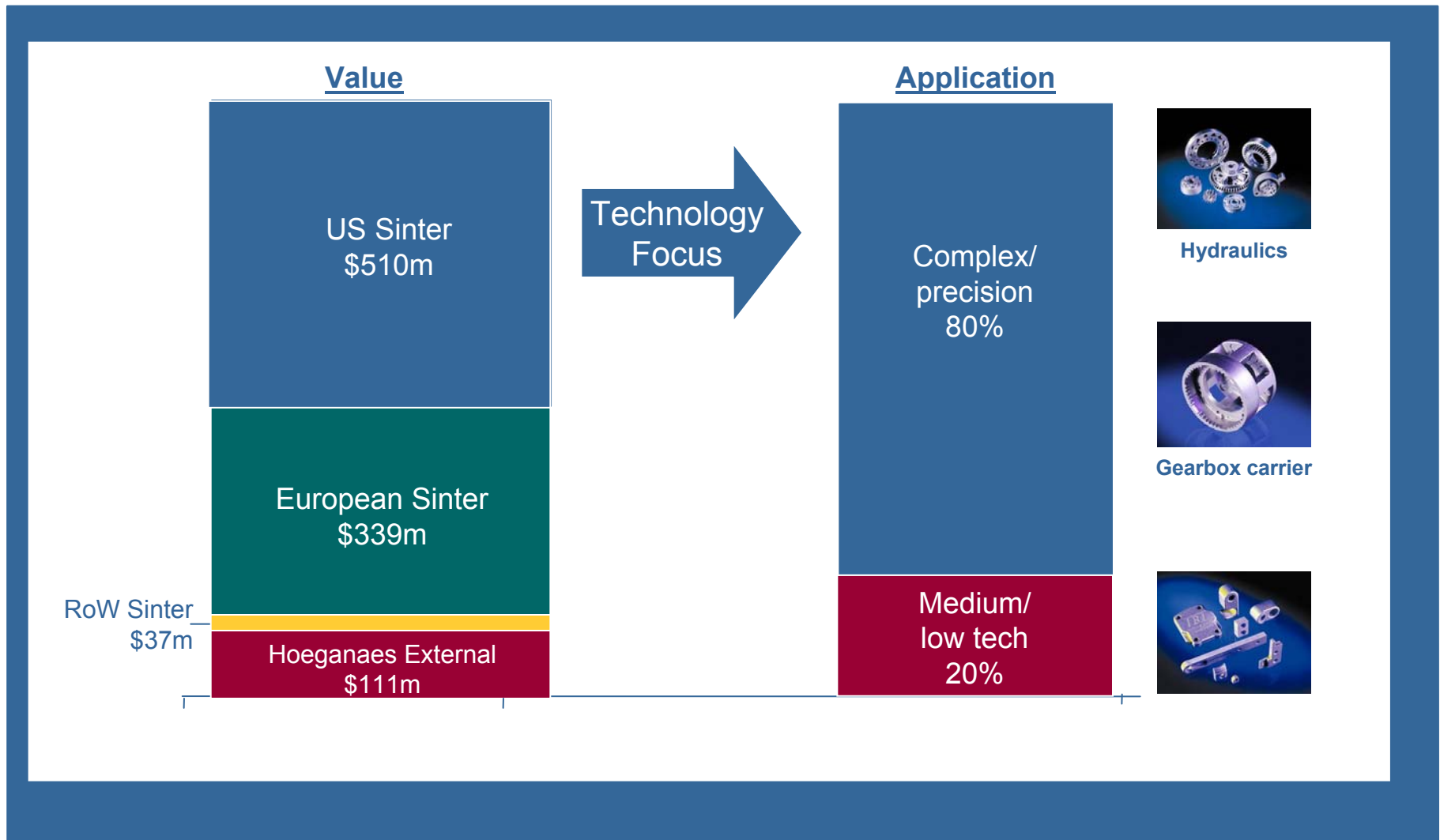
\*Excludes Japan & South Korea

2003 Sales £608m

(2002 Sales £632m)

- > Sinter US recovery slowed
  - Combined 6% output decline Ford, GM, DaimlerChrysler
- > Restructure US operations to speed up recovery and re-establish growth in 2006

# Powder Metallurgy – speeding up US recovery



**2003 Sales £608m**

**(2002 Sales £632m)**

- > Sinter US recovery slowed
  - Combined 6% output decline Ford, GM, DaimlerChrysler
- > Restructure US operations to speed up recovery and re-establish growth in 2006
- > Strong order intake: US \$80m; Europe \$60m, Brazil and India \$10m



**'New win' transmission carriers**

- > Hoeganaes acquires Romanian powder production plant
- > European R&D centre operational Q2



## OffHighway Systems, AutoComponents, Emitec

**2003 Sales £490m**

**(2002 Sales £492m)**

- > OffHighway Systems: adverse impact from 7% decline in European farm equipment market – partially offset by US second half recovery
- > New order wins and new products launched
- > AutoComponents: Full year contribution from Thompson Chassis. Pre-production completed for new Land Rover chassis
- > Emitec: enhanced customer offer through introduction of new diesel emission products



- > Global Contribution Award from Toyota. GKN only non-Japanese supplier to win for second time



- > Global Power Train Supplier of the Year from DaimlerChrysler



- > Global award for continuous improvement from General Motors



- > US quality awards from Mazda and Toyota

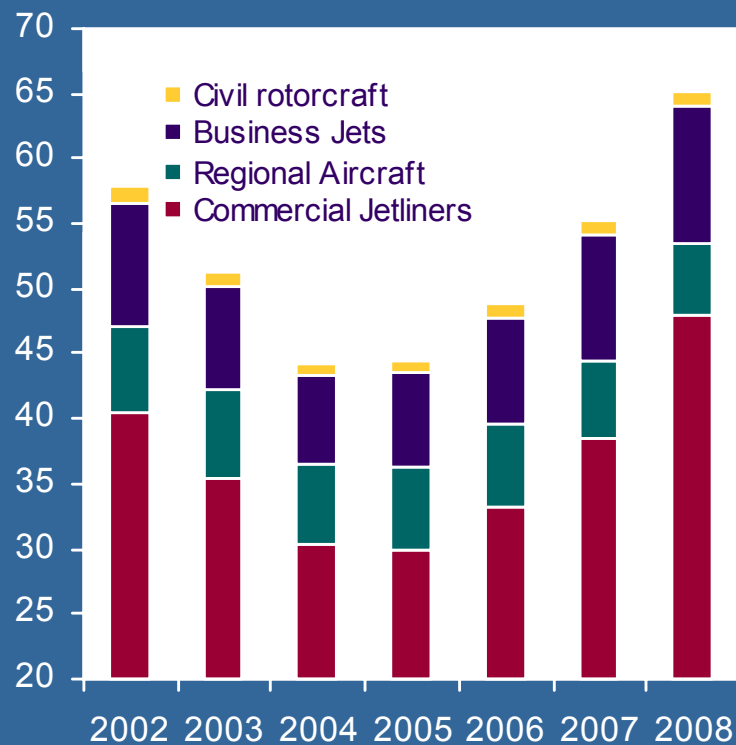


- > US productivity award from Honda

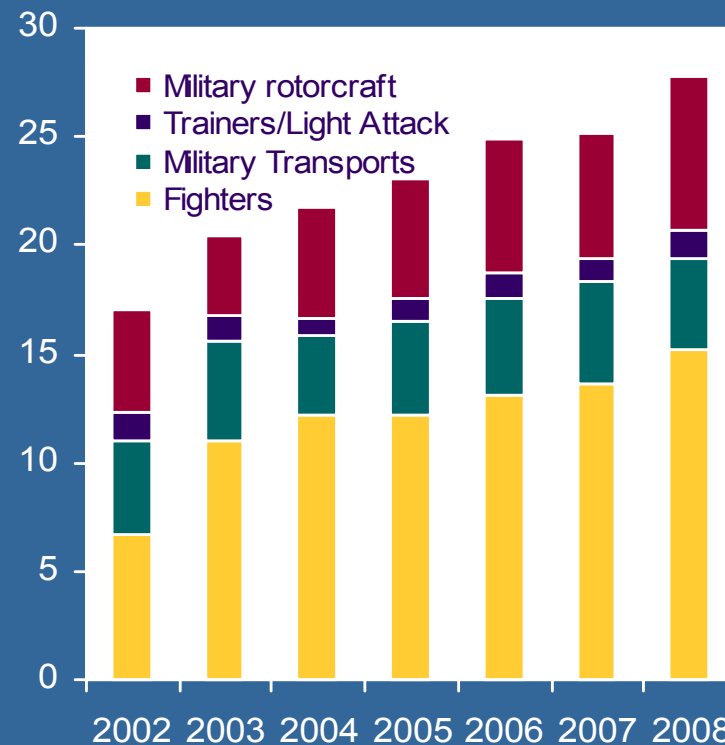


- > Japan supplier awards from Mazda and Nissan

Civil market forecast - \$ billion



Military market forecast - \$ billion



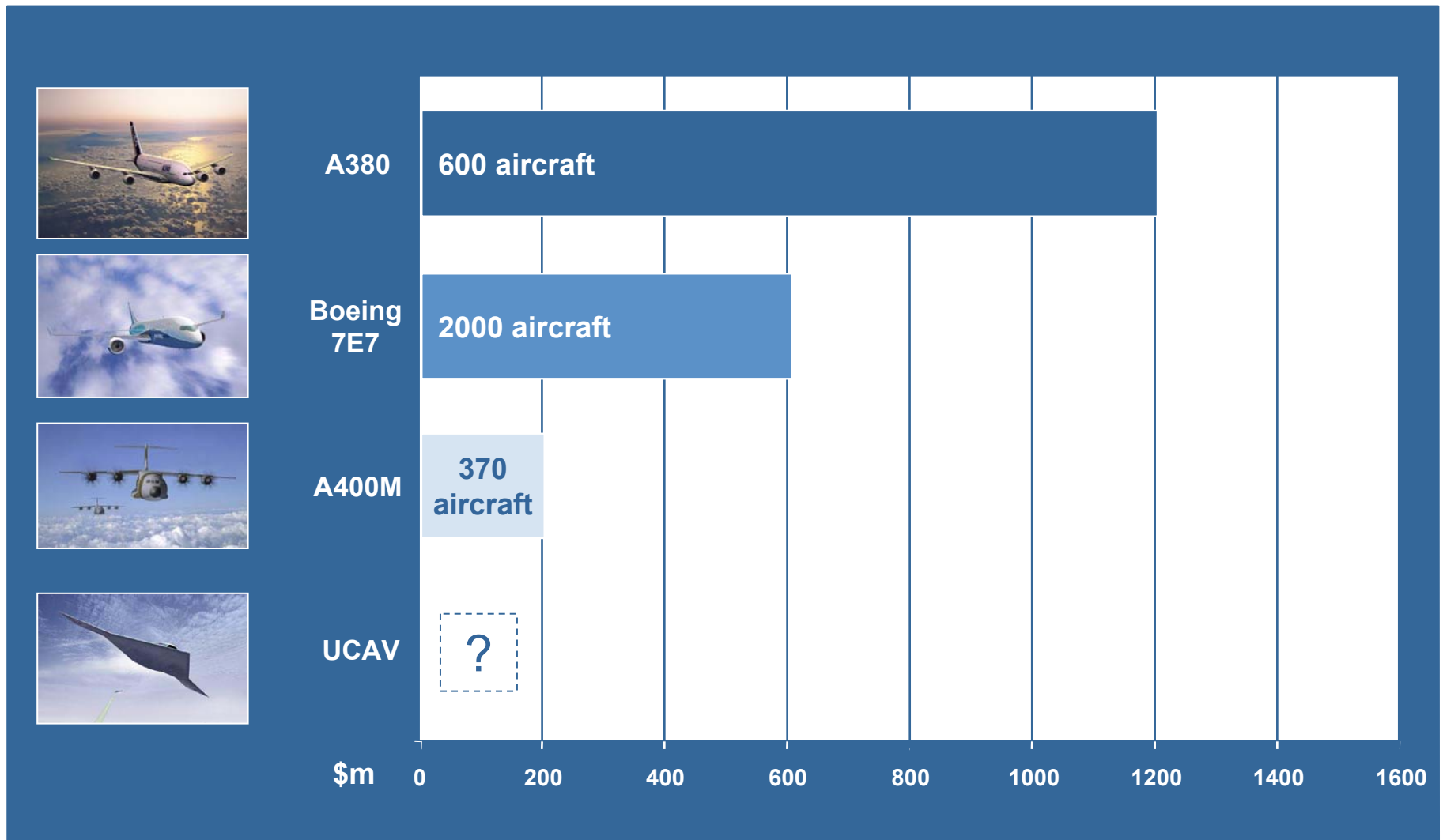
Source: TEAL

**2003 Sales £559m**

**(2002 Sales £559m)**

- > Underlying sales increased 2.6% despite further civil decline
- > Robust management protects base and improves competitiveness
- > Major programme extensions provide solid backbone
  - St Louis C-17, F/A-18, F-15 - \$855m 2005-2009
  - C-130J, Sikorsky, Pratt & Whitney, HTF 907 Nacelle
- > JSF control surfaces increase programme value to \$1.4bn
- > New business secured on new programmes

# Expected future value of GKN work on key new programmes \$2 billion



**2003 Sales £559m**

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- > Robust management protects base and improves competitiveness
- > Major programme extensions provide solid backbone
  - St Louis C-17, F/A-18, F-15 - \$855m 2005-2009
  - C-130J, Sikorsky, Pratt & Whitney, HTF 907 Nacelle
- > JSF control surfaces increase programme value to \$1.4bn
- > New business secured on new programmes
- > Pilkington Aerospace acquisition – GKN No 1 in Military, No 2 in Civil transparency market

**2003 Sales £876m**

**(2002 Sales £865m)**



EH101



Lynx



A 109

- > AgustaWestland continues to outperform
- > 118 helicopters delivered – 100 in 2002
- > Customer support activity increases to 31% of sales - target 40%
- > Strong order intake sustains order book
  - Japan EH101
  - A109 Power sets new record for light twin
  - Customer support >50% order intake
- > 2004 another exciting year
  - Canadian EH101
  - UK MoD Future Lynx
  - US101 Presidential VXX programme



## A world of opportunity

- > 2003 - another year of achievement in difficult markets
- > Strategic development of the Group continues apace
- > Torque Systems on track – excites customer interest
- > CVJ global manufacturing strategy developed
- > US Sinter recovery to accelerate
- > Technology secures new programme wins in Aerospace

**GKN – facing the future with confidence**

**Winning** new business

Shaping up for the **future**



- > Solid performance
- > Sales up 3%
- > PBT down – but broadly level allowing for pensions and interest
- > £41m reduction in net debt
- > Robust balance sheet

	2003 £m	2002 £m	Increase/ (Decrease) %
<b>Sales</b>	<b>4,585</b>	<b>4,452</b>	<b>3.0</b>
<b>Profit before tax*</b>	<b>246</b>	<b>267</b>	<b>(7.9)</b>
<b>Net Borrowings</b>	<b>(793)</b>	<b>(834)</b>	<b>n/a</b>
<b>Earnings per share</b>	<b>22.8p</b>	<b>25.2p</b>	<b>(9.5)</b>
<b>Dividend per share</b>	<b>11.6p</b>	<b>11.3p</b>	<b>2.7</b>

\* Before goodwill amortisation and impairment and exceptional items

	2003 £m	2002 £m	2002 As reported £m
<b>Automotive</b>	<b>195</b>	<b>201</b>	<b>197</b>
<b>Aerospace</b>	<b>130</b>	<b>120</b>	<b>118</b>
<b>Sub-total</b>	<b>325</b>	<b>321</b>	<b>315</b>
<b>UK pension deficit charges</b>	<b>(23)</b>	<b>(6)</b>	<b>-</b>
<b>Total</b>	<b>302</b>	<b>315</b>	<b>315</b>

\*Before goodwill amortisation & impairment & exceptional items

> **UK pension deficit charges analysed separately to show underlying business performance**

	Reported £m	Translational Currency £m	Acquisitions/ Divestments £m	Underlying Change %
<b>Sales</b>	<b>4,585</b>	<b>19</b>	<b>64</b>	<b>1.1</b>
<b>Operating profit* (before UK pension deficit)</b>	<b>325</b>	<b>12</b>	<b>3</b>	<b>(3.3)</b>

\* Before goodwill amortisation and impairment and exceptional items

### > 2003 Acquisitions

- Pilkington Aerospace October 2003
- Ecasol July 2003
- Ductil Iron Powder November 2003

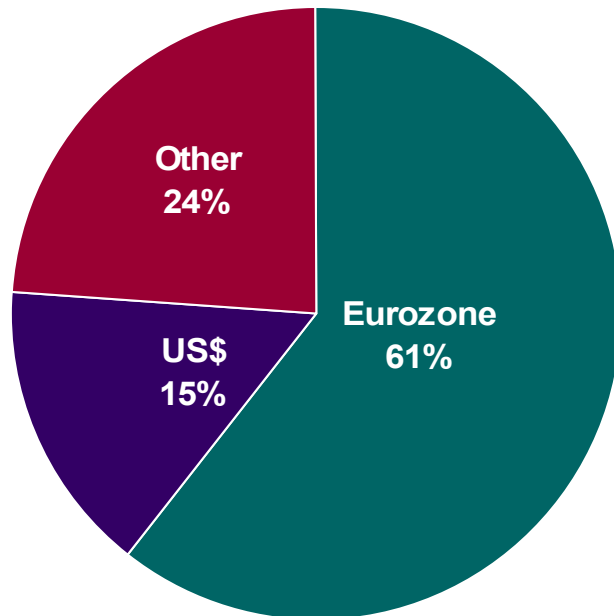
### > 2002 Major Acquisitions

- TFS (33%) March 2002

### > 2003 Divestments

- Alvis September 2003
- Acquisition of Vickers in September 2002 added around £10m to sales

2003 - £325m  
(before UK Pension deficit £23m)



Impact of movements - translation:

1% Euro £2.0m

1% US\$ £0.5m

Translational impact 2003:  
£12m benefit

Rates used for translation:

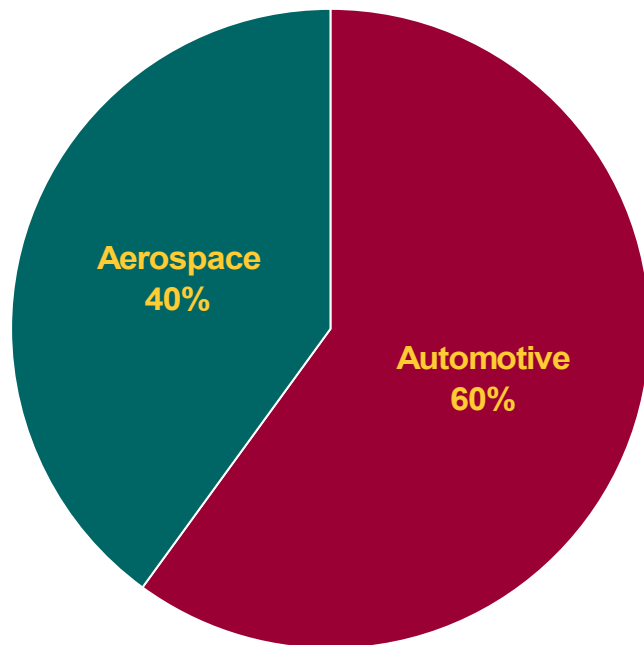
€ = 1.45

US\$ = 1.64

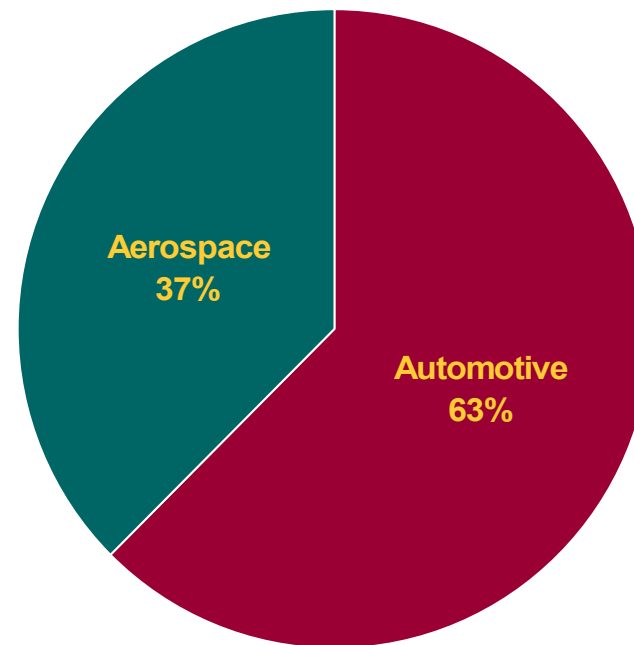
\* Before goodwill amortisation and impairment and exceptional items

- > European Exports in US\$ in 2003 - £150m
- > Hedge for 12 months forward – sometimes longer on Aerospace
- > 2003 adverse transactional effects – cost approximately £11m
- > 2004 – similar adverse variance to 2003

2003 - £325m  
(before UK Pension deficit charge £23m)

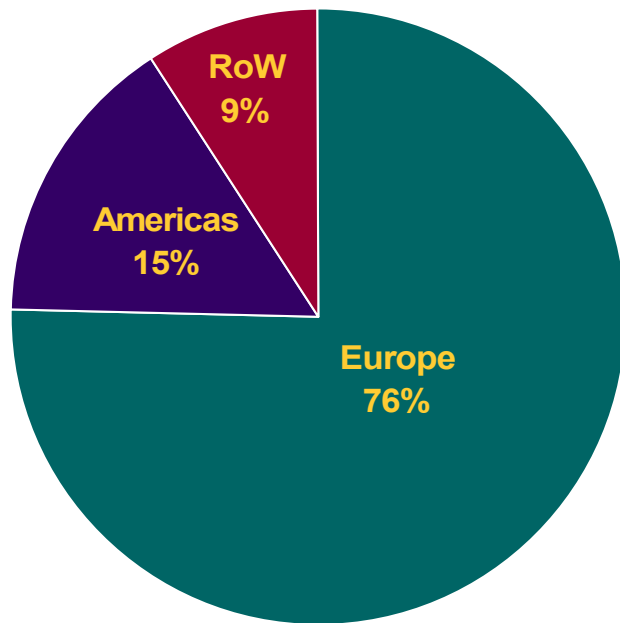


2002 - £321m  
(before UK Pension deficit charge £6m)

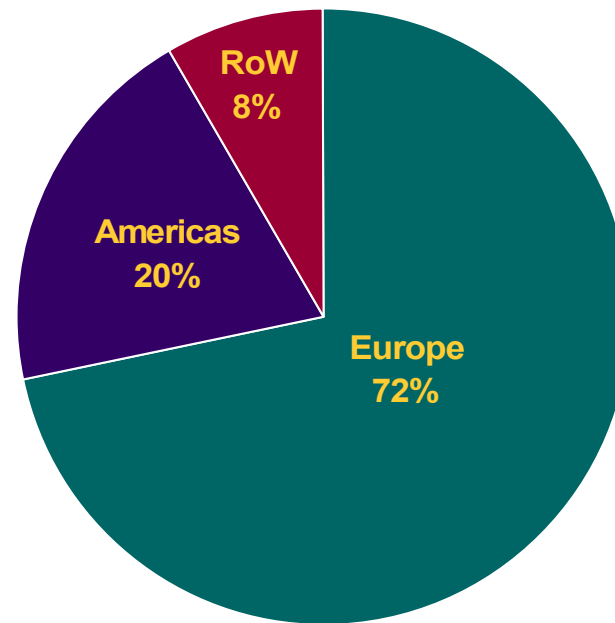


\* Before goodwill amortisation and impairment and exceptional items

2003 - £325m  
(before UK Pension deficit charge £23m)



2002 - £321m  
(before UK Pension deficit charge £6m)



\* Before goodwill amortisation and impairment and exceptional items

	2003 £m	2002 £m	Increase/ (Decrease) Actual %	Underlying Change %
<b>Subsidiaries</b>	<b>2,775</b>	<b>2,746</b>	<b>1.1</b>	<b>0.2</b>
<b>Joint ventures</b>	<b>162</b>	<b>161</b>	<b>0.6</b>	<b>4.5</b>
<b>Associates</b>	<b>99</b>	<b>43</b>	<b>-</b>	<b>14.0</b>
<b>Total</b>	<b>3,036</b>	<b>2,950</b>	<b>2.9</b>	<b>0.6</b>

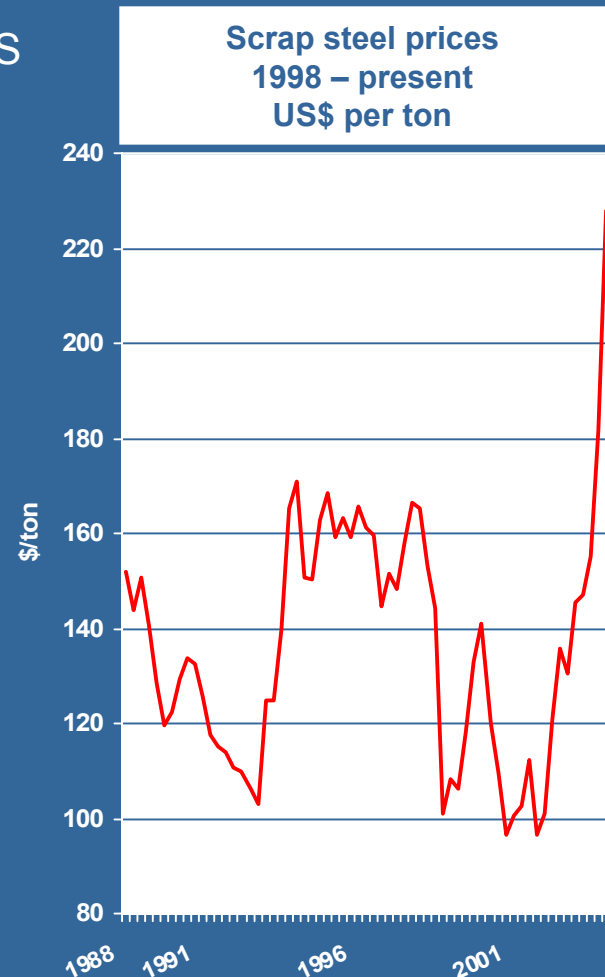
	2003 £m	2002 £m	Increase/ (Decrease) £m	Underlying Change %
<b>Driveline</b>	<b>1,938</b>	<b>1,826</b>	<b>6.1</b>	<b>2.4%</b>
<b>Powder Metallurgy</b>	<b>608</b>	<b>632</b>	<b>(3.8)</b>	<b>(0.7%)</b>
<b>OffHighway &amp; AutoComponents &amp; Emitec</b>	<b>490</b>	<b>492</b>	<b>(0.4)</b>	<b>(4.2%)</b>
<b>Total</b>	<b>3,036</b>	<b>2,950</b>	<b>2.9</b>	<b>0.6%</b>

	2003 £m	2002 £m	Increase/ (Decrease) Actual %	Underlying Change %
<b>Subsidiaries</b>	168	177	(5.1)	(11.2)
<b>Joint ventures</b>	26	23	13.0	18.2
<b>Associates</b>	1	1	-	-
<b>Total</b>	195	201	(3.0)	(8.5)

\* Before goodwill amortisation and impairment and exceptional items

- > Driveline – Solid performance
  - Good contribution from China
  - North America – aggressive action to reduce costs
  - Europe – lower demand and transactional currency reduced like for like profits
  - Overall, decline in Driveline profitability
  
- > Powder Metals
  - Progress in operational improvements
  - Improved customer ratings and new order wins
  - Productivity improvements offset by volume – result unchanged
  
- > OffHighway and AutoComponents
  - Lower first half in OffHighway; second half recovery
  - AutoComponents – a better year
  
- > Emitec
  - Lower profit in US – well managed cost reduction

- > Raw material inflationary pressures, particularly in the US
  - Scrap steel market seeing significant price rises
- > GKN Automotive businesses spend approx £400m pa on steel
- > Driveline, OffHighway and AutoComponents
  - Impacted by surcharges only
- > Hoeganaes – pay spot prices
  - Pass on scrap surcharge to customers – 50% is Sinter Metals
- > At current prices would add £15m to costs
- > Industry-wide problem – working to mitigate impact



	2003 £m	2002 £m	Increase/ (Decrease) Actual %	Underlying Change %
<b>Subsidiaries</b>	<b>559</b>	<b>559</b>	<b>-</b>	<b>2.6</b>
<b>AgustaWestland</b>	<b>876</b>	<b>865</b>	<b>1.3</b>	<b>(2.1)</b>
<b>Other JVs</b>	<b>26</b>	<b>25</b>	<b>4.0</b>	<b>4.0</b>
<b>Alvis</b>	<b>88</b>	<b>53</b>	<b>66.0</b>	<b>66.0</b>
<b>Total</b>	<b>1,549</b>	<b>1,502</b>	<b>3.1</b>	<b>2.1</b>

	2003 £m	2002 £m	Increase/ (Decrease) Actual %	Underlying Change %
<b>Subsidiaries</b>	<b>23</b>	<b>25</b>	<b>(8.0)</b>	<b>-</b>
<b>AgustaWestland</b>	<b>102</b>	<b>93**</b>	<b>9.7</b>	<b>(6.4)</b>
<b>Other JVs</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Alvis</b>	<b>4</b>	<b>2</b>	<b>100.0</b>	<b>100.0</b>
<b>Total</b>	<b>130</b>	<b>120</b>	<b>8.3</b>	<b>5.8</b>

\* Before goodwill amortisation and impairment and exceptional items

\*\*After charging £11m reorganisation costs (under UK GAAP)

	2003 £m	2002 £m
Operating profit before restructuring	97	104
Translational currency	5	-
Restructuring	-	(11)
Reported operating profit	102	93

	Full year 2003 %	Full year 2002 %
<b>Automotive</b>	<b>6.4</b>	<b>6.8</b>
<b>Aerospace</b>	<b>8.4</b>	<b>8.0</b>
<b>Total</b>	<b>7.1</b>	<b>7.2</b>
<b>Total after pension deficit</b>	<b>6.6</b>	<b>7.1</b>

> 2002 Margin before £11m reorganisation costs in AgustaWestland

> Group 7.5%

> Aerospace 8.7%

	2003 £m	2002 £m
Operating profit before goodwill amortisation and exceptional items	302	315
Goodwill amortisation	(37)	(37)
Goodwill impairment	(91)	(11)
Exceptional items	55	(39)
<b>Profit before interest and tax</b>	<b>229</b>	<b>228</b>
Interest		
• Subsidiaries	(56)	(47)
• Joint ventures	–	(1)
<b>Profit before tax</b>	<b>173</b>	<b>180</b>
<b>Profit before tax, goodwill amortisation and impairment and exceptionals</b>	<b>246</b>	<b>267</b>

	2003 £m	2002 £m
<b>Subsidiaries</b>	(56)	(47)
<b>Joint ventures and associates</b>	-	(1)
	(56)	(48)

	2003 £m	2002 £m
<b>Profit before Taxation</b>	<b>173</b>	<b>180</b>
<b>Tax</b>	<b>(70)</b>	<b>(77)</b>
	<b>103</b>	<b>103</b>
<b>Minority interests</b>	<b>(2)</b>	<b>(3)</b>
<b>Earnings</b>	<b>101</b>	<b>100</b>

	2003 £m	2002 £m
<b>Tax on normal trading</b>	<b>77</b>	<b>80</b>
<b>Tax credit on goodwill impairment and exceptional items</b>	<b>(7)</b>	<b>(3)</b>
<b>Taxation per P&amp;L account</b>	<b>70</b>	<b>77</b>
<b>Profit before taxation*</b>	<b>246</b>	<b>267</b>
<b>Tax rate on normal trading</b>	<b>31.3%</b>	<b>30.0%</b>

\* Before goodwill amortisation and impairment and exceptional items

	2003 £m	2002 £m
<b>Operating profit of subsidiaries*</b>	<b>168</b>	<b>196</b>
<b>Depreciation</b>	<b>182</b>	<b>177</b>
<b>Movement in working capital and provisions:</b>	<b>(53)</b>	<b>52</b>
<b>Customer advances</b>	<b>9</b>	<b>(4)</b>
<b>Exceptional costs</b>	<b>(13)</b>	<b>(52)</b>
<b>Other</b>	<b>(6)</b>	<b>(2)</b>
<b>Sub-total</b>	<b>287</b>	<b>367</b>
<b>Capital expenditure</b>	<b>(162)</b>	<b>(213)</b>
<b>Other</b>	<b>13</b>	<b>20</b>
<b>Operating cash flow (subsidiaries)</b>	<b>138</b>	<b>174</b>

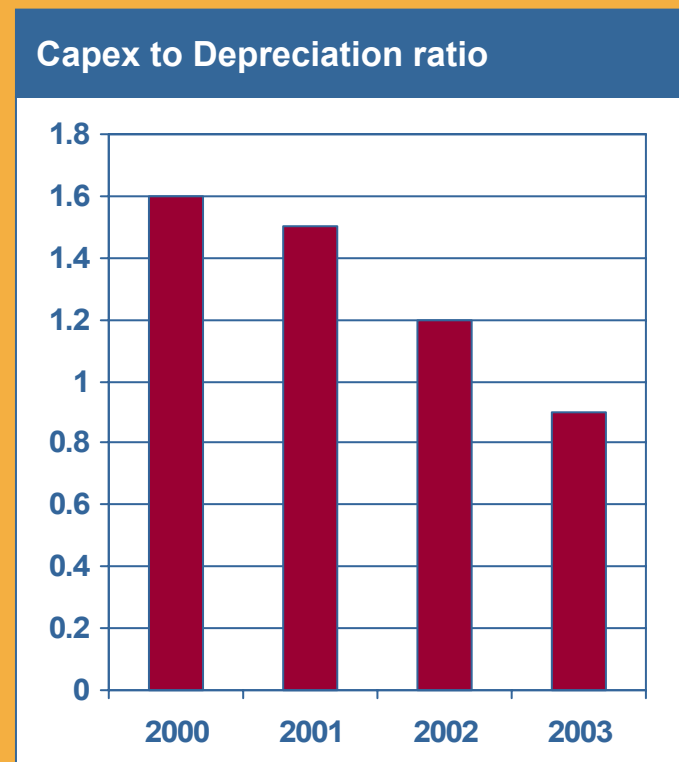
\*Pre exceptional items and goodwill amortisation and impairment

## Cash flow on working capital and provisions

	2003 £m
Trading cash outflow	7
Aerospace programme investment – non recurring costs	12
	19
Pension prepayment UK	21
Other pension payments	13
	53
Exceptional items – prior year	13
<b>Total</b>	<b>66</b>

	End 2002 £m	Currency/ acquisitions/ divestments £m	Non cash movements £m	Customer advance movement £m	Cash (inflow)/ outflow £m	End 2003 £m
Stocks	488	3	-	-	(4)	487
Debtors	561	9	17	-	43	630
Creditors	(772)	(12)	9	(9)	24	(760)
Provisions	(373)	(4)	13	-	3	(361)
	(96)	(4)	39	(9)	66	4

	2003 £m	2002 £m
<b><u>Capital Expenditure</u></b>		
Automotive	141	178
Aerospace	21	35
	162	213
<b><u>Depreciation</u></b>		
Automotive	154	150
Aerospace	28	27
	182	177



	2003 £m	2002 £m
<b>Operating cash flow</b>	<b>138</b>	<b>174</b>
<b>Dividends from joint ventures and associates</b>	<b>68</b>	<b>45</b>
<b>Interest &amp; minority dividends</b>	<b>(54)</b>	<b>(35)</b>
<b>Tax</b>	<b>(63)</b>	<b>(38)</b>
<b>Dividends Paid</b>	<b>(84)</b>	<b>(80)</b>
<b>Other</b>	<b>-</b>	<b>1</b>
<b>Free cash flow</b>	<b>5</b>	<b>67</b>

	2003 £m	2002 £m
Free cash flow	5	67
Acquisitions including joint ventures	(46)	(84)
Divestments	75	9
Continuing businesses	34	(8)
Discontinued businesses	-	(6)
<b>Total Cash Flow</b>	<b>34</b>	<b>(14)</b>
Currency variations	13	66
Other	(6)	(1)
<b>Total decrease in net debt</b>	<b>41</b>	<b>51</b>

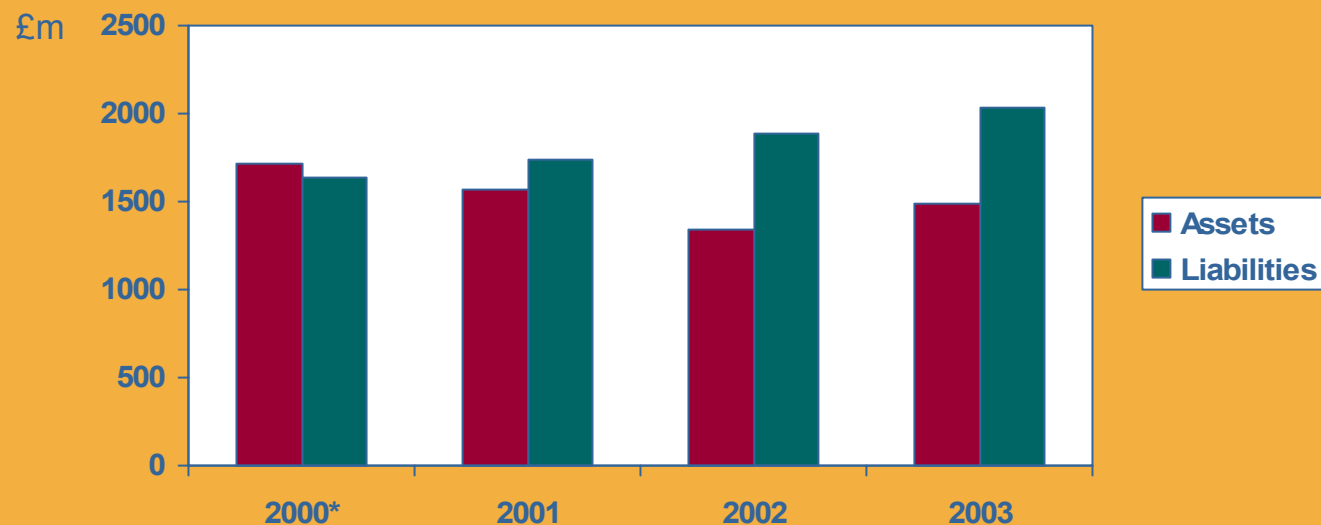
## Net assets, net borrowings and interest cover

	Dec 2003 £m	Dec 2002 £m
Net Assets	942	960
Net Borrowings	793	834

Off balance sheet debt - Net surplus cash

Interest Cover (by EBITA) - 5.4 times  
(by EBITDA) - 8.6 times

	2000 £m	2001 £m	2002 £m	2003 £m
Gross surplus/(deficit)	76	(168)	(551)	(549)
Related tax (charge)/credit	(23)	50	136	131
Net surplus/(deficit)	53	(118)	(415)	(418)



\* Adjusted for AgustaWestland

<b>Profit and loss account</b>	<b>2002 £m</b>	<b>2003 £m</b>	<b>2004 Est £m</b>
<b>SSAP 24</b>			
<b>Current Service</b>	<b>12</b>	<b>10</b>	<b>10</b>
<b>Deficit</b>	<b>6</b>	<b>23</b>	<b>40</b>
	<b>18</b>	<b>33</b>	<b>50</b>
<b>FRS 17</b>	<b>13</b>	<b>31</b>	<b>24</b>
<b>Cash</b>	<b>33</b>	<b>54</b>	<b>53</b>

	2003	2002
Full year dividend per share	11.6p	11.3p
Dividend cover	2.0 times	2.2 times
Cash cost	£85m	£83m

> Progressive dividend policy maintained

> Yield at 27 February closing price 4.2%

## Still at advanced stages of planning Outline details

	Cash costs £m	Non-cash £m	Total £m
Driveline – Shaping up for the Future	35 x 3 = 105	30 - 40	~145
Other – US Sinter, overheads across the Group	30 - 40	30 - 40	~65
	140	60 - 80	~210

	Estimated charge to P&L £m		Estimated cash outflow £m
2004	90	70	50
2005/6	50	-	90
	140	70	140

	Cash costs £m	Benefits
Driveline – Shaping up for the Future	105	40
Other – US Sinter, overheads across the Group	30-40	20
	140	60

Cash payback in 3-4 years

Maximum cash outlay £80m –  
well within funding capacity

✓ Keeps Driveline in cost leadership position

✓ Brings forward Sinter recovery in US

✓ Realigns overheads across the Group

	2003 £m	2002 £m	Increase %
<b>Sales</b>	<b>4,585</b>	<b>4,452</b>	<b>3.0</b>
<b>Operating profit*</b>	<b>302</b>	<b>315</b>	<b>(4.1)</b>
<b>Profit before tax*</b>	<b>246</b>	<b>267</b>	<b>(7.9)</b>

\* Before goodwill amortisation and impairment and exceptional items

**2003 a good year for GKN**

**Progress on growth strategy**

**Planning for the future**

# Group Outlook

- > A more positive outlook for our major markets in 2004
  - Automotive output up in North America, Western Europe & Asia Pacific
  - Strong military aerospace demand, civil market at its low
- > Competitive pressures will continue
  - Raw material prices and transactional currency effects
- > Continued improvements in operational performance but further impact of UK pension deficit
- > Strategic actions in place to secure growth

**GKN – moving forward with confidence**

**Winning** new business

Shaping up for the **future**

