

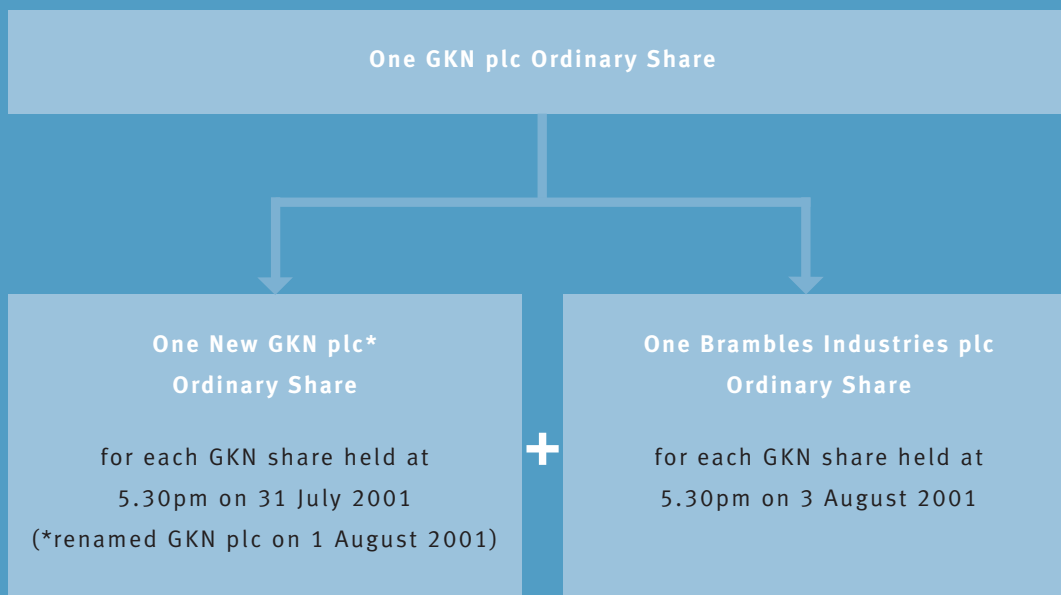


Automotive Aerospace

Interim Report 2001

GKN - a focused global engineer committed to growth

What has happened to your GKN shares



Key Dates

Last day of dealings in GKN plc Ordinary Shares	Tuesday 31 July 2001
New GKN plc renamed GKN plc and dealings commenced in its Ordinary Shares (including Industrial Services activities)	Wednesday 1 August 2001
CREST accounts credited with GKN plc Ordinary Shares	Wednesday 1 August 2001
Last day of dealings in GKN plc Ordinary Shares (including Industrial Services activities)	Friday 3 August 2001
Dealings commenced in GKN plc (without Industrial Services activities) and Brambles Industries plc Ordinary Shares	Tuesday 7 August 2001
CREST accounts credited with Brambles Industries plc Ordinary Shares	Tuesday 7 August 2001
GKN plc and Brambles Industries plc share certificates to be despatched by	Tuesday 21 August 2001

Front cover:

left a close-up view of an automotive constant velocity fixed ball joint produced by GKN Automotive Driveline Division

right GKN Aerospace Services produces the cockpit windshield and canopy for the Eurofighter Typhoon

Financial achievements

GKN Consolidated

	First half 2001	First half 2000	% Change
Sales	£2,798m	£2,481m	+13%
Results before goodwill amortisation and exceptional items			
Operating profit	£247m	£286m	(14)%
Profit before tax	£198m	£259m	(24)%
Earnings per share	20.2p	26.2p	(23)%
Interim dividend per share	7.6p	6.9p	+10%
Net borrowings	£920m	£424m	

GKN Continuing Businesses

	First half 2001	First half 2000	% Change
Sales	£2,260m	£2,031m	+11%
Results before goodwill amortisation and exceptional items			
Operating profit	£175m	£208m	(16)%
Profit before tax	£143m	£193m	(26)%
Earnings per share	14.5p	19.1p	(24)%
Interim dividend per share	7.6p	6.9p	+10%
Net borrowings	£920m	£424m	

Unless otherwise stated, profit figures in this report are before goodwill amortisation and exceptional items.

Business highlights

- Demerger of Industrial Services businesses successfully completed
- Sales of continuing businesses increased by 11%
- Automotive operating profits affected by North American slowdown
- Acquisition of Boeing's St. Louis plant strengthens Aerospace business
- AgustaWestland joint venture off to a good start
- Strong operating cash flow of £222 million from continuing businesses
- Interim dividend increased by 10%

Chairman and Chief Executive's statement

The demerger of our Industrial Services businesses and their subsequent merger into a dual listed company with Brambles Industries Limited of Australia was successfully completed on 7 August 2001. The reported results for the half year to 30 June 2001 include the contribution from the demerged businesses which are shown separately as discontinued businesses. There were no other discontinued businesses in the first half of this year.

Pro forma half-year results for GKN as it is today, following the demerger, namely a focused global automotive and aerospace business, are also shown separately on pages 15 to 18 and are the principal focus of this statement.

CONSOLIDATED RESULTS BEFORE DEMERGER

As we advised in May, the results for the first six months of 2001 have been significantly affected by the severe downturn in car and light vehicle production in North America and by the continued reduction in demand in the OffHighway equipment markets, both of which adversely impacted results in the Automotive businesses. In Aerospace, good progress was made as a result of the acquisition of Boeing's St. Louis plant and as benefits of the restructuring programme began to show through. The AgustaWestland joint venture had a successful first half year. Industrial Services results were lower than in the same period last year, reflecting the investments that are being made in CHEP and also the sudden and severe downturn in demand in the US storage racking market which significantly reduced profits in the Interlake Material Handling business.

Sales in total, including the Industrial Services activities since demerged, increased by 13% to £2.8 billion. Profit before tax, goodwill amortisation and exceptional items fell by 24% to £198 million. Earnings per share, on the same basis, fell by 23% to 20.2p.

The favourable impact of exchange rates on translation of overseas sales and operating profits was £73 million and £9 million respectively. The net favourable impact of 2000 and 2001 acquisitions and divestments was £242 million on sales and £18 million on operating profit. Excluding these factors, on a like for like basis, sales improved by £2 million and operating profit fell by £66 million (22%).

A principal factor behind this divergence has been the impact of reduced North American Automotive volumes on existing business which is masked in the segmental analysis by the impact of currency and the introduction of new programmes. These reduced volumes had an adverse effect on margins in both North American operations and particularly so in the powder metallurgy business because of its high operational gearing. This has been exacerbated in the first half of 2001 by substantial increases in energy costs.

Comparison of sales and operating profits between the two years in Aerospace needs to take into account the formation of the AgustaWestland joint venture. It is also adversely influenced by the favourable effect on last year of finalising outstanding fighting vehicle contracts.

Additionally, sales in the discontinued businesses in the first half of this year increased substantially, but for the reasons stated on page 6 operating profits were lower.

Earnings per share before goodwill amortisation and exceptional items at 20.2p were 23% lower than the equivalent period last year.

Operating cash flow at £237 million was ahead of last year. The balance sheet remains strong with pro forma net debt after demerger of £920 million and negligible debt in the remaining joint ventures.

As previously indicated, the Board has decided to increase the interim dividend by 10% to 7.6p. This will be paid on 28 September 2001 to shareholders on the register on 17 August 2001. Shareholders may choose to reinvest the interim dividend under the GKN Dividend Reinvestment Plan (DRIP). The closing date for receipt of new DRIP mandates is 14 September 2001.

PRO FORMA RESULTS AFTER DEMERGER

GKN Continuing Businesses

Pro forma information for the continuing businesses of GKN (set out on pages 15 to 18) show that sales in the continuing businesses increased by 11% to £2.3 billion. However, profit before tax, goodwill amortisation and exceptional items fell by 26% to £143 million for the reasons previously outlined in this document. Earnings per share on the same basis fell by 24% to 14.5p.

The favourable impact of exchange rates on the translation of overseas sales and operating profit was £55 million and £7 million respectively. The net favourable impact of both 2000 and 2001 acquisitions and divestments was £190 million on sales and £14 million on operating profit. Excluding these factors, on a like for like basis, sales were broadly flat and operating profit fell by £54 million (25%).

Interest payable, including that of joint ventures, was £32 million compared with £15 million for the same period last year. The increase is attributable to the higher level of net debt resulting from the cost of acquisitions, the transfer of funds into the AgustaWestland joint venture, cash costs of the Aerospace re-organisation, part payment of demerger expenses and higher working capital levels at the commencement of the year.

There was an exceptional gain of £7 million arising from the disposal of the Sitec Aerospace business in May 2001. The tax charge of £40 million includes £3 million in respect of the gain on that disposal. The underlying tax rate before exceptional charges was 26%. This reflects an allocation of the overall tax charge for the consolidated entity but is consistent with the likely underlying 2001 tax charge for the business after demerger.

Operating cash flow was £222 million compared with £110 million in the first half of 2000, largely due to an improvement in working capital levels.

Capital expenditure totalled £138 million compared with £132 million in the same period last year. This represented 1.6 times depreciation, which was the same level as last year.

Net borrowings were £920 million at the end of June compared with £601 million at the end of December 2000. The St. Louis and Presmet acquisitions in 2001, together with the transfer of funds into the AgustaWestland joint venture, are the major factors accounting for the difference.

Automotive

Automotive markets have had a difficult six months.

North American car and light vehicle output in the six months to June fell by 13% from the first six months of last year, with the domestic manufacturers Ford, GM and DaimlerChrysler down by more than the average. First quarter demand was particularly depressed as inventory levels were adjusted downwards; Ford also cut back on Explorer production to deal with its tyre recall campaign. In Europe and the rest of the world, overall automotive production volumes remained relatively steady, in spite of fluctuating monthly sales levels in individual countries.

Against that background, performance in our automotive businesses is encouraging with worldwide sales at £1.5 billion, £132 million (10%) ahead of the same period last year. The first time inclusions of acquisitions contributed £102 million and the favourable impact of currency was £49 million. Underlying sales were therefore broadly in line with last year reflecting the continuing underlying strength of our businesses.

Operating profits fell by 25% to £121 million, heavily influenced by the effects of the North American slowdown particularly on our powder metallurgy business.

Within the overall automotive portfolio, fortunes were mixed. The Automotive Driveline (ADD) business is less exposed to North American domestic customers and also launched a substantial number of new product programmes. This and growth in developing markets resulted in sales of £930 million being some 3% higher than 2000 on a like for like basis, with an additional £71 million of sales coming from the Kaiserslautern and Tochigi outsourcing acquisitions.

These two outsourcings are integrating well into the division but, as expected, generate lower than average margins in their early years. Their additional contribution and other gains were, however, enough to offset the effects of the North American downturn. As a result ADD's overall operating profits were similar to last year.

In contrast, the powder metallurgy business had a difficult first half with sales of £321 million, 4% below last year (14% on a like for like basis), and operating profits substantially lower. This resulted from a high exposure to the domestic automotive manufacturers in North America. Excluding currency and acquisitions, sales in North America in the first half were down 18% from the previous year's level and although major new orders continue to be won, including some major bearing cap programmes, these will not commence production before 2002 at the earliest. With Hoeganaes supplying nearly all of GKN Sinter Metals' powder requirements in North America, operational gearing is relatively high. Unexpectedly large increases in natural gas and other energy costs were also an adverse factor. The decline in profits was particularly pronounced in the first quarter and the cost reduction steps implemented in early 2001, including a headcount reduction since late last year of around 500 people, should ensure a lower cost base in the second half. The costs of this headcount reduction were absorbed in the first half operating profit.

In January, the Presmet powder metallurgy business was acquired which adds to GKN Sinter Metals' position as market leader in this growing industry.

The OffHighway market is experiencing a major downturn in Europe as a result of concerns over BSE in continental Europe and foot and mouth disease in the UK. The North American market is also showing little signs of recovering from the depressed levels of the last two years. Against that very difficult backdrop, on a like for like basis the sales of the OffHighway and other Automotive businesses fell by 1% to £243 million with operating profit significantly lower.

Aerospace

Aerospace sales increased by 14% to £766 million of which £416 million came from our 50% share of the AgustaWestland joint venture.

A major advance for the Aerospace Services division was the acquisition of Boeing's St. Louis fabrication plant which was successfully completed in January 2001. Integration has proceeded well and the business contributed £88 million of sales albeit, as expected, at modest levels of operating profit, but with considerable potential for the future. In addition to a welcome increase in business with Boeing, the acquisition also increased the level of business in the strategic US defence sector which has traditionally had a more stable order pattern than the civil aircraft market.

Another major focus of activity was the Aerospace restructuring project announced last year. Progress has been good with operations being transferred to the seven focused manufacturing facilities now in place. Two facilities have been closed and the Sitec business in Germany was successfully divested in May 2001.

In the first half, the margin benefits of the restructuring were modest, as expected, but will continue to improve in the second half.

Opportunities for new business remain good with the Airbus A380 offering a major opportunity for composite structures.

The newly created AgustaWestland joint venture had a successful first half. Good progress was made against delivery targets and the synergy potential originally identified has been confirmed. The market opportunities for the company's wider product range continue to be positive and the recent announcement of the £100 million Bowman training contract is a valuable addition to the order book.

GKN Discontinued Businesses

Industrial Services

Sales for the first six months of 2001 were £538 million (2000 – £450 million) and operating profit was £72 million (2000 – £78 million).

In the joint ventures, CHEP continued to grow sales strongly by 22% (17% at constant exchange rates) to £245 million in the six months to June. The growth was particularly buoyant in the Americas where sales grew by 37% (26% at constant exchange rates). The roll out of CHEP's service to the suppliers of Wal*Mart and The Home Depot is making good progress and the launch of the returnable transit packaging (RTP) pool in the US added further to revenue

growth. In Europe, sales were up by 9%. While the UK is making good progress, the rate of growth in continental Europe was held back somewhat by the slowness of the development of the pallet pooling business in Germany and Italy.

Operating profit in the CHEP joint ventures at £44 million was slightly lower than last year. One of the factors impacting profits was the additional expenditure in Europe associated with the roll out of the global IT programme for CHEP. This new IT system will allow CHEP to develop into a global supplier of multiple services across national boundaries. Other factors include start-up losses in the pooling initiative in RTP in North America. These had been expected since every new CHEP pool incurs operating losses at the outset. In the case of RTP, the initiative is currently making a gross loss which is expected to be eliminated in the second half of 2001 as the volumes grow and the business moves towards operating profitability. Finally, implementation of the depot consolidation programme in the US is causing some temporary operational inefficiencies.

The CLEANAWAY business performed satisfactorily with sales and profits of £194 million and £18 million respectively both ahead of last year. In the UK, Serviceteam has been integrated successfully with CLEANAWAY's collection business, which combined now comprise about 40% of CLEANAWAY's UK revenues. Growth in Germany was held back somewhat due to the significant fall in recycled paper prices.

In the wholly owned businesses, CHEP South Africa is having a strong year and Meineke is continuing to perform well. Interlake Material Handling, however, has had a difficult half-year, with sales down by £14 million (16%, or 23% at constant exchange rates) and profits down by £6 million. This is due entirely to the economic slowdown in the US and its impact on the construction of new distribution and retail facilities.

The interest charge in the Industrial Services sector was £5 million higher than last year with the largest element of the increase being in CHEP. This occurred principally in the US where there was a further investment in pallets in support of the Wal*Mart and The Home Depot initiatives. This was in advance of the pallets becoming revenue-earning pending their use by suppliers to these major retail chains. CLEANAWAY interest also increased somewhat following the acquisitions of Waste Management Deutschland and Serviceteam.

PEOPLE

The last six months has been a period of intensive work for many of our employees in difficult trading conditions and particularly in the implementation of the major changes to the Group structure. It is a tribute to their skills and dedication that this complex task has been accomplished so successfully.

DEMERGER COSTS

Fees associated with the demerger of the Industrial Services businesses have already been announced at £17 million, but with the transaction now complete and with AgustaWestland operating as a standalone joint venture, it is now clear that some restructuring of the central overheads and systems is necessary, together with the likely withdrawal from some investments which are no longer appropriate for the new Group. A review is underway.

These additional costs, the greater part of which relate to investments and systems, together with the £17 million referred to above are expected to result in a total exceptional charge for the demerger in the order of £40 million, to be charged in the second half.

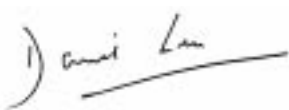
OUTLOOK

It is some time since the short-term prospects for the major economies have been so uncertain and this has a direct impact in particular on the outlook for our global automotive business.

While there are signs that North American vehicle production levels may be stabilising, the picture is less clear in Europe. In comparison to last year, we anticipate vehicle production in both markets to be somewhat lower in the second half. The OffHighway market continues to be very depressed and no short-term recovery is anticipated.

In Aerospace, helicopter sales in the second half should be comparable to those in the first half and in Aerospace Services we expect a continuing improvement as the restructuring programme nears completion.

The post demerger review referred to above and the actions we are taking within the operating companies will position us better to withstand the short-term impact of any possible further economic downturn. Looking further ahead our strong balance sheet, competitive technology and market leadership positions leave GKN well placed to take full advantage of improved market conditions when these occur.



Sir David Lees

Chairman

8 August 2001



Marcus Beresford

Chief Executive

Consolidated profit and loss account

For the half year ended 30 June 2001

Full Year 2000		Notes	Continuing GKN Businesses £m	Industrial Services* £m	First Half 2001 Total £m	First Half 2000 £m
£m						
	SALES					
–	Subsidiaries – acquisitions		99	–	99	–
4,124	– other		1,619	100	1,719	2,022
4,124			1,718	100	1,818	2,022
–	Share of joint ventures – acquisitions		–	42	42	–
910	– other		507	396	903	427
910			507	438	945	427
62	Share of associates		35	–	35	32
5,096		1/2	2,260	538	2,798	2,481
	OPERATING PROFIT					
	Subsidiaries					
–	Before goodwill amortisation and exceptional items		5	–	5	–
421	acquisitions		110	10	120	208
(30)	other		(17)	(1)	(18)	(12)
(45)	Goodwill amortisation		–	–	–	–
346	Exceptional items		98	9	107	196
	Share of joint ventures					
–	Before goodwill amortisation acquisitions		–	1	1	–
168	other		58	61	119	76
(5)	Goodwill amortisation		(1)	(3)	(4)	(2)
163			57	59	116	74
4	Share of associates		2	–	2	2
513	TOTAL OPERATING PROFIT	1/2	157	68	225	272
	EXCEPTIONAL ITEMS					
27	Profits less losses on sale or closure of businesses		7	–	7	63
6	Share of associate's exceptional items		–	–	–	–
546	PROFIT BEFORE INTEREST AND TAXATION		164	68	232	335
	Interest (payable)/receivable					
(31)	Subsidiaries		(31)	2	(29)	(13)
(34)	Share of joint ventures and associates		(1)	(19)	(20)	(14)
481	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		132	51	183	308
(157)	Taxation		(40)	(14)	(54)	(94)
324	Profit on ordinary activities after taxation		92	37	129	214
(5)	Minority interests – equity		(2)	–	(2)	(4)
319	EARNINGS OF THE PERIOD		90	37	127	210
(143)	DIVIDENDS				(55)	(50)
176	TRANSFER TO RESERVES				72	160
44.6	EARNINGS PER SHARE - p	3			17.7	29.4
44.0	DILUTED EARNINGS PER SHARE - p				17.5	28.9
	RESULTS BEFORE GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS					
593	Operating profit - £m		175	72	247	286
528	Profit before tax - £m		143	55	198	259
54.5	Earnings per share - p (note 3)				20.2	26.2

* Industrial Services businesses are shown separately as they are discontinued.

Consolidated balance sheet

At 30 June 2001

31 December 2000 £m		30 June 2001 £m	1 July 2000 £m
	FIXED ASSETS		
579	Intangible assets	612	473
1,391	Tangible assets	1,448	1,298
1,970		2,060	1,771
	Investments		
	Joint ventures		
1,392	Share of gross assets	2,191	1,270
(1,053)	Share of gross liabilities	(1,753)	(966)
339		438	304
16	Associates	16	16
82	Other investments	76	84
437		530	404
2,407	Total fixed assets	2,590	2,175
	CURRENT ASSETS		
602	Stocks	570	602
755	Debtors	703	750
143	Cash at bank and in hand	185	196
1,500		1,458	1,548
	CREDITORS: amounts falling due within one year		
(116)	Short-term borrowings	(249)	(91)
(789)	Creditors	(749)	(817)
(315)	Customer advances	–	(312)
(297)	Taxation and dividend payable	(259)	(235)
(1,517)		(1,257)	(1,455)
(17)	NET CURRENT ASSETS/(LIABILITIES)	201	93
2,390	TOTAL ASSETS LESS CURRENT LIABILITIES	2,791	2,268
	CREDITORS: amounts falling due beyond one year		
(623)	Term loans and obligations under finance leases	(852)	(529)
(291)	PROVISIONS FOR LIABILITIES AND CHARGES	(307)	(249)
1,476	NET ASSETS	1,632	1,490
	CAPITAL AND RESERVES		
361	Equity share capital	361	360
–	Non-equity share capital	–	13
1,096	Reserves – equity	1,250	1,085
1,457	SHAREHOLDERS' FUNDS	1,611	1,458
19	MINORITY INTERESTS – EQUITY	21	32
1,476		1,632	1,490

Statement of total recognised gains and losses

For the half year ended 30 June 2001

Full Year 2000 £m		First Half 2001 £m	First Half 2000 £m
	EARNINGS OF THE PERIOD		
218	Subsidiaries	60	157
92	Joint ventures	65	45
9	Associates	2	8
319		127	210
3	Currency variations	58	16
(5)	Other reserve movements	–	–
317	TOTAL RECOGNISED GAINS AND LOSSES OF THE PERIOD	185	226
(10)	Prior year adjustment	–	(10)
307	TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT	185	216

Reconciliation of movements in shareholders' funds

For the half year ended 30 June 2001

Full Year 2000 £m		First Half 2001 £m	First Half 2000 £m
317	TOTAL RECOGNISED GAINS AND LOSSES OF THE PERIOD	185	226
(143)	Dividends	(55)	(50)
10	Issue of ordinary shares net of costs	2	4
(84)	Redemption of 'B' shares	–	(71)
13	Goodwill on businesses sold or closed	22	5
113	TOTAL INCREASE	154	114
1,344	Shareholders' funds at beginning of period	1,457	1,344
1,457	SHAREHOLDERS' FUNDS AT END OF PERIOD	1,611	1,458

Movement in net funds

For the half year ended 30 June 2001

Full Year 2000 £m		First Half 2001 £m	First Half 2000 £m
(147)	CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING	(183)	(62)
(72)	Currency variations	3	1
12	Net proceeds of ordinary share issues	2	4
(84)	Redemption of 'B' shares	–	(71)
(5)	New finance leases	–	–
(24)	Subsidiaries acquired and sold	(141)	(15)
(320)	TOTAL OUTFLOW	(319)	(143)
(281)	Net borrowings at beginning of period	(601)	(281)
(601)	NET BORROWINGS AT END OF PERIOD	(920)	(424)

Consolidated cash flow statement

For the half year ended 30 June 2001

Full Year 2000 £m		First Half 2001 £m	First Half 2000 £m
365	NET CASH INFLOW FROM OPERATING ACTIVITIES (see below)	237	121
48	DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES	24	24
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
(29)	Net interest paid	(29)	(16)
(3)	Dividends paid to minority interests	(1)	(2)
(32)		(30)	(18)
(65)	TAXATION	(15)	(34)
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
(261)	Purchase of tangible fixed assets	(146)	(136)
(39)	Other	(35)	(29)
(300)		(181)	(165)
	ACQUISITIONS AND DISPOSALS		
(226)	Purchase of subsidiaries and joint ventures	(135)	(90)
113	Sale of subsidiaries and joint ventures	10	100
(113)		(125)	10
(50)	EQUITY DIVIDENDS PAID	(93)	–
(147)	CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING	(183)	(62)

Cash inflow from operating activities

For the half year ended 30 June 2001

Full Year 2000 £m		First Half 2001 £m	First Half 2000 £m
346	Operating profit from subsidiary operations	107	196
193	Depreciation and goodwill amortisation	105	97
(139)	Decrease/(increase) in working capital	33	(139)
(1)	Decrease in provisions	(13)	(5)
(27)	Decrease in customer advances	–	(30)
(7)	Other	5	2
365	NET CASH INFLOW FROM OPERATING ACTIVITIES	237	121

Segmental analysis

	Sales			Operating Profit		
	First Half 2001 £m	First Half 2000 £m	Full Year 2000 £m	First Half 2001 £m	First Half 2000 £m	Full Year 2000 £m
BY BUSINESS						
Automotive						
Subsidiaries	1,414	1,284	2,530	107	148	281
Joint ventures	80	78	153	14	14	27
	1,494	1,362	2,683	121	162	308
Aerospace						
Subsidiaries	304	627	1,362	8	44	108
Joint ventures	427	10	27	44	–	4
Associates	35	32	62	2	2	4
	766	669	1,451	54	46	116
Continuing operations	2,260	2,031	4,134	175	208	424
Industrial Services						
Subsidiaries	100	111	232	10	16	32
Joint ventures	438	339	730	62	62	137
Discontinued operations	538	450	962	72	78	169
	2,798	2,481	5,096	247	286	593
Goodwill amortisation	–	–	–	(22)	(14)	(35)
Exceptional items	–	–	–	–	–	(45)
TOTAL	2,798	2,481	5,096	225	272	513
BY REGION OF ORIGIN						
Europe						
Subsidiaries	902	1,256	2,570	82	134	274
Joint ventures	762	284	598	93	50	111
Associates	35	32	62	2	2	4
	1,699	1,572	3,230	177	186	389
Americas						
Subsidiaries	771	670	1,337	31	68	129
Joint ventures	160	122	270	23	22	49
	931	792	1,607	54	90	178
Rest of the world						
Subsidiaries	145	96	217	12	6	18
Joint ventures	23	21	42	4	4	8
	168	117	259	16	10	26
TOTAL	2,798	2,481	5,096	247	286	593

Notes

- 1(a) On 7 August 2001, following approval of a scheme of arrangement by Shareholders and the Court, GKN demerged its Industrial Services businesses into a separately quoted company, Brambles Industries plc.

The results for those businesses for the first half of 2001 have been shown as discontinued in the profit and loss account on page 8. There are no other discontinued operations during the period. Pro forma financial information on the GKN Continuing Businesses has been prepared (pages 15 to 18) to show the effect of the demerger of the Industrial Services businesses as if it had occurred at 1 January 2000 for the profit and loss account and cash flow statement and 31 December 2000 for the balance sheet. In addition, the pro forma balance sheet at 31 December 2000 illustrates the impact of the creation of the 50% owned AgustaWestland joint venture as though it had occurred at that date.

- 1(b) On 9 February 2001, GKN and Finmeccanica SpA (Finmeccanica) each contributed the net assets of their helicopter businesses to a new joint venture company AgustaWestland, the shares in which are held equally by GKN and Finmeccanica. On the basis of a provisional assessment of fair value, the impact of this transaction was to increase shareholders' funds by £20 million and borrowings by £143 million.

- 2 The results of overseas subsidiaries, joint ventures and associates are translated to sterling at average period rates; balance sheets are translated at period end rates.

The exchange rates used for the currencies most important to the Group's operations are:

		£1:euro	£1:US\$
First half average	- 2001	1.61	1.44
	- 2000	1.63	1.57
Period end	- 2001	1.66	1.41
	- 2000	1.58	1.51

- 3 Earnings per share have been calculated on the average number of shares in issue and ranking for dividend in the period of 718.2 million (first half 2000 - 713.5 million, full year 2000 - 715.4 million). Earnings per share before goodwill amortisation and exceptional items are calculated on the earnings of the period, adjusted as follows:

	Earnings			Earnings per share		
	First Half 2001 £m	First Half 2000 £m	Full Year 2000 £m	First Half 2001 p	First Half 2000 p	Full Year 2000 p
Earnings of the period	127	210	319	17.7	29.4	44.6
Included in operating profit:						
Goodwill amortisation	22	14	35	3.1	2.0	4.9
Exceptional items	-	-	45	-	-	6.3
Non-operating exceptional items	(7)	(63)	(33)	(1.0)	(8.8)	(4.6)
Taxation attributable to exceptional items	3	26	24	0.4	3.6	3.3
Earnings before goodwill amortisation and exceptional items	145	187	390	20.2	26.2	54.5

- 4 The figures for the full year 2000 have been extracted from accounts which have been filed with the Registrar of Companies and contain an unqualified audit report. The half year figures have not been audited but have been reviewed and reported on by PricewaterhouseCoopers (see page 14).

Independent review report to GKN plc

Introduction

We have been instructed by the Company to review the financial information on pages 8 to 13 which comprises the profit and loss account, balance sheet and cash flow statements and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2001.

PricewaterhouseCoopers

Chartered Accountants, Birmingham

8 August 2001

Notes:

(a) The maintenance and integrity of the GKN plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

GKN Continuing Businesses pro forma consolidated profit and loss account

For the half year ended 30 June 2001

	Notes	First Half 2001 £m	First Half 2000 £m	Second Half 2000 £m	Full Year 2000 £m
SALES					
Subsidiaries – acquisitions		99	–	–	–
– other		1,619	1,911	1,981	3,892
		1,718	1,911	1,981	3,892
Share of joint ventures		507	88	92	180
Share of associates		35	32	30	62
	1/2	2,260	2,031	2,103	4,134
OPERATING PROFIT					
Subsidiaries					
Before goodwill amortisation and exceptional items		5	–	–	–
acquisitions		110	192	197	389
other		(17)	(11)	(17)	(28)
Goodwill amortisation		–	–	(45)	(45)
Exceptional items		98	181	135	316
		58	14	17	31
Share of joint ventures		(1)	–	–	–
Before goodwill amortisation		57	14	17	31
Goodwill amortisation		2	2	2	4
Share of associates		2	2	2	4
	1/2	157	197	154	351
TOTAL OPERATING PROFIT					
EXCEPTIONAL ITEMS					
Profits less losses on sale or		7	57	(30)	27
closure of businesses		–	6	–	6
Share of associate's exceptional items		164	260	124	384
		(31)	(14)	(20)	(34)
PROFIT BEFORE INTEREST AND TAXATION		(1)	(1)	(3)	(4)
Interest (payable)/receivable		132	245	101	346
Subsidiaries		(40)	(79)	(46)	(125)
Share of joint ventures and associates		92	166	55	221
		(2)	(4)	(1)	(5)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		90	162	54	216
Taxation		90	162	54	216
Profit on ordinary activities after taxation		90	162	54	216
Minority interests – equity		90	162	54	216
EARNINGS OF THE PERIOD		90	162	54	216
EARNINGS PER SHARE - p	3	12.5	22.7	7.5	30.2
RESULTS BEFORE GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS					
Operating profit - £m		175	208	216	424
Profit before tax - £m		143	193	193	386
Earnings per share - p (note 3)		14.5	19.1	20.0	39.1

GKN Continuing Businesses pro forma statement of net assets

At 30 June 2001

	30 June 2001 £m	31 December 2000 £m
FIXED ASSETS		
Intangible assets	567	535
Tangible assets	1,393	1,277
	1,960	1,812
Investments		
Joint ventures		
Share of gross assets	1,233	1,036
Share of gross liabilities	(1,092)	(937)
	141	99
Associates	16	16
Other investments	31	26
	188	141
Total fixed assets	2,148	1,953
CURRENT ASSETS		
Stocks	553	473
Debtors	675	581
Cash at bank and in hand	185	137
	1,413	1,191
CREDITORS: amounts falling due within one year		
Short-term borrowings	(249)	(259)
Creditors	(722)	(608)
Taxation and dividend payable	(248)	(275)
	(1,219)	(1,142)
NET CURRENT ASSETS	194	49
TOTAL ASSETS LESS CURRENT LIABILITIES	2,342	2,002
CREDITORS: amounts falling due beyond one year		
Term loans and obligations under finance leases	(852)	(623)
Provisions for liabilities and charges	(306)	(288)
NET ASSETS	1,184	1,091

Note: The balance sheet at the end of December 2000 has been adjusted to reflect the creation of the AgustaWestland joint venture as though it had occurred at that date.

GKN Continuing Businesses pro forma cash inflow from operating activities

For the half year ended 30 June 2001

Full Year 2000 £m		First Half 2001 £m	First Half 2000 £m
316	Operating profit from continuing operations	98	182
185	Depreciation and goodwill amortisation	100	92
(132)	Decrease/(increase) in working capital	32	(131)
(1)	Decrease in provisions	(13)	(5)
(27)	Decrease in customer advances	–	(30)
(6)	Other	5	2
335	NET CASH INFLOW FROM OPERATING ACTIVITIES	222	110

GKN Continuing Businesses pro forma cash flow statement

For the half year ended 30 June 2001

Full Year 2000 £m		First Half 2001 £m	First Half 2000 £m
335	NET CASH INFLOW FROM OPERATING ACTIVITIES (see above)	222	110
14	DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES	1	8
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
(29)	Net interest paid	(31)	(17)
(3)	Dividends paid to minority interests	(1)	(2)
(32)		(32)	(19)
(58)	TAXATION	(14)	(32)
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
(246)	Purchase of tangible fixed assets	(138)	(132)
1	Other	(8)	(4)
(245)		(146)	(136)
	ACQUISITIONS AND DISPOSALS		
(223)	Purchase of subsidiaries and joint ventures	(134)	(87)
114	Sale of subsidiaries and joint ventures	10	100
(109)		(124)	13
(95)	CASH OUTFLOW FROM CONTINUING BUSINESSES	(93)	(56)

GKN Continuing Businesses movement in net funds

For the half year ended 30 June 2001

Full Year 2000 £m		First Half 2001 £m	First Half 2000 £m
(95)	Cash outflow from continuing businesses	(93)	(56)
(134)	Dividends/redemption of 'B' shares	(93)	(71)
(24)	Subsidiaries acquired and sold	(141)	(15)
(72)	Currency variations	3	1
12	Proceeds of share issues	2	4
(5)	New finance leases	–	–
(318)	CONTINUING BUSINESSES TOTAL OUTFLOW	(322)	(137)
(2)	Cash inflow/(outflow) from discontinued businesses	3	(6)
(281)	Net borrowings at beginning of period	(601)	(281)
(601)	NET BORROWINGS AT END OF PERIOD	(920)	(424)

GKN Continuing Businesses pro forma segmental analysis

	Sales			Operating Profit		
	First Half 2001 £m	First Half 2000 £m	Full Year 2000 £m	First Half 2001 £m	First Half 2000 £m	Full Year 2000 £m
BY BUSINESS						
Automotive						
Subsidiaries	1,414	1,284	2,530	107	148	281
Joint ventures	80	78	153	14	14	27
	1,494	1,362	2,683	121	162	308
Aerospace						
Subsidiaries	304	627	1,362	8	44	108
Joint ventures	427	10	27	44	–	4
Associates	35	32	62	2	2	4
	766	669	1,451	54	46	116
	2,260	2,031	4,134	175	208	424
Goodwill amortisation	–	–	–	(18)	(11)	(28)
Exceptional items	–	–	–	–	–	(45)
TOTAL	2,260	2,031	4,134	157	197	351
BY REGION OF ORIGIN						
Europe						
Subsidiaries	902	1,256	2,570	82	134	274
Joint ventures	452	40	79	49	5	13
Associates	35	32	62	2	2	4
	1,389	1,328	2,711	133	141	291
Americas						
Subsidiaries	684	572	1,131	26	56	106
Joint ventures	32	28	60	5	4	10
	716	600	1,191	31	60	116
Rest of the world						
Subsidiaries	132	83	191	7	2	9
Joint ventures	23	20	41	4	5	8
	155	103	232	11	7	17
TOTAL	2,260	2,031	4,134	175	208	424

Shareholder information

2001 INTERIM DIVIDEND OF 7.6P PER ORDINARY SHARE (2000 – 6.9P)

The interim dividend is payable on 28 September 2001 to Ordinary Shareholders on the register on 17 August 2001.

Existing mandates for the payment of dividends directly into a bank or building society account and for participation in the GKN dividend reinvestment plan (see below) will be applied automatically to the new GKN Ordinary Shares issued pursuant to the Scheme of Arrangement. Dividend payment mandates (but not dividend reinvestment mandates) will also be applied automatically to the Brambles Ordinary Shares issued pursuant to the demerger of GKN's Industrial Services activities.

Dividend reinvestment plan

GKN operates a dividend reinvestment plan (DRIP) under which shareholders can mandate to reinvest cash dividends paid on their Ordinary Shares in further GKN Ordinary Shares. **Shareholders who would like to receive details of the DRIP should contact the Share Dividend Team at Lloyds TSB Registrars (see inside back cover) or visit GKN's website at www.gknplc.com.** New DRIP mandates and any withdrawals of existing mandates must be received by Lloyds TSB Registrars by 14 September 2001 to be valid for the 2001 interim dividend.

Key dates

Ordinary Shares quoted ex-dividend	15 August 2001
Dividend record date	17 August 2001
Final date for receipt of DRIP mandate forms	14 September 2001
Dividend payment date	28 September 2001
DRIP share certificates and share purchase statements despatched	11 October 2001
CREST accounts credited with DRIP shares	12 October 2001

TAXATION

Guides to the general tax position of United Kingdom shareholders under the return of capital to Ordinary Shareholders by way of a bonus issue of redeemable 'B' Shares in May 2000 and under the Industrial Services activities demerger arrangements are given in the circulars to shareholders dated 20 April 2000 and 22 June 2001 respectively, copies of which are available on request from GKN's Corporate Centre (see inside back cover), or visit GKN's website at www.gknplc.com.

Market values of GKN Ordinary Shares, 'B' Shares and Brambles Industries plc ('Brambles') Ordinary Shares for Capital Gains Tax (CGT) purposes are as follows:

First day of trading market values¹

	GKN Ordinary Shares	'B' Shares	Brambles Ordinary Shares
30 May 2000 ²	914.5p (98.736774%)	11.7p (1.263226%)	–
7 August 2001 ³	282.5p (43.943224%)	–	360.375p (56.056776%)

¹ The stated market values are used to allocate the base cost of GKN Ordinary Shares, on the basis of the relative percentages specified, between GKN Ordinary Shares and 'B' Shares and between GKN Ordinary Shares and Brambles Ordinary Shares in calculating any CGT liability. A worked example is set out on pages 14 and 43 respectively of the circulars dated 20 April 2000 and 22 June 2001.

² Being the first day of trading of the 'B' Shares.

³ Being the first day of trading of the Brambles Ordinary Shares.

Shareholder information - continued

1965/1982 market values

	GKN Ordinary Shares unadjusted for 'B' Shares or Demerger ⁴	GKN Ordinary Shares adjusted for 'B' Shares but not Demerger ⁵	GKN Ordinary Shares adjusted for 'B' Shares and Demerger ⁵	'B' Shares ⁵	Brambles Ordinary Shares ⁵
6 April 1965	116.175p	114.707p	50.406p	1.468p	64.301p
31 March 1982	104.870p	103.545p	45.501p	1.325p	58.044p

4 Adjusted for subsequent rights and capitalisation issues (prior to the issue of 'B' Shares on 30 May 2000) and the two for one GKN Ordinary Share split in May 1998.

5 If the GKN Ordinary Shares in respect of which the 'B' Shares/Brambles Ordinary Shares were issued were held by you on 6 April 1965 or 31 March 1982, you will be deemed to have also held the 'B' Shares/Brambles Ordinary Shares on such date. In such cases, the 1965/1982 market values (adjusted as described in note 4) are apportioned between GKN Ordinary Shares and 'B' Shares and, if you also received Brambles Ordinary Shares, between GKN Ordinary Shares and Brambles Ordinary Shares using the relative percentages specified on page 19 in respect of the first day of trading market values. The apportioned market values are shown in the table.

GKN SINGLE COMPANY ISA

Lloyds TSB Registrars operate a Single Company Individual Savings Account (ISA) in which GKN Ordinary Shares can be held in a tax efficient manner. Full details and an application form can be obtained by calling the Lloyds TSB Registrars ISA Helpline on 0870 24 24 244. Investors should note that the value of any tax benefit will vary according to individual circumstances and the tax rules relating to ISAs may change in the future. If you are in any doubt you should seek professional advice.

GKN AMERICAN DEPOSITARY RECEIPTS

GKN has a sponsored Level 1 American Depositary Receipt (ADR) programme for which The Bank of New York acts as Depositary. Each ADR represents one GKN Ordinary Share. The ADRs trade in the US over-the-counter (OTC) market under the symbol GKNLY. When dividends are paid to shareholders, the Depositary converts such dividends into US dollars, net of fees and expenses, and distributes the net amount to ADR holders. For enquiries, The Bank of New York can be contacted on +1-908-769-9835 or +1-888-BNY-ADRS (toll-free for US residents only).

GKN WEBSITE AND SHARE PRICE INFORMATION

Business and financial information on GKN, including this interim report, the latest annual report and share price information updated every 20 minutes, is available on GKN's website at www.gknplc.com. The latest GKN share price is also available on the Financial Times Cityline Service: telephone 0906 8432696 (calls charged at 60p per minute).

GKN's registrar, Lloyds TSB Registrars, has a website at www.shareview.co.uk where shareholders can view information on their shareholdings and recent dividends and find practical help on transferring shares or updating their details.

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and is also available on the GKN website.

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