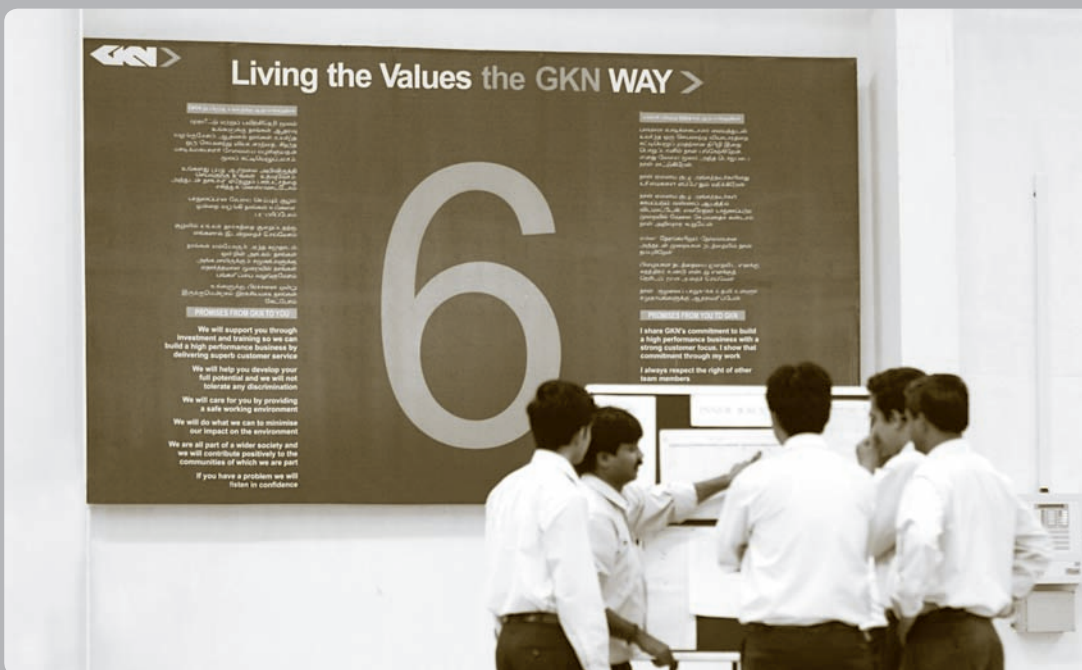


Business Review

# The GKN Way

## How we sustain and develop our business

For 250 years certain characteristics have been common to the way GKN operates: a culture of continuous improvement, a focus on technology, development of our people and, underpinning these, fundamental and enduring values which extend beyond the purely commercial aspects of our activities. Today we call them the GKN Way.



### Living the Values

GKN is a group of 40,000 people from many different locations around the world, with diverse backgrounds and differing experience. The GKN Way brings them all together with a common global approach to the way we sustain and develop our business. It encompasses a culture of continuous improvement, a focus on technology, development of all our people to raise their capability and, at its heart, the GKN Values.

The Values govern our relationships with all our stakeholders whether they are shareholders, employees, customers, suppliers or the communities in which we operate. They are underpinned by the GKN Code which, together with a series of underlying policies, provides a framework for the behaviour of all our employees whatever their job and wherever they are located.

The GKN Code is designed to ensure that our business in all its aspects continues to be run in an ethical, socially responsible and sustainable manner. (The Code Principles are shown in yellow text throughout this review.) Although only formally launched in 2006, there are many examples throughout our 250 year history of the application of the Code's principles in the conduct of our business. Some historical and some recent examples are provided throughout this review. All the recent examples are winners of 2008 Group Excellence awards. The awards encourage a culture of continuous improvement in everything we do and recognise truly outstanding performance across our business.

### Conducting our business with integrity

**We will comply with all relevant laws and regulations wherever we operate and conduct our business with integrity and in such a manner as to reinforce our reputation.**

Our ethical standards policy requires all employees to maintain the highest standards of integrity, honesty and fair dealing. We support the Universal Declaration of Human Rights and do not tolerate the use of child labour or forced labour in our own operations and, through our supplier management policy, we require equivalent standards through our supply chain. We will continue to reinforce our reputation through high standards of conduct to underpin shareholder value.

### Working with our suppliers

**We will deal honestly and fairly with our suppliers and subcontractors.**

Our suppliers play an integral part in the sustainability of our business and it is essential that they conduct their business in a manner that supports our commitment to world class performance. Our supplier management policy encourages Group companies to develop and maintain value adding relationships with our supply base. It prohibits companies from engaging suppliers that offer inadequate health and safety standards for employees, infringe internationally accepted standards of workers' rights, use child or forced labour, adopt unsound environmental practices, have poor standards of social responsibility or that fail to comply with relevant laws and regulations. In the current difficult trading conditions we are closely monitoring the financial health of our suppliers to ensure that we are aware of any significant issues and can provide assistance where appropriate.

## In the beginning . . .

*In 1859, the Dowlais Iron Co. completed construction of Goat Mill, the world's most powerful rolling mill. This enabled the company to mass-produce rails up to 70 ft in length without impacting quality.*

## . . . more recently

*A GKN Driveline team of torque technology specialists demonstrated excellent global cross-functional customer service in designing and developing a new low cost all wheel drive system for Renault's H79 programme which has been proven to outperform previous off the shelf products. Customer satisfaction was demonstrated by the award of follow on business on other all wheel drive programmes.*

(Customer Service Excellence award)

*GKN Driveline's plant in Cheonan, South Korea, improved its quality performance significantly over the period 2006 to 2008 achieving 22 consecutive months with no quality concerns or complaints from customers. This represents a world class performance and is a model for all other GKN plants.*

(Product Quality Excellence award)

## Business Review: The GKN Way continued

### Safeguarding shareholders' interests

**We aim to maximise shareholder value whilst safeguarding shareholders' investment by combining high standards of business performance with high standards of corporate governance and risk management.**

We describe in the corporate governance statement, on pages 54 to 58, the governance and control procedures we have adopted to ensure that strong stewardship of the Group contributes to the sustainability of our business. The Governance and Risk Sub-Committee of the Board plays a central role in this with responsibility for developing strategy and for providing oversight and direction on all matters relating to governance, risk management and corporate social responsibility. As part of our internal control procedures, Group companies are required to confirm compliance with the GKN Code and policies.

A summary of those risks which could have a material impact on the future performance of the Group is given on pages 37 to 39. All Group companies must have a business continuity plan so that, should a risk materialise which threatens GKN assets, employees, production or the environment in which we operate, we are in a position to minimise disruption of our business with the least inconvenience to our customers. Each plan must conform to Group guidelines and be prepared following consultation with all key internal and external stakeholders.

### A continuous improvement culture

**We aim to provide excellent products and services to our customers and seek to win new business through fair competition.**

At the very core of how we operate in GKN is a culture of continuous improvement in all that we do. Whilst this has been a consistent characteristic of our business over two and a half centuries, we have recently formalised our approach with the application of the techniques of Lean Enterprise in our business and production processes worldwide. All sites are required to develop an annual continuous improvement plan which engages every employee in driving more value through increased process efficiency and the elimination of all forms of waste including unnecessary cost and time. Each plan is aligned to a site's business objectives and sets out its continuous improvement actions. The use of common measures across the Group enables us to benchmark performance against defined goals and against world class standards.

Over 300 continuous improvement leaders from our global operations have been trained to coach and facilitate employees in the use of Lean techniques. In addition, 170 individuals will graduate from the Mastering Continuous Improvement Leadership (MCIL) development programme in 2009 and a further 1,200 leaders are participating in a series of core skills workshops.

## In the beginning . . .

### A continuous improvement culture in the nineteenth century

*Lady Charlotte Guest (Head of the Dowlais Iron Co.), 1854:*

*" . . . and unless we keep quite ahead as to improvements and the most advantageous and enlightened system of working we shall be quite unable to keep any position at all — much less than we now occupy at the head of the trade — and this will involve continuous labour and immense skill and energy."*

## . . . more recently

*The GKN Driveline torque technology plant in Nagoya, Japan, used Lean Enterprise techniques of value stream mapping to drive process improvements and reduce the manufacturing lead time within the plant from 10 to 4.3 days resulting in increased stock turns on direct materials from 19.3 to 34.6.*

*(Production and Business Process Excellence award)*

 1759-2009  
250 Years of Exceptional Engineering

### Delivering advanced technology

Delivering advanced technology and first class engineering capability to our customers has, for a long time, been a key strategic objective for GKN. To underline its importance, at the start of 2008 a new position of Group Technology Officer was created with responsibility for developing the Group technology plan to secure the appropriate technology for GKN's long term strategic objectives. The Group Technology Officer works closely with the Technology

Sub-Committee, which comprises senior divisional engineering executives, to identify those technologies, beyond the individual divisional technology plans, that are necessary for growth and to focus resource on developing GKN's position in these areas.

## In the beginning . . .

*In 1856, the Dowlais Iron Co. acquired the first British licence to use the new Bessemer process for making steel. The process revolutionised steel manufacture by greatly increasing the scale and speed of production whilst decreasing labour requirements and cost.*

*William Menelaus (Engineer at Dowlais Iron Co.), 1857:*

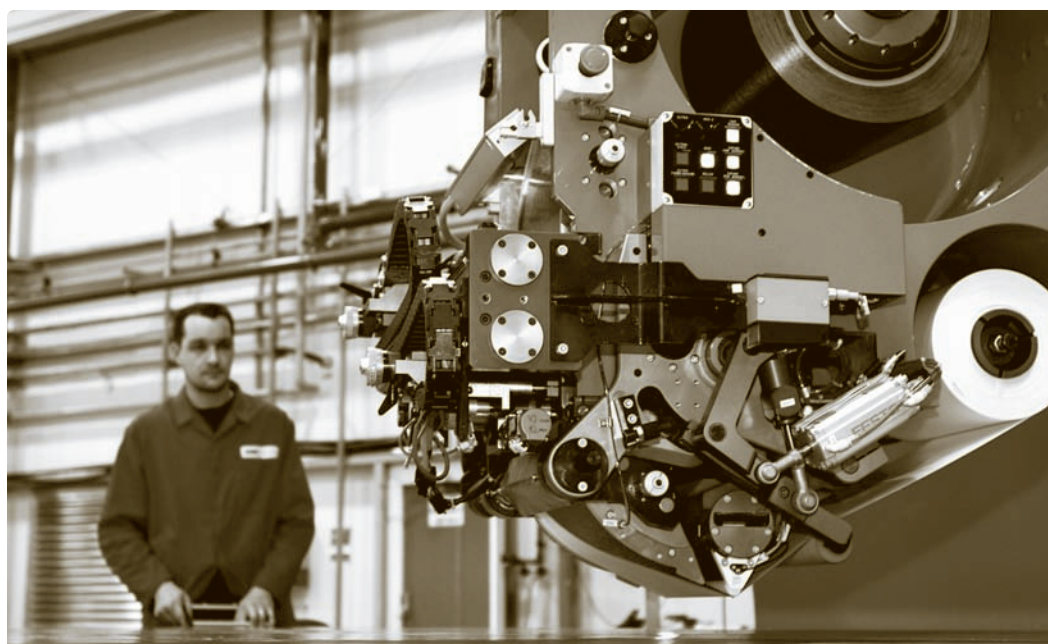
*"When iron makers went mad with excitement about the Bessemer invention, it was only an indication of how strongly they felt the necessity for improvement."*

## . . . more recently

*GKN Aerospace Astech Engineered Products has developed a manufacturing process that can form compound curves to their proprietary resistance welded titanium honeycombed sheets. This new process has supported the winning of engine exhaust business with Boeing on their 747-8 programme and reinforces GKN's technological leadership in aero engine components.*

*(Technology Excellence award)*

 1759 - 2009  
250 Years of Exceptional Engineering



## Business Review: The GKN Way continued

### Developing our people

**We will treat our employees justly and with respect, recognising their abilities and differences, and reward them for their achievements.**

Critical to the success of our business is the capability of our people. We are committed to supporting employees through investment and training enabling them to contribute to their full potential so that GKN can maintain a high performance business which delivers first class customer service. Our objective is to create an environment in which highly skilled and motivated people can achieve the exacting standards demanded in our business, can develop their careers and provide GKN with a sustainable competitive advantage.

Our Organisation Planning Process is strengthened each year with an increasingly extensive analysis of the needs of the organisation, the available resource and the capability required to deliver the Group's strategic objectives. Following a gap analysis, appropriate development plans are put in place, integrated into the business plans at site and Group level, and reviewed

annually by the Board. Through the performance development process individuals discuss their career and development plans with their manager against the GKN Leadership Framework which defines what is needed to be successful at every level in the organisation. The output from these discussions is used in the succession planning process.

Further work has been undertaken during the year to establish core leadership development programmes for leaders across the Group following the successful launch in 2008 of the Global Leadership Programme for the 70 most senior executives within the Group. For our first line managers we have launched the Essential Leadership Development Programme to develop the skills necessary to lead their part of the business and in which over 2,000 GKN leaders will participate. To support the Lean Enterprise programme and in particular the recovery from the current trading downturn in our markets, a programme has been put in place to develop mid level managers' commercial and financial skills in leading and sustaining large scale change.

### In the beginning . . .

*In 1820 Josiah Guest opened a school for the children of Dowlais Iron Co. employees and the following year it was attended by 200 boys and 100 girls. He built a further school in 1844 and two years later an infants' school was added. The first night school for boys and workmen was established in 1848 with average evening attendances of 150. They were taught reading, writing, history, geography and grammar. In 1855 Lady Charlotte Guest completed a new school, which was centrally heated, offering places for 650 boys and girls and 680 infants.*

### . . . more recently

*Employees at GKN Driveline's plant in Faridabad, India, helped start a development centre for underprivileged young girls and women in an area where 70% of females receive no formal education. The centre, which is attended by 70 females, provides basic education as well as vocational skills. Driveline employees continue to help with the day to day activities of the centre.*

(Hearts of Gold award)

 1759-2009  
250 Years of Exceptional Engineering

### Engaging more fully with our employees

The extent to which our employees are engaged in the business is an important indicator of our ability to deliver on our business strategy. During 2008 we conducted the first global employee survey and 85% of employees worldwide took the opportunity to participate. Positive feedback included employees views on GKN's health, safety and environmental performance, and over 70% of employees said they would recommend GKN as a place to work. Each GKN location worldwide has identified areas for improvement as a result of the survey and actions are now being progressed as part of each business' continuous improvement planning process. The Group has also implemented a 'Positive Climate Index' whereby, at each location, a cross section of employees participate in a mini survey as part of a facilitated focus group to ensure that improvements are being made with regard to employee engagement.

Effective two-way communication is at the heart of employee engagement and within GKN we have a variety of mechanisms at all levels of the organisation to support this, including daily team meetings, presentations, intranets and newsletters. Consultation mechanisms exist worldwide across the Group to provide open communication between management and employees whether or not unionised. The European Works Council, which covers all European businesses, has operated since 1995.

Under our employment policy all Group businesses must adopt practices which ensure that employees are treated justly and with respect and that their abilities, differences and achievements are recognised, thereby ensuring a positive, inclusive working environment.

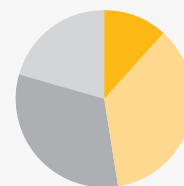
Employment decisions must be based on qualifications and merit and all businesses must ensure a working environment free from all forms of discrimination and from any form of conduct which could be considered to be harassing, coercive or disruptive, together with working conditions which are safe and healthy.

Employee-related policies are designed to encourage individuals to report and discuss problems on a confidential basis and provide expeditious and confidential grievance procedures. GKN operates international whistleblowing hotlines run by external and independent third parties which are available 24 hours a day. The hotlines ensure that employees can make (on an anonymous basis if preferred) confidential disclosures about suspected impropriety and wrongdoing. The policy requires that employees are able to make such disclosures without fear of recrimination. Any matters reported are investigated and escalated to the Audit Committee as appropriate. Initial feedback is given to the relevant employee within 14 days.

#### Employees by region as at 31 December 2008

- UK 4,700
- Continental Europe 14,300
- Americas 12,800
- Rest of the World 8,200

including subsidiaries and joint ventures



#### Employees by business as at 31 December 2008

- Automotive**
  - Subsidiaries 18,700
  - Joint ventures 3,500
- Powder Metallurgy**
  - Subsidiaries 6,000
- OffHighway**
  - Subsidiaries 3,900
- Aerospace**
  - Subsidiaries 7,900



## In the beginning . . .

### Providing recreational facilities for the workforce

*At the end of the nineteenth century, the Nettlefold family built sports facilities for their employees including cricket and football pitches, tennis courts, a bowling green and a fishing pool. Joseph Chamberlain (of Nettlefold & Chamberlain) built an Institute which served as a schoolroom for the youngest employees and as a meeting place for older employees.*

## . . . more recently

*A cross-divisional and central team of HR managers developed and implemented a standard Group-wide employee survey process in 2008 with the objective of achieving a quantifiable improvement in employee alignment and engagement. The process involves both the measurement of levels of employee satisfaction and the implementation of identified improvement actions.*

(People Excellence and Best Practice award)

## Business Review: The GKN Way continued

### Health, safety and environmental performance

GKN is committed to continuous improvement in health, safety and environmental performance. With regard to health and safety our goal is zero preventable accidents. Our commitment to protecting the environment is focused on both minimising the impact of our operations and on making a contribution towards a sustainable future through the design of our products. Compliance with applicable health, safety and environmental laws and regulations is a fundamental obligation for all our businesses.

There are two internationally recognised standards by which management systems for safety and environmental performance are assessed: OHSAS 18001 for safety and ISO 14001 for environmental performance. Central to these is a requirement for continuous improvement driven by regular measurement and evaluation of performance, identification and implementation of action plans, and measurement of results.

In June 2008, the Executive Committee mandated that all GKN locations achieve compliance with OHSAS 18001 and our businesses are working toward that goal. At the end of 2008, 35 locations had achieved certification to this standard. 115 locations, representing 90% of the workforce, have achieved certification to the ISO 14001 standard.

Involvement of our workforce is essential to achieving our health, safety and environmental goals. In pursuit of our goal of zero preventable accidents we focus on strong, visible and supportive leadership accompanied by a commitment from employees to take ownership of their own health and safety and that of their immediate colleagues. The RADAR programme (Risk Awareness, Detection, Action and Review) launched Group-wide in 2008 represents one of a number of behavioural safety tools deployed within the Group and allows our workers to improve safety conditions in their work area.

The specialists forum of safety and environmental professionals has developed action plans for implementing OHSAS-compliant safety management systems and a policy for purchasing only energy efficient machinery. In addition, a dedicated internal website has been established to facilitate knowledge sharing.

#### Reporting on performance

Our performance against the key health and safety and environmental indicators is measured on a regular basis and reports are made quarterly to the Sub-Committee on Governance and Risk and to the Executive Committee. A half yearly report is also made to the Board. Significant health and safety and environmental incidents are reported to Executive Committee members within 24 hours and reviewed at the Committee's next meeting.

In early 2008 a new web based reporting tool was launched Group-wide to facilitate both the collection of data and, more importantly, its analysis and use by management at all levels to help drive improved performance. Group businesses are required to confirm and certify the accuracy of the data that they report.

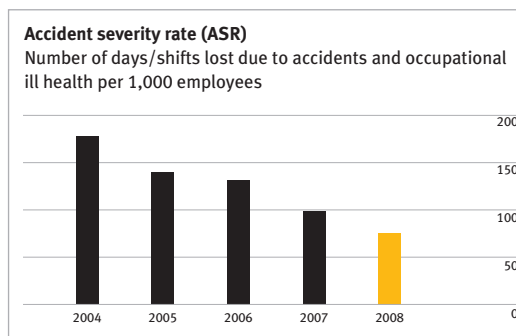
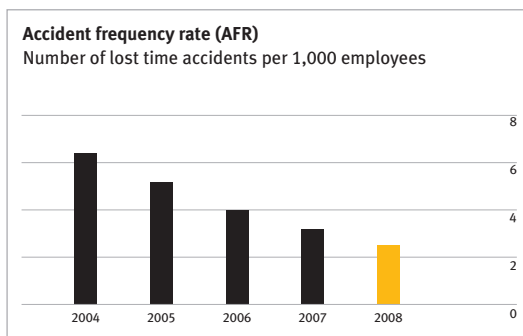
A specialists forum, comprising divisional and corporate centre representatives, meets as required to discuss best practice as well as specific issues in relation to the management of accidental risk that either its members or the Sub-Committee on Governance and Risk believe require attention.

### ... more recently

*Using Lean Enterprise techniques, employees at GKN Sinter Metals — Dubois, US, created a safety system which builds on the RADAR programme and enhances employee involvement and safety awareness through the audit of other departments' work space and practices. At the end of 2008, Dubois had achieved three years without a lost time accident.*

(Safety Excellence award)





### We will provide employees with a healthy and safe working environment.

Accident frequency rate (AFR) and accident severity rate (ASR) are key health and safety performance indicators for the Group and our performance against these in 2008 is reported on page 11 and is shown in the charts above. 2008 is the eleventh consecutive year of performance improvement. Over that period our AFR and ASR performance have improved by 93% and 86% respectively and our serious injury rate (SIR) has improved by 85%. However, our SIR increased slightly in 2008 compared with 2007 levels but remains at a very low level.

Each business is required to target aggressive annual performance improvements. Targets are set primarily at plant level where they can best reflect the particular needs, risks, and priorities of each site. In 2008, 77% of plants maintained or improved their excellent AFR performance and 71% met their AFR targets. For ASR, performance was maintained or improved by 76% of plants, and 66% met their targets.

During 2008 there were 10 health and safety enforcement actions against GKN companies in Brazil, the UK and the US with fines totalling \$21,600 issued by the relevant authorities. There were no fatalities of employees or contractors on GKN sites.

### ... more recently

*Working with the local university, employees from GKN Driveline do Brasil have developed a project to use waste in the form of phosphate sludge generated in the precision forming plant, which would normally be sent to landfill, to produce red ceramic bricks on an industrial scale. Over 95% of the waste produced at the plant is recycled.*  
(Environmental Excellence award)

*At the OffHighway plant in Rockford, US, a team of employees carried out a number of activities with a view to achieving significant reductions in non-cooling water usage and waste streams. They succeeded in reducing water consumption by 33 million gallons per year bringing cost savings as well as preserving natural resources.*  
(Environmental Excellence award)

## Business Review: The GKN Way continued

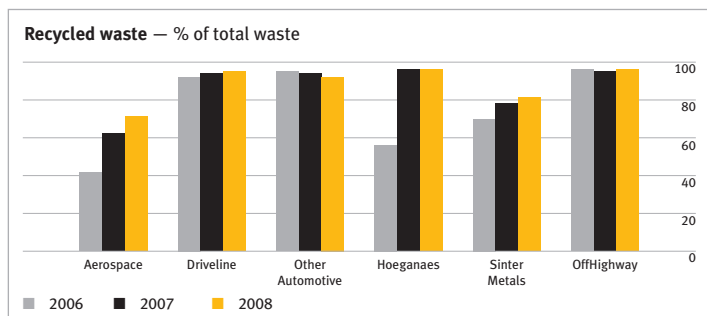
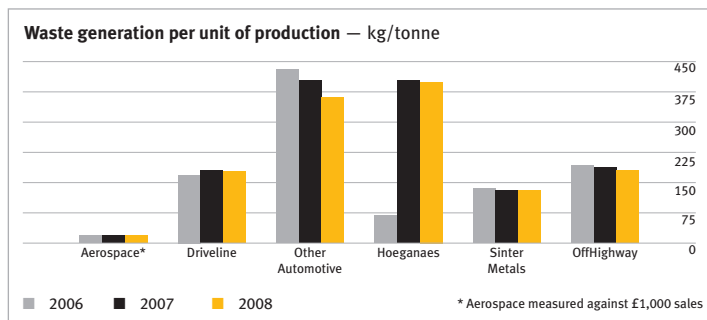
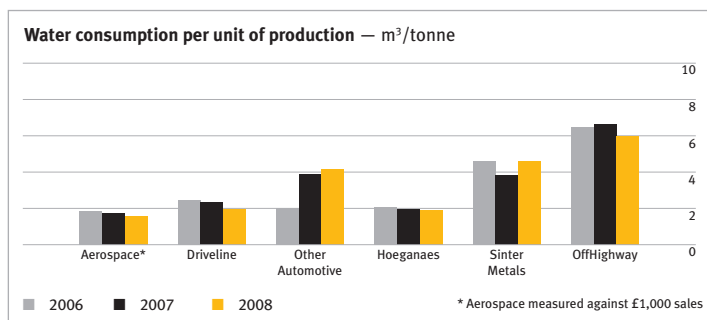
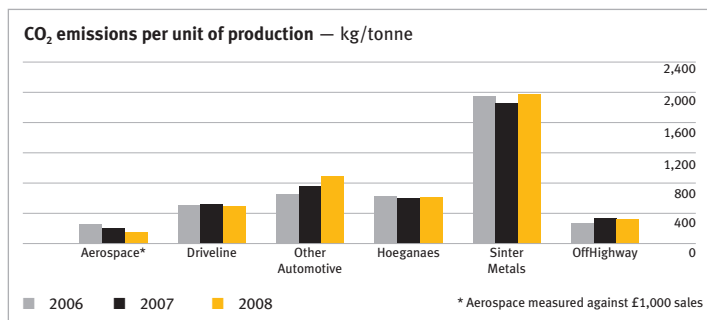
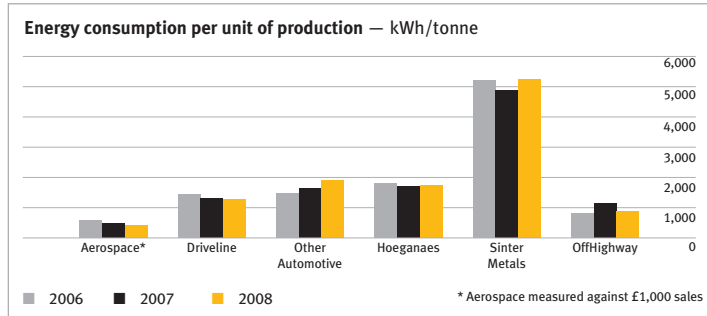
**We will play our part in the protection of the environment in both the operation of our facilities and the design of our products.**

We measure the impact of our operations on the environment against the key performance indicators of energy consumption and associated carbon dioxide (CO<sub>2</sub>) emissions, water usage, waste generation and recycled waste. Operating sites are required to set targets, particularly on energy consumption, water use and waste generation, in line with our commitment to continuous improvement.

Our performance against these measures in 2008 is reported on page 11 and is shown in the charts opposite. Most businesses either maintained or improved their performance with certain exceptions. GKN Sinter Metals operates a continuous production process with very high furnace temperatures with the result that in times of lower production (as in the second half of 2008) it is difficult to reduce energy consumption by a corresponding amount. The business' energy and CO<sub>2</sub> consumption per unit of production therefore show an increase compared with 2007 with a similar increase in water usage. The continued high level of waste generation at Hoeganaes is accounted for by the removal of a slag stockpile at its Gallatin plant in the US (classified as waste), the ferrous content of which was separated for on-site recycling with the non-ferrous content being recycled for off-site construction purposes. The relatively high water consumption at OffHighway is due to the use of water from a borehole at our major manufacturing site in Lohmar, West Germany. This is used in a once through cooling process and is discharged without contamination into surface water.

During 2008 there were four environmental enforcement actions against GKN companies in the US and Denmark. Fines totalling \$2,000 have been issued by the relevant authorities. We experienced no major spills or environmental incidents.

A common theme across both our Automotive and Aerospace businesses is the drive through technology developments to produce lighter weight products, offering opportunities for manufacturers of car and light vehicles and of aircraft to improve fuel economy and thereby reduce CO<sub>2</sub> emissions. Examples of these are given throughout this annual report.



### Contributing to our communities We will contribute positively to the communities in which we operate.

Building on the success of GKN Mission Everest in 2007 which inspired our employees worldwide to contribute an extra \$1.7 million of support in their local communities, in 2008 we launched GKN Hearts of Gold to encourage and sustain a continuing high level of engagement by GKN people with their local communities. Our employees have again demonstrated tremendous compassion, undertaking projects that will make a sustainable improvement in the lives of local people. The contribution of all employees who took part has been recognised with a Hearts of Gold badge, monthly certificates have been awarded to specific projects and Group awards made to the best overall team project and the best individual achievement.

In line with the commitment we made in 2007, we have again supported four children's charities in Africa to provide houses and school buildings for orphans, fresh water supplies, and protection against malaria and other diseases. In addition to a commitment of financial

support by the Company of some \$500,000, GKN employees have provided project management skills to help ensure the success of the projects. The project work is continuing this year and will have a sustainable impact on the lives of many.

Throughout our 250 year history there have been many examples of GKN, and its predecessor companies, making a positive and significant contribution to their local communities. Our commitment today is stronger than ever since we believe that these communities are a vital ingredient in the sustainability of our enterprise. We are very proud of the significant contribution made by our employees worldwide who, in this endeavour, truly live the GKN Values — the GKN Way.



## In the beginning . . .

*In the first half of the nineteenth century the population of Merthyr Tydfil increased massively, living conditions were poor and there were repeated outbreaks of cholera. Death rates were very high with the average life expectancy for ironworkers only 17 years. G T Clark, the manager of the Dowlais Iron Co. (both a doctor and an engineer), was instrumental in the construction of a fresh water reservoir and sewers during the years 1858 to 1868. This done, cholera was finally banished from Merthyr.*

## . . . more recently

*Gangaram Vithoba Mane, a machine tool operator at our Sinter Metals plant in Pimpri, India, began raising funds in 1991 to build a school for local children whose parents could not afford to pay for basic education. Today the school, which he continues to administer and manage, has 825 pupils and 15 teachers.*  
(Hearts of Gold award)

