GKN PLC

Clear Vision > Strong Action

Sir Kevin Smith – Chief Executive

Interim Management Statement – three months ended 31 March 2010

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Overview

- Market conditions in Q1 encouraging
  - Automotive and OffHighway stronger than expected
  - Aerospace in line
- All businesses making good progress
  - Sales increase 22% vs Q1 2009 to £1.31bn
  - Trading profit £84m vs £(12)m – trading margin 6.4%
- Strong cash management continues – net debt £293m (31 December 2009: £300m)
  - Higher profitability offsets seasonal working capital outflow

Automotive (including Powder Metallurgy)

- Global light vehicle production increased by 50% compared with Q1 2009 and was at a similar level to Q4 2009
- All major markets improve – China (+70%), North America (+67%), Japan (+58%), India (+37%), Western Europe (+36%)
- GKN's sales up 50% to £852m (2009: £568m) – underlying up 54%
- Strong recovery in profitability – trading profit £51m (2009: trading loss £47m) – trading margin 6%
- Q1 sales up 12% vs Q4 2009, profits increase 24%
  - Driveline - recovery in vehicle exports and strong performance in China
  - Powder Metallurgy - new business wins and North American exposure, particularly Ford and GM

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Automotive (including Powder Metallurgy)

Management Performance	Driveline	Other Automotive	Powder Metallurgy	Total
Sales (£m)	631	41	180	852
Trading profit (£m)	39	1	11	51
Trading margin (%)	6.2%	2.4%	6.1%	6.0%

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Aerospace

- Markets perform in line with expectations
- GKN Aerospace sales down 7% to £353m (2009: £381m)
  - Currency translation 4% - underlying reduction 3%
- Trading profit £32m (2009: £34m, including £5m one-off)
- Margin 9.1% compares with underlying 7.6% in Q1 2009

OffHighway

- Markets continue to improve although remaining weaker than Q1 2009
- Strong demand for mining and construction equipment
- Sales down 19% at £101m (2009: £125m) – trading profit improves to £4m (2009: £3m)
- Q1 sales up £31m vs Q4 2009 – profit improves by £7m

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Outlook

- The outlook for GKN's major markets is mainly positive
- Automotive

  Market

  - Global production forecasts increased to around 68m vehicles
  - Q2 down 5% vs Q1 – H2 around 5% lower than H1
  - Significant increases in raw material, particularly scrap steel
    - Recovery around 80% but with some time lag

  GKN Automotive (including Powder Metallurgy)

  - Q2 sales at similar level to Q1
    - Global positioning and improving mix in Driveline
    - Strong performance in Powder Metallurgy
  - Expect H2 sales to be lower than H1

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Outlook

- Aerospace

  Market

  - US defence market solid – commercial aircraft schedule increases remove uncertainty

  GKN Aerospace

  - Earlier guidance for flat 2010 revenues maintained
  - Improving margins from Q1 – double digits for the year
  - Expect another strong performance from Aerospace

- OffHighway

  Market

  - To continue to improve through Q2
  - Little visibility beyond half year – directionally positive

  GKN OffHighway

  - Restructuring benefits will support good progress as markets recover

Update on UK Pensions

- Focus on preparation for triennial funding review
  - "Cash" not accounting
- Major improvements in funding position prior to 5 April 2010 commencement
  - Benefit changes - £80m reduction in liabilities
  - Asset backed funding stream - £30m p.a. cash payment for 20 years
    - Secures value for the GKN "promise to pay"
      - Increases scheme assets by £331m
    - Significantly lower annual cash payments compared with conventional deficit recovery plan
    - Flexibility to fund ongoing service costs should scheme move back into surplus

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Bill Seeger – Finance Director

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Pension Funding Partnership

- Agreement to make asset backed payments of £30m p.a. over the next 20 years
  - Immediate recognition as a £331m asset of the pension scheme based on the present value of the cash flow stream
- Payments to be made by a Scottish Limited Partnership (SLP) which is within the GKN Group
  - Complies with Pension Self-Investment Regulations
  - Broadly similar arrangement for making pension deficit payments to those implemented by other companies
  - The SLP's income comes from:
    - Certain UK properties leased to GKN Group subsidiaries
    - Royalty income from the use of GKN Trade Marks
- The management of the GKN Group is not restricted as a result of these arrangements, including the payment of dividends

Cash flow Summary

- GKN will pay £11m in July 2010 to the pension scheme in accordance with the Deficit Recovery Plan agreed in 2007
  - New schedule of contributions, when agreed, will be implemented in 2011
- Scottish Limited Partnership payment schedule to the pension scheme:
  - H1 2011 - £22.5m
  - 2012, 2013….2029 - £30m p.a.
  - 2030 - £7.5m
- Illustration - £500m* funding deficit
  - Cash required to fully fund this deficit using a conventional recovery plan c.£57m p.a. over 10 years
  - With an asset backed structure the cash payment would be £36m p.a. for 20 years
- The agreed arrangement provides greater certainty and less volatility than alternative funding arrangements

* Actuary assumption: the remaining scheme assets grow at a rate of 0.5% greater than the rate for the growth in technical provisions

Financial Reporting

- Material reduction in the pension scheme's deficit
  - £331m asset recorded at 31 March as a Plan Asset (IAS 19)
  - Offsetting entry through "minority interest" within equity
- No change is expected to EPS as a result of this arrangement
  - Pension financing charge reduced by £21m p.a. (£16m in 2010)
  - Offset by similar amount within "minority interest"
- Separately the planned benefit changes reduce the accounting deficit by c.£60m
- Using 31 December 2009 pension accounting deficit of £499m, impact of these actions would reduce deficit to £108m

Appendix

Pension Funding Partnership – Reporting Illustration

- Pro-forma illustration based on 2009 Annual Report figures
- Transaction assumed to have taken place on 31 December 2008 at a value of £331m
- Transaction steps
  - Partnership interest acquired by the Scheme for £331m following special contribution to scheme of £331m; nil group cash impact
  - Annual additional funding to scheme is £30m (assumed in 2009 for illustrative purposes)
  - Expected return on scheme asset assumed at 6.5%
- Impact on Income Statement, Comprehensive Income and Balance Sheet illustrated

Financial Reporting Illustration – Income Statement

Income Statement EXTRACT	Before 2009 £m	Before 2008 £m	After 2009 £m	After 2008 £m
Sales	**4,223**	4,376	**4,223**	4,376
Trading profit	*129*	*201*	*129*	*201*
Operating profit/(loss)	**39**	(86)	**39**	(86)
Share of post-tax earnings of joint ventures	**21**	6	**21**	6
Interest payable	**(67)**	(66)	**(67)**	(66)
Interest receivable	**3**	19	**3**	19
Other net financing charges	**(50)**	(3)	**(29)**	(3)
Net financing costs	**(114)**	(50)	**(93)**	(50)
Profit/(loss) before taxation	**(54)**	(130)	**(33)**	(130)
Taxation	**15**	10	**15**	10
Profit/(loss) from continuing operations	**(39)**	(120)	**(18)**	(120)
Profit/(loss) after taxation for the year	**(34)**	**(107)**	**(13)**	**(107)**
Profit attributable to non-controlling interests	**2**	2	**23**	2
Profit/(loss) attributable to equity shareholders	**(36)**	(109)	**(36)**	(109)
	(34)	(107)	**(13)**	(107)
Earnings per share – p (restated)				
Continuing operations – basic	**(3.2)**	(11.7)	**(3.2)**	(11.7)
Continuing operations – diluted	**(3.2)**	(11.7)	**(3.2)**	(11.7)

2009 Pension Financing charge reduces by Expected Return on Scheme Asset; £331m @ 6.5%

£21m increase in earnings attributable to Scheme's "minority interest" in SLP.

No change to shareholders earnings hence no change in EPS

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Financial Reporting Illustration – Comprehensive Income

Statement of Comprehensive Income

EXTRACT	2009 £m	2008 £m	2009 £m	2008 £m
Actuarial gains and losses on post-employment obligations				
Subsidiaries	(190)	(386)	(192)	(386)
Joint ventures	-	-	-	-
Tax on items taken directly to equity	17	(23)	17	(23)
	(326)	(65)	(328)	(65)
Total comprehensive income/(expense) for the year	(360)	(172)	(341)	(172)
Total comprehensive income/(expense) for the year attributable to:				
Equity shareholders	(362)	(178)	(364)	(178)
Non-controlling interests	2	6	23	6
	(360)	(172)	(341)	(172)

Differences between expected returns on the asset and actual are charged to "reserves". Assumed to be £2m *(illustrative only)*

£21m increase in earnings attributable to Scheme's "minority interest" in SLP.

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Financial Reporting Illustration – Balance Sheet

Consolidated balance sheet	Before		After	
	2009 £m	Restated 2008 £m	2009 £m	Restated 2008 £m
Assets				
Fixed assets				
	2,384	2,553	2,384	2,553
Current assets				
Cash and cash equivalents	316	114	286	114
	1,562	1,514	1,532	1,514
Total assets	3,946	4,067	3,916	4,067
Liabilities				
Current liabilities				
	(1,122)	(1,289)	(1,122)	(1,289)
Non-current liabilities				
Borrowings	(564)	(725)	(564)	(725)
Post-employment obligations	(996)	(834)	(646)	(503)
	(1,852)	(1,850)	(1,502)	(1,519)
Total liabilities	(2,974)	(3,139)	(2,624)	(2,808)
Net assets	972	928	1,292	1,259
Shareholders' equity				
Share capital	457	372	457	372
Share premium account	9	29	9	29
Retained earnings	431	290	429	290
Other reserves	51	214	51	214
	948	905	946	905
Non-controlling interests	24	23	346	354
Total equity	972	928	1,292	1,259

£30m funding to Scheme reduces Cash balances

31 Dec 08 accounting deficit £834m reduces by value of asset to £503m

Similarly 31 Dec 09 accounting deficit reduced by £350m being £331m investment + 2009 £21m expected return less £2m assumed actuarial loss

£2m actuarial loss on scheme asset

NCI ("minority interest") changes reflect initial £331m & 09 movements; £21m expected return attributable to MI and £30m cash payment

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