GKN PLC

HALF YEAR REPORT 2009

EXPECT MORE

Cautionary statement

This half year report contains forward looking statements which are made in good faith based on the information available to the time of its approval. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward looking statement which could cause actual results to differ materially from those currently anticipated.

Basis of reporting

The financial statements for the period are shown on pages 8 to 27 and have been prepared using accounting policies which were used in the preparation of audited accounts for the year ended 31 December 2008 and which will form the basis of the 2009 Annual Report, except as set out in the basis of preparation on page 16.

Notes

Financial information set out in this half year report, unless otherwise stated, is presented on a management basis which aggregates the sales and trading profit, as applicable, of subsidiaries and the Group's proportionate share of joint ventures. References to margins are to trading profit expressed as a percentage of sales. Management profit or loss before tax is Group profit or loss before tax adjusted to exclude restructuring and impairment charges, profits and losses on sale or closures of businesses, amortisation of non-operating intangible assets arising on business combinations, change in value of derivative and other financial instruments and other net financing charges. These figures better reflect performance of continuing businesses. Where appropriate, reference is made to underlying results which exclude the impact of acquisitions as well as currency translation on the results of overseas operations.

Exchange rates

Exchange rates used for currencies most relevant to the Group's operations are:

	Average First Half		Period End		2008 Full Year	
	2009	2008	June **2009**	June 2008	Average	Period End
Euro	**1.12**	1.30	**1.17**	1.26	1.26	1.03
US Dollar	**1.49**	1.98	**1.65**	1.99	1.85	1.44

FINANCIAL PERFORMANCE

	Management performance			As reported		
	First half 2009 £m	First half 2008 £m	Change %	**First half 2009 £m**	First half 2008 £m	Change £m
Sales – including share of joint ventures	**2,174**	2,402	(9)			
Less share of joint ventures	**(112)**	(132)	(15)			
Sales – subsidiaries	**2,062**	2,270	(9)	**2,062**	2,270	(208)
Trading Profit – including share of JVs	**23**	161	(86)			
Less share of joint ventures	**(8)**	(15)	(47)			
Trading profit – subsidiaries	**15**	146	(90)	**15**	146	(131)
Operating profit	**15**	146	(90)	**31**	133	(102)
Share of joint ventures (post-tax)	**7**	12	(42)	**7**	12	(5)
Net financing costs	**(30)**	(26)	(15)	**(54)**	(27)	(27)
Profit/(loss) before tax	**(8)**	132	(106)	**(16)**	118	(134)
Profit/(loss) after tax – continuing	**(6)**	111	(105)	**(1)**	99	(100)
Earnings per share – p	**(0.7)**	15.5		**–**	13.8	(13.8)
Interim dividend per share – p	**–**	4.5		**–**	4.5	(4.5)

MANAGEMENT PERFORMANCE OVERVIEW

> Group results significantly impacted by the decline in Automotive and OffHighway sales, notwithstanding extensive cost cutting

- Sales down 9%, underlying down 31% (£904 million).
- Trading profit of £23 million, down £138 million.
- Automotive (including Powder Metallurgy) underlying sales down 41% – return to profit in June.
- Good performance in Aerospace continued with underlying sales up 5%. Trading profit, including Filton, of £79 million.
- Strong start from Filton with £169 million of sales and 9% underlying trading margin.
- OffHighway underlying sales down 34% – reports £2 million trading loss.
- Restructuring programme accelerated and extended with a further 2,500 people leaving the Group.

> New business wins

- Electric rear axle for PSA Hybrid 4 – strong interest for hybrid/electronic drive products.
- Additional revenue secured on Joint Strike Fighter and A350 programmes.

> Positive free cash flow of £23 million (2008: £29 million outflow).

> Net debt of £800 million at 30 June 2009.

> Rights issue net proceeds of £403 million received in July, significantly strengthens capital structure.

> No interim dividend to be paid.

INTERIM MANAGEMENT REPORT

The first half trading environment has been very challenging for GKN as the global recession impacted our businesses, initially Automotive and Powder Metallurgy and more recently in OffHighway. In response, we have aggressively cut costs, with a further 2,500 people leaving the Group in the first half of 2009, and conserved cash, by reducing capital expenditure and working capital. Towards the end of the period, as production schedules stabilised and with the benefits of the restructuring, Automotive (including Powder Metallurgy) returned to profitability. In Aerospace, we have achieved another set of strong results, with the Filton acquisition performing ahead of expectations. In OffHighway, underlying sales deteriorated throughout the period and were more than 50% down in June compared with June 2008.

The £423 million rights issue launched in June has been successfully concluded, with the proceeds used to repay our revolving credit facilities. This significantly strengthens our capital base. We continue to pursue opportunities to develop our strong market positions and, with continuing benefits from restructuring, we are well positioned to take full advantage as markets recover.

Group Overview

These results reflect the significant deterioration in automotive and off-highway markets compared to the prior year, continued strong performance in Aerospace, and include the impact of major restructuring to align the Group's operations with its markets.

Management sales

Management sales decreased 9% in the six months ended 30 June 2009 to £2,174 million (2008: £2,402 million) including the benefit from currency translation and acquisitions which added £507 million and £169 million, respectively. Underlying sales decreased by £904 million (31%).

Management trading profit

Management trading profit reduced 86% to £23 million (2008: £161 million), with trading losses in Automotive, Powder Metallurgy and OffHighway more than offset by a strong performance in Aerospace. The currency translational benefit was £36 million, while 2009 acquisitions contributed £18 million. Excluding these items, the underlying decrease was £192 million. Within this figure, Driveline was £130 million lower, Other Automotive fell by £9 million, Powder Metallurgy reduced by £26 million and OffHighway was £33 million lower, all largely as a result of volume declines. Against these reductions, market conditions remained favourable for Aerospace where underlying profit rose by £2 million.

Restructuring

In February, the Group announced plans to continue with its restructuring programme in response to the rapid deterioration in its end markets and expectations for business conditions in 2009. Based on those assumptions, the restructuring plan included reducing global headcount by around a further 2,400 people by July 2010, with eight manufacturing sites to be closed. It was anticipated that a cost of approximately £86 million would be incurred. These restructuring activities were expected to reduce annualised operating costs by approximately £89 million, once the restructuring was complete in July 2010. In addition, short-time working costs of £24 million were to be incurred and were expected to deliver benefits of £56 million in 2009.

Since that time, Automotive production has been weaker than expected, particularly in North America, Japan and Europe and the decline in OffHighway was more rapid and deeper than forecast. As a consequence, the original restructuring plans have been accelerated and extended.

Under the new plans, a further five facilities are to close and an additional 1,200 redundancies made. The costs of the restructuring plan in 2009/10 are now expected to be £103 million with the annualised benefit of £107 million, from July 2010. In the first half, around 2,500 employees left the Group.

Higher levels of short-time working have been implemented in the first half as a consequence of very weak demand in the first few months of the year. Government support to short-time working programmes has also been increased. It is anticipated that the full year cost of short-time working will now be £25 million in 2009, with a benefit to operating costs of £80 million in the year. It is anticipated that short-time working will continue to unwind through the second half.

In the half, £62 million was charged with £49 million of cash spent.

A further review of business conditions will be held at the end of the third quarter, which could add some £10 million to £15 million, to both the costs and benefits.

Divisional performance

The Group operates in the global automotive, aerospace and off-highway markets. Virtually the whole of Driveline and Other Automotive sales are in the automotive market to manufacturers of passenger cars and light vehicles. Some 76% of Powder Metallurgy sales are also to this market, with the balance to other industrial customers. Aerospace sells to manufacturers of military and civil aircraft, aircraft engines and equipment, whilst OffHighway sells to producers of agricultural, construction, mining and industrial equipment.

Automotive

Production of cars and light vehicles in the period fell in all regions, except China which grew 13% and India which grew 1%. North America was particularly affected with production volumes down 51%, and Europe and Japan were 34% and 40% lower, respectively. Production in Brazil fell 12%. In addition to overall lower production, there was a change in mix to smaller cars as a result of various scrappage and tax incentive schemes around the world.

Looking forward to the second half of the year, forecasts indicate that production in our major markets should show a slight improvement compared with the first half, as vehicle inventories stabilise and the gap between global sales and production levels narrow.

GKN Driveline

GKN Driveline is the world's leading supplier of automotive driveline components and systems. As a global tier one supplier serving the world's major vehicle manufacturers, GKN's Driveline business manufactures a broad range of constant velocity jointed sideshafts, propshafts, mechanically and electronically controlled torque management devices and associated geared components.

Driveline's management sales in the period were £905 million compared with £1,218 million in the first half of 2008. Excluding the favourable impact of currency translation of £263 million, underlying sales reduced by £576 million (39%).

Driveline reported a management trading loss of £32 million (including a first quarter £3 million post-employment curtailment gain) compared with a

trading profit of £81 million in the first half of 2008. The impact of translational currency was £17 million positive, with underlying profit reduced by £130 million due to significantly lower volumes, notwithstanding aggressive cost cutting which included first half workforce reductions of 1,000 people. The benefits of the restructuring programme and slightly increased customer demand returned the business to profitability in June, even though underlying sales were 29% lower than June 2008.

Although new model launch activity was low during the period, Driveshafts was successful in obtaining a 100% win rate on the twelve replacement driveshaft programmes it bid for. Further progress was made with Countertrack™ joints which are now in production or the application engineering stage on 38 separate programmes.

Strong market interest in GKN's hybrid/electronic drive products continued, with the first European application of the rear axle power control clutch secured for the PSA Hybrid 4 platform. Driveline is also working in a French consortium of major tier one suppliers on a Government supported electric and hybrid vehicle technology programme.

Driveline joint ventures, the principal one being Shanghai GKN Drive Shaft Company Ltd, continued to make progress and, having experienced depressed markets at the start to the year, reached record levels of driveshaft output in May and June.

In the Industrial and Distribution Services business, underlying sales fell 16% although the business remained profitable.

Other Automotive

GKN's Other Automotive subsidiary businesses, which are predominantly UK based, but with small facilities in the US and China, manufacture structural components, chassis and engine cylinder liners for the passenger car, sports utility vehicle and light vehicle and truck markets in Western Europe, the US and China. GKN also has a 50% share in Chassis Systems Ltd, which manufactures structural chassis components for Land Rover in the UK, and in Emitec, which manufactures metallic substrates for catalytic converters in Germany, the US, China and India.

Management sales in the period of £48 million were £54 million lower than the first half of 2008, reflecting the significant deterioration in automotive markets. The impact of currency translation was positive at £10 million. A management loss of £5 million for the period compares with a profit of £3 million in the prior year.

Powder Metallurgy

Powder Metallurgy produces metal powder (Hoeganaes) and sintered products (GKN Sinter Metals). Hoeganaes is the largest producer of metal powder in North America. GKN Sinter Metals is the world's largest manufacturer of sintered components. It uses powdered metals to manufacture precision automotive components for engines, transmissions and body and chassis applications. It also produces a range of components for industrial and consumer applications, including power tools, bearings, white goods and garden equipment.

Powder Metallurgy management sales were £229 million (2008: £333 million). Excluding the favourable impact of currency on translation of £73 million, the underlying decrease in sales was £177 million (44%).

Within Sinter Metals, all regions suffered a reduction in sales with the largest declines being in North America and Europe, where underlying sales were 46% and 45% lower, respectively. Asia Pacific and South America, which together account for 12% of sales, were both around 14% weaker on an underlying basis. These reductions reflect lower automotive production levels in GKN's main markets exacerbated by extensive de-stocking throughout the supply chain. North American volumes in particular were adversely affected by the accelerated actions of General Motors and Chrysler to reduce inventories in the second quarter as part of their re-organisation plans.

As a result of end market deterioration, Hoeganaes' underlying sales were 48% lower. Some stabilisation of end markets was apparent towards the end of the half.

In the first half, Powder Metallurgy reported a management trading loss of £14 million (2008: £11 million profit). The business has implemented a number of actions, commencing in the middle of 2008, that have significantly reduced its breakeven point. These actions continued in 2009, with one facility closure completed and two more underway with a further 550 jobs lost. As a result, the division traded close to breakeven in June, despite underlying sales being 39% lower than the prior year.

Both Sinter Metals and Hoeganaes recorded trading losses across all regions due to the reduction in volumes.

Approximately £40 million of new programme business was awarded in the period. In addition, a further £15 million of annualised sales of existing programmes were won from competitors. New product launches included the first application of GKN's innovative planetary pump as an integral part of the double clutch transmission on the Ferrari California and a number of powder metallurgy parts for the Tata Nano.

Aerospace

Aerospace is a global first tier supplier of airframe and engine structures, components, assemblies, transparencies and engineering services to a wide range of aircraft and engine prime contractors and other first tier suppliers. It operates in three main product areas: aerostructures, engine components and sub-systems and special products.

With the exception of the business jet market, aircraft production levels in both the civil and defence sectors remained at planned levels in the first half of 2009.

During the period, Airbus and Boeing benefited from their extensive backlogs and delivered a combined total of 500 aircraft, an increase of 3% over the first half of 2008. However, increased oil prices and general economic conditions have resulted in fewer passenger miles being flown and IATA currently estimates the combined losses of the world's airlines to be around $9 billion in 2009. As a result, there have been few new orders in the first half, with Airbus recording 68 and Boeing registering 1 (both net of cancellations). Furthermore, delays to the Boeing 787 resulted in 73 cancelled orders for that aircraft during the period. Consequently, production levels are expected to decline in the second half of 2009 and into 2010 with Boeing having announced that it is cutting the 777 monthly production rate in June 2010 from 7 to 5.

Defence requirements for 2009, driven by the budget set by the previous US administration and ongoing operational requirements, have remained stable. The proposed Defence Budget from the new Obama administration has indicated a change to priorities, with cuts on the Lockheed F-22 and Boeing C-17 but gains on the Lockheed F-35.

INTERIM MANAGEMENT REPORT CONTINUED

Aerospace management sales in the first half of £770 million were £303 million (65%) higher than the first half of 2008. Filton, acquired in January 2009, added £169 million while the impact of currency translation was £105 million positive. The underlying increase of £29 million represented a 5% improvement.

Management trading profit increased by £32 million to £79 million. Filton contributed £18 million and the impact from currency on translation of results was £12 million. Excluding these factors the increase was £2 million, including a first quarter realisation on programme development costs of £5 million and a second quarter £5 million net pension curtailment gain. The adjusted decrease was caused mainly by start up costs on new programmes, disruption costs as a result of the delays on the Boeing 787 and the decline in jet and general aviation sales. Overall, the trading margin increased to 10.3% (2008: 10.1%).

Good progress was made during the period with new business won on the Joint Strike Fighter and A350 programmes. The A350 XWB programme, for which GKN is designing and manufacturing the fixed trailing edge assembly, including the main wing spar, has gained significant momentum in 2009 and will now see increased levels of investment, in-line with our "productionisation" planning.

Across the portfolio, the division has a balanced position in civil and defence programmes and has continued to secure its market position with a range of customers and programmes that maintains its diversity. A large number of these programmes are now entering the initial phase of schedule ramp-up and are projected to reach rate production over the period 2010 to 2014.

OffHighway

OffHighway designs, manufactures and distributes, on a global basis, a portfolio of products for off-highway vehicles primarily in the agricultural, construction, mining and other specialty vehicle markets. It consists of three primary business streams – driveline products, wheels and system solutions, which includes advanced power transmissions, axles and trailer equipment. The division has a leading global position in the supply of power take-off shafts and wheels.

European agricultural markets weakened considerably in the first half with demand down significantly compared to the first half of 2008, and with a more pronounced decline in the second quarter. This was fuelled by the prevailing economic conditions, de-stocking actions within the supply chain and lower commodity prices. Demand for US agricultural machinery was also sharply down as farm income fell as a result of lower commodity prices.

In the construction equipment market, the fall off in sales was even sharper due to both the recessionary conditions persisting in our key European and US markets and the extensive de-stocking actions undertaken by our customers. The reduction in European construction equipment volume was most pronounced partly due to the high volumes recorded in the first half of 2008, whereas US construction volumes were already lower in 2008. The low level of housing starts in the US continues to depress demand for light construction equipment and demand is now weakening in mining markets.

Against this background, management sales in the first half were £222 million compared with £282 million in the first half of last year. There was a currency translation benefit of £56 million with the underlying decrease being £116 million (34%) with all product areas and regions suffering a decline. The rate of deterioration increased in the second quarter and in June monthly underlying sales were 52% lower than the prior year.

Management actions to restructure the business were accelerated with the workforce reduced by 690 and plans announced to close two operations.

The division reported a management trading loss of £2 million (2008: trading profit of £25 million). The impact of movements in exchange rates on the translation of results was £6 million favourable. The underlying decline was £33 million.

Despite the poor end markets, good progress was made in securing new business opportunities including new orders from Kawasaki and Liebherr, a five-year global supply contract for small wheels to Kion and new large wheels (46 inch to 63 inch) for mining equipment. OffHighway was also the proud recipient of CAT's Silver Partnership status award.

Corporate costs

Corporate costs, which comprise the costs of stewardship of the Group, were £3 million (2008: £6 million) and benefited in the half from a legacy post-employment past service credit of £1 million.

Restructuring and impairment charges

Restructuring and impairment charges of £62 million (2008: £4 million) relate to the restructuring programme announced in November 2008. The major elements represent redundancy (£38 million) and short-time working (£20 million) costs. These measures were put in place in response to the significantly lower production volumes in the Automotive and OffHighway businesses and the economic decline. Further restructuring costs are expected to be charged in respect of this programme in the second half.

Amortisation of non-operating intangibles arising on business combinations

The charge for the amortisation of non-operating intangibles arising on business combinations increased to £15 million (2008: £5 million), primarily due to the Filton acquisition.

Change in value of derivative and other financial instruments

The Group enters into foreign exchange contracts to hedge much of its transactional exposure. Where hedge accounting has not been applied, the change in fair value between 1 January 2009 and 30 June 2009, or the date of maturity if earlier, is reflected in the income statement as a component of operating profit and has resulted in a credit of £106 million (2008: £5 million charge). There was a £27 million charge arising from the change in the value of embedded derivatives in the period (2008: nil) and a credit of £13 million attributable to the translational currency impact on Group funding balances (2008: nil). There were also changes in the value of Powder Metallurgy commodity contracts of £1 million credit (2008: £1 million credit).

Operating profit

Operating profit of £31 million compared with £133 million in the first half of 2008.

Post-tax earnings of joint ventures

The post-tax earnings of joint ventures in the period were £7 million (2008: £12 million). This change reflects an underlying trading profit reduction of £11 million, currency translation benefit of £4 million and a £2 million decrease in the tax charge.

Net financing costs

Net financing costs totalled £54 million (2008: £27 million) and includes the non-cash charge on post-employment benefits of £23 million (2008: £1 million). The net of interest payable and interest receivable was £30 million (2008: £26 million). The £4 million increase reflects the absence of balance sheet translation cover interest benefits and the Filton acquisition, whilst the interest cost of higher average borrowings in the period is more than offset by the benefit from lower UK interest rates.

Profit/loss before tax

The loss before tax on a statutory basis was £16 million compared with a £118 million profit before tax in 2008. The management loss before tax was £8 million (2008: profit of £132 million).

Taxation

The tax credit for continuing subsidiaries for the period was £15 million (2008: £19 million charge). The tax credit on management losses of subsidiaries was £2 million (2008: £21 million charge), representing a book tax rate of 13%, compared with 18% in the first half of 2008.

The effective tax rate reflects a current tax charge and a deferred tax credit. The current tax charge arises because, despite the Group's overall loss, certain territories remain profitable and, therefore, tax paying. It also includes a £5 million charge which is offset by a £5 million credit to profit after taxation from discontinued operations. This reverses entries made in 2008, which anticipated the use of subsidiaries' tax losses against the £18 million profit before taxation from discontinued operations, following the agreement of the non-taxable nature of this item with the fiscal authority. The current tax charge is partially offset by the release of provisions for uncertain tax positions and prior year tax refunds. The deferred tax credit includes the benefit of tax losses arising in the year in those territories where there is a likelihood of future taxable profits and the further recognition of other prior year tax losses.

It is difficult to predict short term movements in both cash tax and book tax rates due to the effect of uncertain market conditions in the various territories in which we operate. In the near term, assuming more normal market conditions apply, we would expect cash tax once again to average 20% or less, in line with previous years. The book tax rate for 2009 and the near term will continue to be volatile, primarily due to movements in provisions for uncertain tax positions and the recognition/derecognition of deferred tax assets.

Non-controlling interests

The loss attributable to non-controlling interests was £1 million (2008: profit of £2 million).

Earnings per share

Earnings per share were nil pence (2008: 13.8 pence). Management earnings per share were (0.7) pence (2008: 15.5 pence). The reductions are mainly due lower profitability of the Group, discussed above.

Dividend

In view of the continued difficult trading environment, the Board has decided not to pay an interim dividend for 2009 (2008: 4.5 pence per share). The Board intends that dividend payments will be resumed when markets stabilise, taking into account the Group's earnings, cash flow and balance sheet position.

Cash flow

Operating cash flow, which we define as cash generated from operations of £92 million (2008: £159 million) adjusted for capital expenditure of £80 million (2008: £101 million) and proceeds from the disposal of fixed assets of £33 million (2008: £2 million), was an inflow of £45 million compared with an inflow of £60 million in the first half of 2008.

Within operating cash flow there was an inflow of working capital and provisions of £59 million (2008: outflow of £63 million), principally as a result of reduced inventory across the Group.

Capital expenditure on both tangible and intangible assets totalled £80 million (2008: £101 million). Of this, £72 million (2008: £95 million) was on tangible fixed assets and was 0.7 times (2008: 1.2 times) the depreciation charge. The ratio for the full year is expected to remain at or below 0.7 times.

Expenditure on intangible assets, mainly initial non-recurring costs on Aerospace programmes, totalled £8 million (2008: £6 million).

Net interest paid totalled £26 million compared with £30 million in the same period last year, mainly reflecting a one-off interest receipt arising from an on-going tax claim.

Tax paid in the period was £9 million (2008: £14 million).

As no final dividend was paid for 2008, the cash cost was nil (2008: £65 million). Acquisition expenditure was £99 million (2008: £2 million).

Period end borrowings totalled £800 million compared with £529 million at 30 June 2008 and £708 million at 31 December 2008. The £403 million net proceeds from the rights issue were received in July 2009, leaving the balance sheet in a stronger position.

Post-employment obligations

Post-employment costs comprise both pensions and post-employment medical benefits. Details of the amounts included in the balance sheet and the assumptions used in their computation are shown in Note 10 on page 23.

For the six month period, the current service cost included in operating profit was £19 million compared with £15 million in the first half of 2008. The increase reflects the impact of the Filton acquisition in the UK and currency translation for overseas schemes.

Financing charges in respect of post-employment obligations totalled £23 million (2008: £1 million) and comprised expected returns on scheme assets for the period of £63 million (2008: £81 million) which were more than offset by the £86 million (2008: £82 million) of notional interest on scheme liabilities.

The gross deficit of all schemes at 30 June 2009 was £990 million, a £156 million increase over December 2008.

The UK gross deficit of £549 million was £265 million higher than the December 2008 year end figure of £284 million. The increase was mainly due to the 50bps increase in inflation assumptions to 3.4% (£128 million) and the 30bps reduction in the discount rate to 6.2% (£86 million). In addition, interest on liabilities exceeded asset returns by £34 million.

The gross deficit of overseas businesses reduced by £109 million to £441 million, mainly due to currency translation benefits of £64 million

INTERIM MANAGEMENT REPORT CONTINUED

and a reduction in liabilities of £40 million in the US as a result of a higher discount rate.

Contributions for the six months across the Group totalled £31 million (2008: £19 million).

Net assets

Net assets of £480 million were £448 million lower than the December 2008 year end figure of £928 million. The decrease was mainly due to currency movements of £262 million and actuarial changes in respect of post-employment obligations of £198 million.

Principal risks and uncertainties

The principal risks and uncertainties to which the Group is exposed for the remaining six months of the year are summarised below. The prospectus published on 18 June 2009 in connection with the rights issue contains a full discussion of these risks and uncertainties on pages 7 to 16.

In summary, these risks and uncertainties include the impact of the current economic downturn, conditions in the Group's automotive, aerospace and off-highway markets, the amount and timing of US defence spending, supply chain disruption, fluctuations in the price of raw materials and other key inputs, continued pricing pressures from automotive industry customers, the effectiveness of restructuring plans, operating in competitive markets, risks in doing business internationally, changes in legislation, tax rates and litigious environments, interruptions to business information systems and adverse changes in actuarial assumptions and/or a decline in the market value of investments which may require increased funding of the Group's pension and post-employment healthcare plan liabilities.

Outlook

Markets

The outlook for our major markets remains mixed.

In automotive, inventory reductions in most regions have led to a more stable operating environment and expectations are for some improvement in production demand through the second half, as the gap between global sales and production volumes continues to narrow.

In aerospace, military aircraft production is expected to remain solid through the balance of the year, whilst further reductions in this year's large civil aircraft schedules appear unlikely. Business jet demand is expected to remain weak.

Demand in off-highway markets has fallen sharply in the second quarter. External forecasters expect output to be severely depressed through the third quarter before beginning to stabilise towards the end of the year.

GKN

Looking forward to the second half, in our Automotive and Powder Metallurgy businesses we expect demand in the third quarter to remain at similar levels to the second quarter due to a quiet August, and improvements in September carrying through to the fourth quarter.

Aerospace sales are expected to remain strong in the second half, with any further weakening in large commercial aircraft production schedules now unlikely before 2010.

OffHighway sales are expected to remain more than 50% lower in the third quarter. A more stable operating environment is expected in the fourth quarter, with some recovery in demand as inventories continue to reduce.

Restructuring

As markets have weakened, restructuring has been extended and accelerated. 3,600 employees will leave the Group during this year and next, an increase of 1,200 over previously announced plans. Additional costs of approximately £17 million are expected to be incurred and annualised benefits increased by a similar amount. A further review of operations will be undertaken at the end of the third quarter.

Summary

GKN has made significant progress in realigning its operations to weaker markets. Automotive (including Powder Metallurgy) has returned to profitability and Aerospace continues to perform strongly, whilst increasing stability in OffHighway is expected in the fourth quarter. As a result, the Group expects to make good progress in the second half.

DIRECTORS' RESPONSIBILITY STATEMENT

The half yearly financial report is the responsibility of the Directors who confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as endorsed and adopted by the EU;
- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure of Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the 2008 Annual Report that could do so.

The Directors of GKN plc are listed in the GKN Annual Report for the year ended 31 December 2008.

Approved by the Board of GKN plc and signed on its behalf by

Roy Brown
Chairman

3 August 2009

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2009

	Notes	Unaudited		
		First half 2009 £m	First half 2008 £m	Full year 2008 £m
Sales	1	**2,062**	2,270	4,376
Trading profit	1	***15***	*146*	*201*
Restructuring and impairment charges	3a	***(62)***	*(4)*	*(153)*
Amortisation of non-operating intangible assets arising on business combinations	3b	***(15)***	*(5)*	*(10)*
Change in value of derivative and other financial instruments	3c	***93***	*(4)*	*(124)*
Operating profit/(loss)		**31**	133	(86)
Share of post-tax earnings of joint ventures	4	**7**	12	6
Interest payable		**(32)**	(33)	(66)
Interest receivable		**2**	7	19
Other net financing charges	5	**(24)**	(1)	(3)
Net financing costs		**(54)**	(27)	(50)
Profit/(loss) before taxation		**(16)**	118	(130)
Taxation	6	**15**	(19)	10
Profit/(loss) from continuing operations		**(1)**	99	(120)
Profit after taxation from discontinued operations	6	**5**	–	13
Profit/(loss) after taxation for the period		**4**	99	(107)
Profit/(loss) attributable to non-controlling interests		**(1)**	2	2
Profit/(loss) attributable to equity shareholders		**5**	97	(109)
		4	99	(107)
Earnings per share – p	7			
Continuing operations – basic		**–**	13.8	(17.3)
Continuing operations – diluted		**–**	13.7	(17.3)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2009

	Notes	Unaudited		
		First half 2009 £m	First half 2008 £m	Full year 2008 £m
Profit/(loss) after taxation for the period		**4**	99	(107)
Other comprehensive income				
Currency variations				
Subsidiaries				
Arising in period		**(237)**	54	529
Reclassified in period		**(10)**	–	–
Joint ventures		**(15)**	4	36
Derivative financial instruments				
Transactional hedging				
Arising in period		**3**	1	(7)
Reclassified in period		**3**	(1)	(1)
Translational hedging		**–**	(32)	(213)
Actuarial gains and losses on post-employment obligations				
Subsidiaries	10	**(198)**	(105)	(386)
Joint ventures		**–**	–	–
Tax on items taken directly to equity	6	**1**	10	(23)
		(453)	(69)	(65)
Total comprehensive income/(expense) for the period		**(449)**	30	(172)
Total comprehensive income/(expense) for the period attributable to:				
Equity shareholders		**(447)**	28	(178)
Non-controlling interests		**(2)**	2	6
		(449)	30	(172)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2009

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Share-holders' equity £m	Non-controlling interests £m	Total equity £m
At 1 January 2009		**372**	**29**	**290**	**214**	**905**	**23**	**928**
Total comprehensive income/(expense) for the period		**–**	**–**	**(193)**	**(254)**	**(447)**	**(2)**	**(449)**
Share-based payments		**–**	**–**	**1**	**–**	**1**	**–**	**1**
At 30 June 2009		**372**	**29**	**98**	**(40)**	**459**	**21**	**480**
At 1 January 2008		372	29	834	(58)	1,177	19	1,196
Total comprehensive income/(expense) for the period		–	–	2	26	28	2	30
Share-based payments		–	–	2	–	2	–	2
Investment by non-controlling interests		–	–	–	–	–	1	1
Transfers		–	–	1	(1)	–	–	–
Dividends paid to shareholders	9	–	–	(65)	–	(65)	–	(65)
At 30 June 2008		372	29	774	(33)	1,142	22	1,164
At 1 January 2008		372	29	834	(58)	1,177	19	1,196
Total comprehensive income/(expense) for the year		–	–	(492)	314	(178)	6	(172)
Sale of treasury shares		–	–	1	–	1	–	1
Share-based payments		–	–	2	–	2	–	2
Investment by non-controlling interests		–	–	–	–	–	1	1
Transfers		–	–	42	(42)	–	–	–
Dividends paid to shareholders	9	–	–	(97)	–	(97)	–	(97)
Dividends paid to non-controlling interests		–	–	–	–	–	(3)	(3)
At 31 December 2008		372	29	290	214	905	23	928

CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2009

	Notes	Unaudited		
		30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Assets				
Non-current assets				
Goodwill		**334**	285	367
Other intangible assets		**191**	134	153
Property, plant and equipment	13	**1,606**	1,519	1,797
Investments in joint ventures		**99**	96	119
Other receivables and investments		**20**	24	23
Deferred tax assets		**62**	69	52
		2,312	2,127	2,511
Current assets				
Inventories		**585**	597	718
Trade and other receivables		**603**	706	645
Current tax assets		**20**	1	17
Derivative financial instruments		**22**	24	62
Cash and cash equivalents		**138**	246	114
		1,368	1,574	1,556
Total assets		**3,680**	3,701	4,067
Liabilities				
Current liabilities				
Borrowings		**(69)**	(80)	(97)
Derivative financial instruments		**(65)**	(59)	(190)
Trade and other payables		**(834)**	(943)	(972)
Current tax liabilities		**(106)**	(110)	(115)
Provisions		**(54)**	(37)	(49)
		(1,128)	(1,229)	(1,423)
Non-current liabilities				
Borrowings		**(869)**	(695)	(725)
Derivative financial instruments		**(1)**	–	(2)
Deferred tax liabilities		**(56)**	(81)	(63)
Other payables		**(71)**	(32)	(38)
Provisions		**(85)**	(50)	(54)
Post-employment obligations	10	**(990)**	(450)	(834)
		(2,072)	(1,308)	(1,716)
Total liabilities		**(3,200)**	(2,537)	(3,139)
Net assets		**480**	1,164	928
Shareholders' equity				
Ordinary share capital		**372**	372	372
Share premium account		**29**	29	29
Retained earnings		**98**	774	290
Other reserves		**(40)**	(33)	214
		459	1,142	905
Non-controlling interests		**21**	22	23
Total equity		**480**	1,164	928

CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 30 JUNE 2009

	Notes	Unaudited		
		First half 2009 £m	First half 2008 £m	Full year 2008 £m
Cash flows from operating activities				
Cash generated from operations	12	**92**	159	328
Interest received		**6**	3	18
Interest paid		**(32)**	(33)	(66)
Tax paid		**(9)**	(14)	(45)
Dividends received from joint ventures		**13**	20	24
		70	135	259
Cash flows from investing activities				
Purchase of property, plant and equipment		**(73)**	(95)	(192)
Purchase of intangible assets		**(8)**	(6)	(13)
Receipts of government capital grants		**1**	–	1
Proceeds from sale and realisation of fixed assets		**33**	2	7
Acquisitions of subsidiaries (net of cash acquired)		**(99)**	(2)	(1)
Proceeds from sale of joint venture – discontinued		**–**	–	18
Investment in joint ventures		**(1)**	–	(1)
Investment loans and capital contributions		**–**	1	1
		(147)	(100)	(180)
Cash flows from financing activities				
Net proceeds from ordinary share capital transactions		**–**	–	1
Proceeds from borrowing facilities		**137**	10	112
Finance lease payments		**(1)**	–	(9)
Repayment of borrowings		**(22)**	(6)	(33)
Settlement of forward foreign currency contracts for net investment hedging		**–**	–	(230)
Dividends paid to shareholders	9	**–**	(65)	(97)
Dividends paid to non-controlling interests		**–**	–	(3)
		114	(61)	(259)
Currency variations on cash and cash equivalents		**(9)**	6	24
Movement in cash and cash equivalents		**28**	(20)	(156)
Cash and cash equivalents at 1 January		**94**	250	250
Cash and cash equivalents at end of period	12	**122**	230	94

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 JUNE 2009

1 Segmental analysis

The Group's reportable segments have been determined based on reports reviewed by the Executive Committee led by the Chief Executive. The operating activities of the Group are structured according to the markets served; Automotive, OffHighway and Aerospace. Automotive is managed according to product groups; driveline, structural and other components and powder metallurgy. Reportable segments derive their sales from the manufacture of product. Revenue from services, inter segment trading and royalties is not significant.

1a Sales

FOR THE HALF YEAR ENDED 30 JUNE 2009 (UNAUDITED)

	Automotive					
	Driveline £m	Other Automotive £m	Powder Metallurgy £m	Aerospace £m	OffHighway £m	Total £m
Subsidiaries	**822**	**22**	**229**	**770**	**219**	**2,062**
Joint ventures	**83**	**26**	**–**	**–**	**3**	**112**
Management sales	**905**	**48**	**229**	**770**	**222**	**2,174**
FOR THE HALF YEAR ENDED 30 JUNE 2008 (UNAUDITED)						
Subsidiaries	1,142	48	333	467	280	2,270
Joint ventures	76	54	–	–	2	132
Management sales	1,218	102	333	467	282	2,402
FOR THE YEAR ENDED 31 DECEMBER 2008						
Subsidiaries	2,123	84	618	1,002	549	4,376
Joint ventures	145	92	–	–	4	241
Management sales	2,268	176	618	1,002	553	4,617

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2009

1 Segmental analysis CONTINUED

1b Trading profit

FOR THE HALF YEAR ENDED 30 JUNE 2009 (UNAUDITED)

	Automotive					
	Driveline £m	Other Automotive £m	Powder Metallurgy £m	Aerospace £m	OffHighway £m	Total £m
EBITDA	**12**	**(2)**	**1**	**106**	**5**	**122**
Depreciation and impairment of property, plant and equipment	**(53)**	**(1)**	**(15)**	**(22)**	**(7)**	**(98)**
Amortisation of operating intangible assets	**(2)**	**–**	**–**	**(4)**	**–**	**(6)**
Trading profit/(loss) – subsidiaries	**(43)**	**(3)**	**(14)**	**80**	**(2)**	**18**
Trading profit/(loss) – joint ventures	**11**	**(2)**	**–**	**(1)**	**–**	**8**
Management trading profit/(loss)	**(32)**	**(5)**	**(14)**	**79**	**(2)**	**26**
Corporate and unallocated costs						**(3)**
Management trading profit including corporate and unallocated costs						**23**
Less: Joint venture trading profit						**(8)**
Income Statement – Trading profit						**15**
FOR THE HALF YEAR ENDED 30 JUNE 2008 (UNAUDITED)						
EBITDA	116	–	27	63	31	237
Depreciation and impairment of property, plant and equipment	(44)	(2)	(16)	(13)	(6)	(81)
Amortisation of operating intangible assets	(1)	–	–	(3)	–	(4)
Trading profit/(loss) – subsidiaries	71	(2)	11	47	25	152
Trading profit – joint ventures	10	5	–	–	–	15
Management trading profit	81	3	11	47	25	167
Corporate and unallocated costs						(6)
Management trading profit including corporate and unallocated costs						161
Less: Joint venture trading profit						(15)
Income Statement – Trading profit						146
FOR THE YEAR ENDED 31 DECEMBER 2008						
EBITDA	168	–	31	136	53	388
Depreciation and impairment of property, plant and equipment	(92)	(4)	(32)	(25)	(12)	(165)
Amortisation of operating intangible assets	(3)	–	(1)	(5)	(1)	(10)
Trading profit/(loss) – subsidiaries	73	(4)	(2)	106	40	213
Trading profit/(loss) – joint ventures	15	6	–	(1)	–	20
Management trading profit/(loss)	88	2	(2)	105	40	233
Corporate and unallocated costs						(12)
Management trading profit including corporate and unallocated costs						221
Less: Joint venture trading profit						(20)
Income Statement – Trading profit						201

Subsidiary segmental sales gross of inter segment sales are; Driveline £828 million (first half 2008: £1,152 million, full year 2008: £2,143 million), Other Automotive £22 million (first half 2008: £48 million, full year 2008: £84 million), Powder Metallurgy £230 million (first half 2008: £335 million, full year 2008: £621 million), OffHighway £222 million (first half 2008: £285 million, full year 2008: £558 million) and Aerospace £770 million (first half 2008: £467 million, full year 2008: £1,002 million).

EBITDA is subsidiary trading profit before depreciation, impairment and amortisation charges included in trading profit.

No Income Statement items between trading profit and profit before tax are allocated to management trading profit, which is the Group's segmental measure of profit or loss.

Restructuring and impairment disclosures, including segmental analysis, are included in note 3a.

1 Segmental analysis CONTINUED

1c Goodwill, fixed assets and working capital – subsidiaries only

FOR THE HALF YEAR ENDED 30 JUNE 2009 (UNAUDITED)

	Automotive					
	Driveline £m	**Other Automotive £m**	**Powder Metallurgy £m**	**Aerospace £m**	**OffHighway £m**	**Total £m**
Property, plant and equipment and operating intangible fixed assets	**861**	**27**	**310**	**356**	**113**	**1,667**
Working capital	**115**	**3**	**71**	**64**	**45**	**298**
Net operating assets	**976**	**30**	**381**	**420**	**158**	**1,965**
Goodwill and non-operating intangible fixed assets	**73**	**–**	**28**	**296**	**62**	**459**
Net investment	**1,049**	**30**	**409**	**716**	**220**	**2,424**
FOR THE HALF YEAR ENDED 30 JUNE 2008 (UNAUDITED)						
Property, plant and equipment and operating intangible fixed assets	793	35	371	298	99	1,596
Working capital	122	(2)	67	113	44	344
Net operating assets	915	33	438	411	143	1,940
Goodwill and non-operating intangible fixed assets	69	–	24	189	55	337
Net investment	984	33	462	600	198	2,277
FOR THE YEAR ENDED 31 DECEMBER 2008						
Property, plant and equipment and operating intangible fixed assets	994	30	366	357	131	1,878
Working capital	133	4	73	116	46	372
Net operating assets	1,127	34	439	473	177	2,250
Goodwill and non-operating intangible fixed assets	79	–	32	250	72	433
Net investment	1,206	34	471	723	249	2,683

1d Reconciliation of segmental property, plant and equipment and operating intangible fixed assets to the Balance Sheet

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Segmental analysis – Property, plant and equipment and operating intangible fixed assets	**1,667**	1,596	1,878
Segmental analysis – Goodwill and non-operating intangible fixed assets	**459**	337	433
Goodwill	**(334)**	(285)	(367)
Corporate and unallocated assets	**5**	5	6
Balance Sheet – Property, plant and equipment and other intangible fixed assets	**1,797**	1,653	1,950

1e Reconciliation of segmental working capital to the Balance Sheet

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Segmental analysis – Working capital	**298**	344	372
Short-term joint venture financing facilities	**1**	–	–
Accrued interest	**(30)**	(27)	(28)
Restructuring provisions	**(34)**	(19)	(30)
Acquisition consideration/acquisition costs	**(32)**	2	–
Corporate and unallocated items	**(39)**	(35)	(41)
Balance Sheet – Inventories, Trade and other receivables, Trade and other payables and Provisions	**164**	265	273

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2009

2 Basis of preparation

These half year condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and International Financial Reporting Standards, as adopted by the European Union, in accordance with IAS 34 'Interim Financial Reporting'. These financial statements, which are unaudited but have been reviewed by the auditors, provide an update of previously reported information and should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2008.

These financial statements do not constitute statutory accounts. A copy of the audited consolidated statutory accounts for the year ended 31 December 2008 has been delivered to the Registrar of Companies and contained an unqualified auditors' report.

Accounting policies

The accounting policies applied in these financial statements, other than as noted below, are the same as those applied in the audited consolidated financial statements for the year ended 31 December 2008.

Standards, revisions and amendments to standards and interpretations

As outlined in the audited consolidated financial statements for the year ended 31 December 2008, IFRS 8 'Operating Segments' and IAS 23 (Amendments) 'Borrowing Costs' were identified as standards likely to impact the reporting of the Group's results, assets and liabilities with IAS 1 'Presentation of Financial Statements' (revised) impacting the presentation of financial results. These standards were adopted on 1 January 2009.

The adoption of IFRS 8 requires operating segments to be identified on the basis of internal reports used to assess performance and allocate resources by the chief operating decision maker. The chief operating decision maker has been identified as the Executive Committee led by the Chief Executive. The adoption of this standard has not resulted in any change to the segments reported previously with 'management trading profit' maintained as the reportable measure of profit or loss. The main change has been the inclusion of the Group's share of sales and trading profit of joint ventures within the segmental disclosure and disclosure of management based asset measures. Management trading profit includes an allocation of costs incurred by central functions in providing operational and regulatory support to the operating segments with the basis of such allocations applied consistently. Inter segment sales are not significant. In order to provide comparability with previously reported margins, inter segment sales disclosure is included by way of footnote. Comparable information has been represented accordingly.

IAS 23 requires the capitalisation of borrowing costs attributable to qualifying assets. The standard has been applied prospectively. The accounting policies in the financial statements for the year ended 31 December 2009 will define the criteria for a qualifying asset and the basis of the capitalisation rate. The Group expects qualifying assets to be new manufacturing facilities and intangible investments in non-recurring costs on Aerospace programmes. During the period one Aerospace investment programme has been identified as a qualifying asset. This programme is in its initial stages and as a result there has been no material impact on the results of the Group from the adoption of this standard.

In terms of the presentation of the financial results, the main impact has been the adoption of IAS 1 'Presentation of Financial Statements' (revised) with the main presentational changes arising from this standard being the new primary statements ''Statement of Comprehensive Income'' and ''Statement of Changes in Equity'', with the latter presented as condensed as allowed by IAS 34.

As outlined in the audited consolidated financial statements for the year ended 31 December 2008 other new standards, revisions and amendments to standards and interpretations have been adopted in the period with no material impact on the Group's results, assets and liabilities.

The main accounting development that will impact the Group for financial years beginning after 1 January 2010 is IFRS 3 'Business Combinations' (revised). This standard is to be applied prospectively and will change the recognition of goodwill, acquisition costs and contingent consideration. The impact of other developments is still to be fully determined.

Estimates, judgements and assumptions

The application of the Group's accounting policies requires the use of estimates, subjective judgement and assumptions. The key material areas of estimation, subjective judgement and assumption applicable to these half year financial statements are the same as those that applied to the consolidated financial statements of the Group for the year ended 31 December 2008, as set out on page 83 of the 2008 Annual Report.

Date of approval

These financial statements were approved by the Board of Directors on Monday 3 August 2009.

3 Operating profit

The analysis of the non-trading components of operating profit is shown below:

3a Restructuring and impairment charges

	Unaudited		Full year 2008		
	First half 2009 £m	First half 2008 £m	Subsidiaries £m	Joint ventures £m	Total £m
Restructuring programmes					
2008 plan	**(62)**	–	(149)	(10)	(159)
2004 plan	**–**	(4)	(4)	–	(4)
	(62)	(4)	(153)	(10)	(163)

The Group's 2004 restructuring programme concluded in the first half of 2008. The 2004 plan charges in 2008 related to Driveline. In response to the severe economic downturn in our automotive markets and in anticipation of activity reductions in both off-highway and aerospace markets, the Group commenced further restructuring in the final quarter of 2008.

The 2008 plan restructuring actions comprise facility and operation closures, permanent headcount reductions achieved through redundancy programmes and the structured use of short-time working arrangements, available through national or state legislation, by European, Japanese and North American subsidiaries. Where short-time working is utilised as the restructuring response to the severe economic and activity downturn it is the most cost-effective option available at that time. Employees subject to short-time working arrangements are not engaged in any activity (productive or non-productive) for or on behalf of the Group. Short-time working charges represent the labour and associated costs borne by the Group in respect of these employees for the period of short-time work.

2008 Restructuring programme

	Unaudited First half 2009 £m	Full year 2008 £m
Goodwill impairment	**–**	–
Tangible fixed asset impairments	**–**	(125)
Other asset write-downs	**–**	(4)
Impairments	**–**	(129)
Redundancy and post-employment costs	**(38)**	(14)
Short-time working costs	**(20)**	(2)
Other reorganisation costs	**(4)**	(4)
Redundancy and other costs	**(62)**	(20)
Subsidiaries	**(62)**	(149)
Impairment of joint ventures	**–**	(10)
Subsidiaries and joint ventures	**(62)**	(159)

2008 Restructuring programme – analysis by segment

	First half 2009 (unaudited)				Full year 2008			
	Impairments £m	**Short-time working £m**	**Redundancy and other costs £m**	**Total £m**	Impairments £m	Short-time working £m	Redundancy and other costs £m	Total £m
Driveline	**–**	**(15)**	**(24)**	**(39)**	(25)	(1)	(7)	(33)
Other Automotive	**–**	**–**	**(4)**	**(4)**	(11)	–	(2)	(13)
Powder Metallurgy	**–**	**(4)**	**(5)**	**(9)**	(100)	(1)	(5)	(106)
OffHighway	**–**	**(1)**	**(6)**	**(7)**	–	–	(3)	(3)
Aerospace	**–**	**–**	**(3)**	**(3)**	(3)	–	–	(3)
Corporate	**–**	**–**	**–**	**–**	–	–	(1)	(1)
	–	**(20)**	**(42)**	**(62)**	(139)	(2)	(18)	(159)
Subsidiaries	**–**	**(20)**	**(42)**	**(62)**	(129)	(2)	(18)	(149)
Joint ventures	**–**	**–**	**–**	**–**	(10)	–	–	(10)

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2009

3a Restructuring and impairment charges CONTINUED

In Driveline, the closures of two facilities were announced as part of the UK rationalisation programme with associated redundancy and pension charges of £7 million being made. Fixed asset impairments relating to this programme were charged in 2008. Elsewhere headcount reductions have been progressing mainly in France, Germany, Spain and Australia with a cost so far of £15 million. Short-time working costs of £15 million relate mainly to European and Japanese operations. Closure of a joint venture facility also commenced in the period, the Group's investment in this joint venture was written off in 2008. In Other Automotive, actions continue relating to the ongoing rationalisation of a UK facility with charges incurred relating to redundancy and pension costs. In Powder Metallurgy, the closures of two facilities were announced with a £2 million redundancy charge made. Redundancy costs of £2 million were also charged in relation to ongoing fixed cost reduction programmes across North American and European operations. Short-time costs of £4 million relate mainly to European operations.

In OffHighway, actions have been initiated in the period to concentrate production for certain product categories and concentrate one area of operation. As a consequence the closures of two facilities and rationalisation of a third has been commenced with an associated cost of £3 million. Redundancy charges of £3 million were also made in respect of capacity and fixed cost reductions together with short-time working costs in European operations of £1 million.

In Aerospace, the closures of two facilities were announced, one in the UK and one in North America, with a £2 million charge made in respect of redundancies and product transfer costs. A further £1 million redundancy charge was made for rationalisation actions at two other facilities.

Restructuring cash outflow in respect of 2008, 2004 and earlier periods' restructuring plans amounts to £52 million (first half 2008: £13 million, full year 2008: £28 million).

3b Amortisation of non-operating intangible assets arising on business combinations

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Driveline	**(1)**	(1)	(2)
OffHighway	**(1)**	(1)	(2)
Aerospace	**(13)**	(3)	(6)
	(15)	(5)	(10)

3c Change in value of derivative and other financial instruments

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Embedded derivatives	**(27)**	–	43
Forward exchange contracts (not hedge accounted)	**106**	(5)	(175)
Commodity contracts (not hedge accounted)	**1**	1	(1)
Net gains and losses on intra-group funding	**13**	–	9
	93	(4)	(124)

4 Joint ventures

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Sales	**112**	132	241
Operating costs and other income	**(104)**	(117)	(221)
Trading profit	**8**	15	20
Net financing costs	**–**	–	–
Profit before taxation	**8**	15	20
Taxation	**(1)**	(3)	(4)
Share of post-tax earnings – before impairments	**7**	12	16
Impairment, including tax on impairment of nil	**–**	–	(10)
Share of post-tax earnings – after impairments	**7**	12	6

5 Other net financing charges

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Expected return on scheme assets	**63**	81	163
Interest on post-employment obligations	**(86)**	(82)	(166)
Post-employment finance costs	**(23)**	(1)	(3)
Unwind of discounts	**(1)**	–	–
Other net financing charges	**(24)**	(1)	(3)

Unwind of discounts relates to deferred and contingent consideration and provisions arising from the acquisition of Filton.

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2009

6 Taxation

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Analysis of charge in period			
Current tax credit/(charge)			
Current period	**(13)**	(28)	(33)
Utilisation of previously unrecognised tax losses and other assets	**–**	7	44
Adjustments in respect of prior periods	**(1)**	1	(1)
Net movement on provisions for uncertain tax positions	**9**	1	–
	(5)	(19)	10
Deferred tax credit/(charge)	**20**	–	–
Total tax credit/(charge) for the period	**15**	(19)	10
Tax in respect of restructuring and impairments and derivative financial instruments included above			
Current tax	**1**	–	3
Deferred tax	**9**	–	4
	10	–	7
Tax in respect of other net financing charges included above			
Current tax	**–**	2	3
Deferred tax	**3**	–	1
	3	2	4
Tax offset with discontinued operations included above			
Current tax	**(5)**	–	5
Tax on items included in equity			
Deferred tax on post-employment obligations	**–**	10	–
Deferred tax on non-qualifying assets	**–**	–	3
Deferred tax on foreign exchange gains and losses on intra-group funding	**(2)**	–	3
Current tax on foreign exchange gains and losses on intra-group funding	**3**	–	(29)
	1	10	(23)

There is a net £20 million deferred tax credit in the period, primarily on account of both deferred tax credits in respect of tax losses arising in the period, and the further recognition of other previously unrecognised brought forward losses. The recognition of these assets has been based on management projections which indicate the availability of taxable profits to absorb the losses in future years. In territories where there is more uncertainty regarding the availability of future taxable profits, deferred tax assets have not been recognised in full.

The tax credit arising on management profits was £2 million (first half 2008: £21 million charge, full year 2008: £1 million charge) giving an effective tax rate of 13.3% (first half 2008: 17.5%, full year 2008: 0.6%).

The current tax charge includes a charge of £5 million which is offset by a £5 million credit to profit after taxation from discontinued operations. This reverses entries made in 2008, which anticipated the use of subsidiaries' tax losses against the £18 million profit before taxation from discontinued operations, following the agreement of the non-taxable nature of the item with the fiscal authority.

Franked Investment Income – Litigation

In September 2003 GKN filed a claim in the High Court of England and Wales ("the High Court") in respect of various Advance Corporation Tax payments made and Corporate Tax paid on certain foreign dividend receipts which, in its view, were levied by HMRC in breach of GKN's EU community law rights. GKN joined a Group Litigation Order ("GLO") with several other claimants and a test case was selected from the members of the GLO to proceed to trial on a representative basis.

In June 2004 the High Court referred the test case to the European Court of Justice ("ECJ") for guidance on the issues raised. In December 2006 the ECJ issued its guidance to the High Court and the test case returned to the High Court for the full trial in July 2008. The High Court issued its judgment on 27 November 2008 and held in favour of the claimants on certain key aspects of the claim. Both parties have appealed the decision to the Court of Appeal and a hearing is currently tabled for October 2009. In the meantime, GKN filed for, and received in June 2009, an interim payment on account in

6 Taxation CONTINUED

the High Court of £4 million, which is primarily interest attributable to the claim. This interim payment is potentially refundable to HMRC pending final resolution of the case and has not, therefore, been recognised in the Income Statement during this period.

Given the complexity of the case and uncertainty over the issues raised it is not possible to predict with any reasonable degree of certainty what the final outcome could be. The range of possible outcomes is so wide that it is potentially misleading to quote any estimates of the possible recoveries at this stage. As a result no contingent asset has been recognised and disclosed in these accounts.

7 Earnings per share

	Unaudited								
	First half 2009			First half 2008			Full year 2008		
	Earnings £m	**Weighted average number of shares m**	**Earnings per share pence**	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence
Continuing operations									
Basic eps	**–**	**705.5**	**–**	97	704.5	13.8	(122)	704.7	(17.3)
Dilutive securities	**–**	**–**	**–**	–	2.1	(0.1)	–	1.1	–
Diluted eps	**–**	**705.5**	**–**	97	706.6	13.7	(122)	705.8	(17.3)
Discontinued operations									
Basic eps	**5**	**705.5**	**0.7**	–	–	–	13	704.7	1.8
Dilutive securities	**–**	**–**	**–**	–	–	–	–	1.1	–
Diluted eps	**5**	**705.5**	**0.7**	–	–	–	13	705.8	1.8

8 Adjusted performance measures and external banking covenant

8a Management profit before tax

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Management profit/(loss) before tax	**(8)**	132	170
Other net financing charges	**(24)**	(1)	(3)
Restructuring and impairment charges	**(62)**	(4)	(153)
Amortisation of non-operating intangible assets arising on business combinations	**(15)**	(5)	(10)
Change in value of derivative and other financial instruments	**93**	(4)	(124)
Impairment of joint ventures	**–**	–	(10)
Income Statement – Profit/(loss) before tax	**(16)**	118	(130)

8b Management earnings per share

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Management profit/(loss) before tax	**(8)**	132	170
Tax on management profit/(loss) before tax	**2**	(21)	(1)
Non-controlling interests	**1**	(2)	(2)
Management earnings	**(5)**	109	167
Management basic earnings per share – pence	**(0.7)**	15.5	23.7

From 2009 onwards management reporting measures exclude the impact of other net financing charges, accordingly prior period comparatives have been restated.

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2009

8c External banking covenant

The Group's only external banking covenant requires a ratio of subsidiaries EBITDA to net interest payable and receivable ratio of 3.5 times or more. The ratios at the period ends are as follows:

	Unaudited		
	12 months to 30 June 2009 £m	12 months to 30 June 2008 £m	Full year 2008 £m
EBITDA	**265**	448	377
Net interest payable and receivable	**(51)**	(46)	(47)
EBITDA to net interest payable and receivable ratio	**5.2 times**	9.7 times	8.0 times

9 Dividends

	Paid or proposed in respect of:			Recognised in:		
	Unaudited			Unaudited		
	First half 2009 pence	First half 2008 pence	Full year 2008 pence	**First half 2009 £m**	First half 2008 £m	Full year 2008 £m
Equity dividends paid in the period						
2007 final year dividend paid (9.2 pence per share)	**–**	–	–	**–**	65	65
2008 interim dividend paid	**–**	4.5	4.5	**–**	–	32
2008 final year dividend	**–**	–	–	**–**	–	–
2009 interim dividend	**–**	–	–	**–**	–	–
	–	4.5	4.5	**–**	65	97

10 Post-employment obligations

Actuarial assessments of the key defined benefit pension and post-employment medical plans (representing 97% of liabilities and 97% of assets) were carried out as at 30 June 2009.

Movement in post-employment obligations during the period:

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
At 1 January	**(834)**	(331)	(331)
Business acquired	**(20)**	–	–
Current service cost	**(19)**	(15)	(35)
Curtailments/settlements	**6**	2	12
Past service cost	**3**	–	(3)
Interest/expected return on assets	**(23)**	(1)	(3)
Actuarial gains and losses	**(198)**	(105)	(386)
Contributions/benefits paid	**31**	19	52
Currency variations	**64**	(19)	(140)
At end of period	**(990)**	(450)	(834)

Post-employment obligations as at the period end comprise:

	Unaudited		
	30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Pensions – funded	**(628)**	(142)	(417)
– unfunded	**(309)**	(260)	(348)
Medical – funded	**(11)**	(10)	(18)
– unfunded	**(42)**	(38)	(51)
	(990)	(450)	(834)

	UK £m	**Americas £m**	**Europe £m**	**ROW £m**	**Total £m**
At 30 June 2009 – unaudited	**(549)**	**(130)**	**(289)**	**(22)**	**(990)**
At 30 June 2008 – unaudited	(122)	(70)	(248)	(10)	(450)
At 31 December 2008	(284)	(199)	(324)	(27)	(834)

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2009

10 Post-employment obligations CONTINUED

Assumptions

Actuarial assessments of all the principal defined benefit retirement plans were carried out as at 30 June 2009. The major assumptions used were:

	UK %	Americas %	Europe %	ROW %
At 30 June 2009 – unaudited				
Rate of increase in pensionable salaries	**4.4**	**3.5**	**2.50**	**2.0**
Rate of increase in payment and deferred pensions	**3.6**	**2.0**	**1.75**	**n/a**
Discount rate	**6.2**	**6.8**	**5.90**	**2.3**
Inflation assumption	**3.4**	**2.5**	**1.75**	**1.0**
Initial rate of increase in medical costs	**6.6**	**9.0**	**n/a**	**n/a**
Long term rate of increase in medical costs	**4.5**	**5.0**	**n/a**	**n/a**
At 30 June 2008 – unaudited				
Rate of increase in pensionable salaries	4.7	3.5	2.50	2.0
Rate of increase in payment and deferred pensions	3.8	2.0	1.75	n/a
Discount rate	6.5	6.7	6.20	2.3
Inflation assumption	3.7	2.5	1.75	1.0
Initial rate of increase in medical costs	8.0	9.0	n/a	n/a
Long term rate of increase in medical costs	4.5	5.0	n/a	n/a
At 31 December 2008				
Rate of increase in pensionable salaries	3.9	3.5	2.50	3.5
Rate of increase in payment and deferred pensions	3.0	2.0	1.75	n/a
Discount rate	6.5	5.8	6.00	2.0
Inflation assumption	2.9	2.5	1.75	1.0
Initial rate of increase in medical costs	6.6	9.0	n/a	n/a
Long term rate of increase in medical costs	4.5	5.0	n/a	n/a

No adjustments to mortality assumptions have been made in the period to those used as at 31 December 2008. The UK scheme assumption is based on PA92 (year of birth) tables adjusted by 2.5 years to reflect actual scheme experience and using medium cohort projections. In the USA CL2009 tables are used, whilst in Germany RT2005G tables were again used.

Assumption sensitivity analysis

The impact of a one percentage point movement in the primary assumptions on the defined benefit net obligations as at 30 June 2009 is set out below:

	UK £m	Americas £m	Europe £m	ROW £m
Discount rate +1%	285	36	39	7
Discount rate −1%	(350)	(45)	(43)	(7)
Rate of inflation +1%	(290)	(1)	(26)	–
Rate of inflation −1%	255	1	28	–

UK deficit funding and funding arrangement with trustees

The last scheme specific funding valuation was as at April 2007 which revealed a deficit of £52 million. The deficit recovery plan assumes that investment returns will recover this deficit. However, in the event that the deficit is not recovered through investment returns a maximum payment of £11 million is payable in each of 2010, 2011 and 2012 with any balance remaining payable by March 2014.

11 Acquisitions

On 5 January 2009, the Group acquired the trade and assets of the wing component manufacturing and assembly operation of Airbus UK which is located on the Airbus Filton site in the UK ("Filton"). Fair values on the acquisition remain provisional as the review of acquired assets and liabilities remains ongoing.

	IFRS carrying values at acquisition £m	Fair value adjustments £m	Fair values £m
Intangible fixed assets	–	82	82
Property, plant and equipment	48	9	57
Inventories	38	–	38
Trade and other receivables	–	–	–
Trade and other payables	–	–	–
Provisions – post-employment obligations	–	(20)	(20)
– other	–	(34)	(34)
Deferred tax	–	1	1
Cash and cash equivalents	–	–	–
	86	38	124
Goodwill			8
Total fair value of consideration			132
Consideration satisfied by:			
Cash			94
Deferred and contingent consideration			32
Directly attributable costs			6
			132

The provisional amount of goodwill is attributable to the value of the assembled workforce, expectation of winning future contracts with Airbus, gaining customer relationships with other customers and synergies. The intangible fixed assets fair valued at acquisition relate to the customer relationship and order book. No technological rights or marketing related assets were acquired.

Fair value adjustments to 'Provisions – other' relate to non-beneficial lease rentals. The Group was apportioned floor area for the wing component manufacturing and assembly operation out of the larger Airbus headlease. The freeholder is a third party and the full above market rental cost of the apportioned Airbus headlease rental is required by covenant with the freeholder to be passed from Airbus to the Group. The Group is committed to the lease for the remaining seventeen year term of the headlease. The provision has been discounted.

The acquisition date coincided with the first day of operations in 2009. Since acquisition Filton contributed sales of £169 million and trading profit of £18 million.

NOTES TO THE HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 30 JUNE 2009

12 Cash flow notes

	Unaudited		
	First half 2009 £m	First half 2008 £m	Full year 2008 £m
Cash generated from operations			
Operating profit/(loss)	**31**	133	(86)
Adjustments for:			
Depreciation, impairment and amortisation of fixed assets			
Charged to trading profit			
Depreciation	**98**	81	165
Impairment	**–**	–	1
Amortisation	**6**	4	10
Amortisation of non-operating intangible assets arising on business combinations	**15**	5	10
Restructuring and impairment charges	**–**	1	127
Change in value of derivative and other financial instruments	**(90)**	4	133
Amortisation of capital grants	**(1)**	(1)	(2)
Net surpluses on sale/realisation of fixed assets	**(6)**	(1)	(1)
Charge for share-based payments	**1**	2	2
Movement in post-employment obligations	**(21)**	(6)	(26)
Change in inventories	**95**	(26)	7
Change in receivables	**(27)**	(111)	93
Change in payables and provisions	**(9)**	74	(105)
	92	159	328
Movement in net debt			
Net movement in cash and cash equivalents	**28**	(20)	(156)
Net movement in borrowings	**(115)**	(4)	(79)
Currency variations	**(6)**	1	24
Finance leases	**1**	–	9
Subsidiaries acquired and sold	**–**	–	–
Movement in period	**(92)**	(23)	(202)
Net debt at beginning of period	**(708)**	(506)	(506)
Net debt at end of period	**(800)**	(529)	(708)
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per Balance Sheet	**138**	246	114
Bank overdrafts included within current liabilities – borrowings	**(16)**	(16)	(20)
Cash and cash equivalents per cash flow	**122**	230	94

13 Property, plant and equipment (unaudited)

During the six months ended 30 June 2009 the Group asset additions were £55 million (first half 2008: £83 million). Additions through business combinations were £57 million (first half 2008: nil). Assets with a carrying value of £8 million (first half 2008: £1 million) were disposed of during the six months ended 30 June 2009.

14 Related party transactions (unaudited)

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and joint venture companies priced on an 'arm's length' basis. Sales by subsidiaries to joint ventures in the first half of 2009 were £26 million (first half 2008: £40 million). Purchases by subsidiaries from joint ventures in the first half of 2009 were £2 million (first half 2008: £6 million). The Group also provides short-term financing facilities in respect of one joint venture company. There have been no significant changes in the nature of transactions between subsidiaries and joint ventures that have materially affected the financial statements in the period. Similarly, there has been no material impact on the financial statements arising from changes in the aggregate compensation of key management.

15 Other financial information (unaudited)

Commitments relating to future capital expenditure at 30 June 2009 amounted to £97 million (30 June 2008: £64 million) and the Group's share relating to joint ventures amounted to £1 million (30 June 2008: nil).

Intangible fixed assets with a carrying value of £19 million (first half 2008: nil) were realised during the six months ended 30 June 2009.

No ordinary shares were issued in the six months ended 30 June 2009 (first half 2008: 204,513 which generated a cash inflow of less than £1 million).

16 Contingent assets and liabilities (unaudited)

Aside from the unrecognised contingent asset referred to in note 6 in respect of Franked Investment Income, there are no other material contingent assets at 30 June 2009. At 30 June 2009 the Group had contingent liabilities in respect of bank and other guarantees amounting to £10 million (30 June 2008: £8 million). In the case of certain businesses performance bonds and customer finance obligations have been entered into in the normal course of business.

17 Post balance sheet event (unaudited)

On 18 June 2009 a rights issue was proposed to raise net proceeds of approximately £403 million in order to strengthen the capital base of the Group. On 6 July 2009 the rights issue was approved by shareholders at a General Meeting. By 28 July 2009 all the proceeds had been received and were used to reduce the net financial indebtedness of the Group.

INDEPENDENT REVIEW REPORT TO GKN plc

Introduction

We have been engaged by the company to review the condensed consolidated financial statements in the Half year report for the six months ended 30 June 2009 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes. We have read the other information contained in the Half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

Directors' responsibilities

The Half year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half year report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial statements included in this Half year report have been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated financial statements in the Half year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of Half year financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the Half year report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
3 August 2009
Birmingham

Notes:

(a) The maintenance and integrity of the GKN plc web site 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 half year report since it was initially presented on the web site.

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

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The half year results were announced on 4 August 2009. This half year report was published on 11 August 2009.