

Corporate responsibility: Living the Values

In everything it does and wherever it operates in the world, GKN is guided by well established Values. The GKN Code together with the promises we ask of each other provide a framework for the behaviour of all employees in the conduct of our business to ensure that we honour those Values.

Maria Mercedes de Paula (left) worked at GKN Driveline in Porto Alegre, Brazil for 23 years and has always been deeply involved in volunteer work. When she retired she became leader of the Casa dos Sonhos (Dream House) Foundation which provides educational and health assistance to disadvantaged people. GKN's Camila Guerreiro, a Communication Analyst (right), is one of the GKN Driveline team helping to maintain the Group's strong links with the Foundation. In 2006 GKN Driveline Porto Alegre won the Society and Community category in GKN's Group Excellence Awards.



Left to right: Our commitment to the Casa dos Sonhos Foundation is just one example of how GKN people across the world reach out to the communities around them. Cíntia Brenner, Communication Assistant (far right), is another member of the GKN Driveline Porto Alegre team working closely with the Foundation.



Corporate responsibility

GKN operates globally and it is therefore appropriate that our approach to corporate responsibility is global. Accordingly, this review covers all of our subsidiary operations worldwide. It also embraces our joint venture companies through an open exchange of information and ideas. Where practicable, performance data is collected from those companies. The performance data presented in this review has been the subject of self-certification together with some independent verification of data or data collection processes as described in this report.

Living the Values

GKN is guided by certain fundamental and enduring values which extend beyond the purely commercial aspects of its activities. These Values remain central to the way GKN operates and guide our relationships with all our stakeholders, whether they be our shareholders, employees, customers, suppliers or the communities in which we operate.

During 2006 the GKN Code, which reinforces the Values and provides a framework for the behaviour of all GKN employees in the conduct of our business, was launched across the Group. The Code is supported by a series of policies which underpin our vision on corporate social responsibility (CSR). Recognising the worldwide nature of our operations, the Code and policies were translated into the 25 languages of the Group. All Group companies and all employees have a responsibility to ensure that the Code is followed and the policies are complied with.

As part of the launch of the Code, each of GKN's 37,000 employees received a booklet in his or her local language and a standard presentation by local management, the centrepiece of which was 12 promises: six promises from GKN to each employee and six promises from each employee to GKN.

Together the promises distil the essence of the Code into behaviours which are relevant to Group employees, whatever their job and wherever they are located.

Our Values, the GKN Code and the supporting policies, and the Living the Values booklet are available on GKN's website.

CSR framework

Central to our CSR framework is the Governance and Risk Sub-Committee, chaired by Grey Denham, Company Secretary, which has responsibility for developing strategy for and providing oversight and direction on all matters relating to governance, risk management and CSR with a view to ensuring that all GKN businesses act as good corporate citizens and in accordance with GKN's Values. The Sub-Committee reports formally on an annual basis to the Executive Committee and to the Board. The Chief Executive is responsible to the Board for the Group's risk programmes, including the environmental and health and safety performance of the businesses.

The management of CSR-related risks is the responsibility of operational management supported by specialists within GKN. It also forms an integral part of the Group's overall corporate governance procedures and therefore this review should be read in conjunction with the corporate governance statement on pages 48 to 51. The management of risks associated with CSR issues is encompassed within the internal control procedures described in that section. As part of these procedures, Group companies are required to confirm that they operate in compliance with the GKN Code and the policies.

A summary of those risks which could have a material impact on the future financial performance of the Group is given on pages 33 to 35 of the business review.

The graphic features a large white number '6' on a yellow background. To the left of the '6' are six bullet points under the heading 'PROMISES FROM GKN TO YOU'. To the right of the '6' are six bullet points under the heading 'PROMISES FROM YOU TO GKN'. The GKN logo is at the top left, and the title 'Living the Values the GKN WAY' is at the top center.

PROMISES FROM GKN TO YOU

- We will support you through investment and training so we can build a high performance business by delivering superb customer service
- We will help you develop your full potential and we will not tolerate any discrimination
- We will care for you by providing a safe working environment
- We will do what we can to minimise our impact on the environment
- We are all part of a wider society and we will contribute positively to the communities of which we are part
- If you have a problem we will listen in confidence

PROMISES FROM YOU TO GKN

- I share GKN's commitment to build a high performance business with a strong customer focus. I show that commitment through my work
- I always respect the rights of other team members
- I do not put other team members at risk of injury and will counsel anyone I see working unsafely
- I believe in honest and proper conduct at all times
- I know I am free to report behaviour which is wrong and I will do so
- I will help protect the environment and support local communities

82%
of employees
surveyed during
2006

GKN International
Whistleblowing
Hotline launched
during 2006

Developing our employees to their full potential

Training and development

One of our key strengths lies in the individuals who work for GKN. GKN's promises include a commitment to create an environment in which employees are able to realise their full potential. Training and development programmes at all levels within the organisation aim to ensure that employees have the skills and knowledge to perform their roles as effectively as possible and that they are able to maximise their potential. New employees receive induction training to introduce them to the Group as well as to the company at which they are based, and ongoing training is available through on-the-job experience, in-house training programmes and external educational providers.

For a number of years, GKN has operated an employee appraisal process which applies to all Group employees. This process has been formalised through the introduction of the performance development process (PDP) across the Group. Through PDP, employee performance is appraised annually, objectives agreed for the next review period, and training and development needs identified.

Each year a detailed review of the organisational capability of the Group is undertaken through a rigorous Organisational and Management Development Review conducted at regional, divisional and Group level. The summarised results, together with key data on career progression and succession coverage, are reviewed annually by the Board.

A particular strength is the attention paid to the recruitment of apprentices and graduates. Each year, GKN's International Leadership Development Programme seeks to recruit high calibre graduate engineers with the aim of developing their skills as international managers of the future. GKN also continues to operate apprenticeship schemes across the Group and a programme of employee international assignments.

Employee engagement

We recognise the importance of ongoing communication with, and feedback from, our employees. Communication takes place through a variety of channels at all levels throughout the Group, including team briefings, presentations, intranets and newsletters. Consultation mechanisms exist worldwide across the Group to provide open communication between management and representatives of union and non-unionised employees. The European Works Council, which covers all European businesses, has operated since 1995.

Each division is required to carry out an employee survey at least once every two years. During 2006 surveys of 30,500 subsidiary company employees were completed. The surveys covered a wide range of topics including development and training, communication, leadership, health, safety and the environment, product quality, and corporate values. Based on responses received, improvement plans are being implemented by divisional management.

Ethical standards

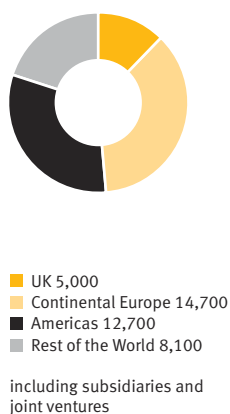
Our Ethical Standards Policy requires all GKN employees to maintain the highest standards of integrity, honesty and fair dealing and this is reflected in one of the promises they make to GKN. Our Employment Policy requires all Group businesses to adopt practices which ensure that employees are treated justly and with respect and that their abilities, differences and achievements are recognised, thereby ensuring a positive, inclusive working environment.

All businesses are required to ensure that employment decisions are based on qualifications and merit. Our promises include a commitment to provide a working environment free from all forms of discrimination and from any form of conduct which could be considered to be harassing, coercive or disruptive, together with working conditions which are safe and healthy. Wherever it operates, the Group complies with local employment law and practices.

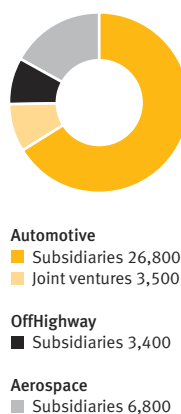
GKN supports the terms of the Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises. We do not tolerate the use of child labour or forced labour in our own operations and, in accordance with our Supplier Management Policy, we require equivalent standards throughout our supply chain.

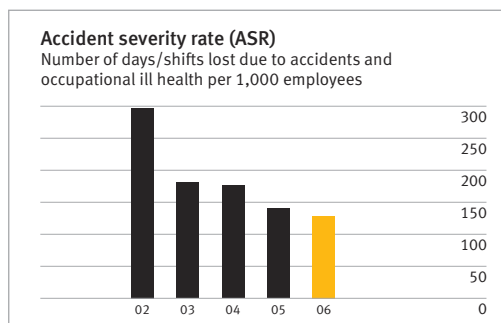
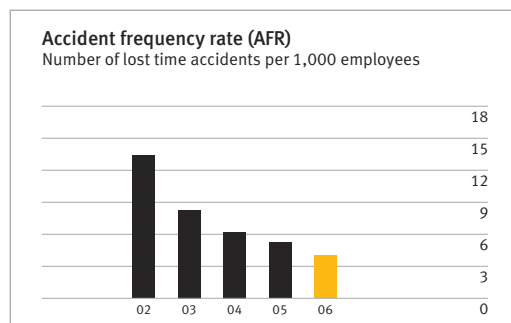
Employee-related policies are designed to encourage individuals to report and discuss problems on a confidential basis and provide expeditious and confidential grievance procedures. GKN operates an international whistleblowing hotline which is run by an external and independent third party. In line with the promises, the hotline facilitates arrangements whereby employees can make (on an anonymous basis if preferred) confidential disclosures about suspected impropriety and wrongdoing. Any matters so reported are investigated and escalated to the Audit Committee as appropriate.

Employees by region
as at 31 December 2006



Employees by business
as at 31 December 2006





Providing a safe working environment

Health and safety management framework

As referred to above, our promises include a commitment from GKN to provide a safe working environment for all of its employees and also a commitment from employees to take ownership of their own health and safety as well as that of their immediate colleagues.

We monitor our progress against these promises on a regular basis. Health and safety performance is reported quarterly to the Governance and Risk Sub-Committee and the Executive Committee, with a half-yearly report to the Board. In addition, significant health and safety incidents are reported to Executive Committee members within 24 hours and reviewed at the Committee's next meeting.

Group businesses are required to certify the accuracy of the data that they report centrally and most businesses have developed their own internal auditing systems. A programme of safety review visits by senior executives and the Group Safety Adviser also assists with data verification and enables continuous improvement of safety systems and performance.

GKN's health and safety management goes beyond the employee's physical safety and the prevention of accidents at work to focus heavily on the avoidance of work-related ill health. The completion of workplace based risk assessments, occupational health management intervention, the promotion of wellness programmes and active data collection and monitoring enables the creation of a working environment which minimises the risk to employee health.

Performance

For the ninth consecutive year, our health and safety performance against the key performance indicators of accident frequency rate (AFR) and accident severity rate (ASR) has improved. The charts above highlight our performance since 2002; over this period, AFR has improved by 70% and ASR by 57%.

Our serious injury rate (SIR) has improved by 50% over the last five years despite a slight deterioration in 2006. Whilst our SIR is now at a very low rate, we continue to give it a high level of focus. Further improvements are being made to the systems for the management of serious accident risk, and training initiatives are being undertaken at all levels throughout the Group.

Our ultimate goal is zero preventable accidents and, to drive continuous improvement towards this goal, objectives and targets are set primarily at plant level where they can best reflect the particular needs, risks, priorities and opportunities for improvement for each site. Each business is required to target an improvement trend leading to and maintaining a best in class performance. Where considerable improvement is needed, plants have specific and often aggressive targets. In addition, divisional targets are established for AFR, ASR and SIR. In 2006, 75% of plants maintained or improved their excellent AFR performance and 65% met their AFR targets. For ASR, performance was maintained or improved by 73% of plants, and 62% met their targets. Divisional targets were achieved in 53% of cases.

Benchmarking results place our accident rates well below industry averages in the UK, Germany and the US. Against those of our peer companies in the UK and the US where comparative data is available, our performance compares very favourably.

GKN's continued focus on health and safety performance is evident in the results that it has achieved; since 1997 the Group's AFR, ASR and SIR has improved by 89%, 77% and 76% respectively.

In absolute terms, overall Group performance against each of our key environmental performance indicators has shown improvement. Since 2004, GKN has achieved a 4% reduction in both energy consumption and CO₂ emissions, a 5% reduction in waste generated and an 18% reduction in water usage (the equivalent of over 1 million cubic metres).

83%
of GKN's
waste recycled
during 2006

During 2006, six health and safety enforcement actions (none of which carried a penalty) occurred in plants in Australia, India, Italy and the US. There were no fatalities of employees or contractors on GKN sites.

Many GKN businesses now incorporate in their operational procedures features from the Health and Safety Management System OHSAS 18001. Certification to this standard has now been achieved by 21 Group companies.

As part of the new GKN Excellence Awards introduced during the year, the GKN Safety Award programme continued to attract nominations from businesses across the divisions, with each demonstrating the high level of interest, involvement and commitment to safety throughout GKN. The winner of the 2006 Safety Award was GKN Aerospace Munich in Germany for their identification and elimination of hazards and for sustaining an improving trend for safety at the plant. Strong and visible leadership combined with the integration of improved initiatives on housekeeping and visual management enabled the site to achieve a greatly improved safety performance.

Minimising our impact on the environment

Environmental management framework

Our promises also contain commitments by both GKN and its employees to minimise our impact on and help protect the environment.

GKN's environmental management system (EMS), which was originally introduced in 1994 and to which all businesses adhere, is broadly based on the international standard ISO 14001. The core element of GKN's EMS is a requirement for continuous improvement, which is driven by the regular measurement and evaluation of performance, identification and implementation of action plans, and measurement of results.

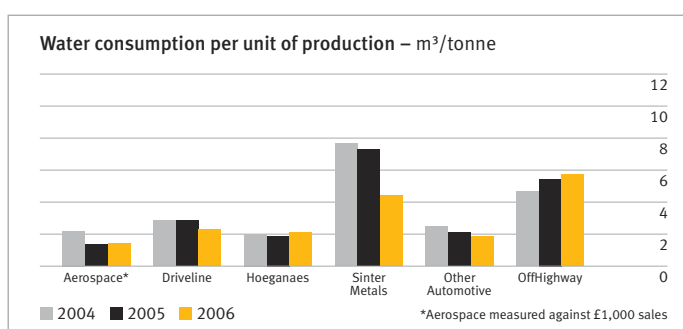
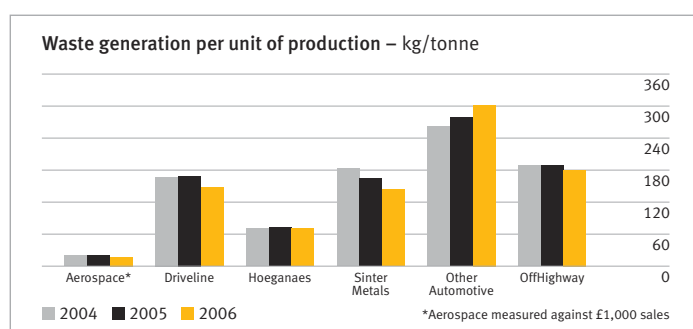
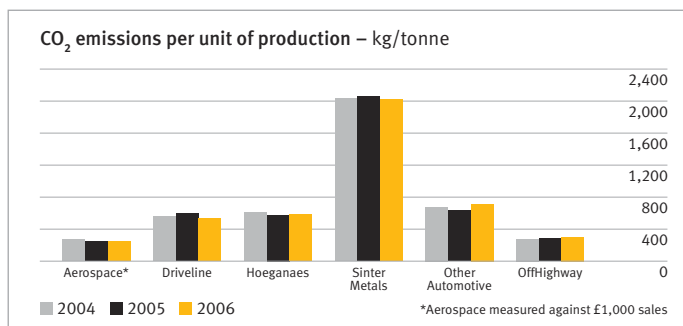
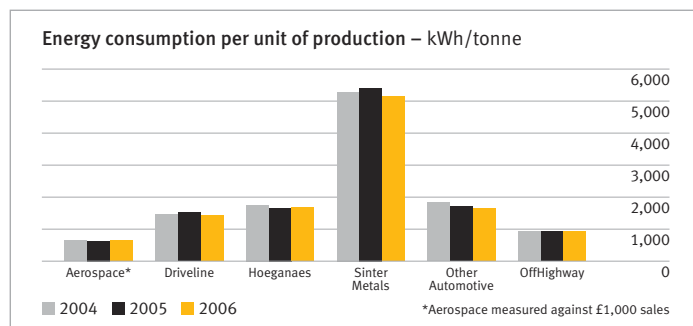
Quarterly reports on environmental performance are made to the Governance and Risk Sub-Committee and the Executive Committee, with a half-yearly report to the Board. In addition, should any significant environmental incident occur, it is reported to Executive Committee members within 24 hours and reviewed at the next meeting of that Committee.

Group businesses are required to certify the accuracy of the data that they report centrally and most businesses have developed their own internal auditing systems. In 2006, a global environmental consulting firm undertook a review of environmental data submitted by a sample number of sites. They concluded that the Group's chosen key performance indicators were appropriate and reflected GKN's primary impact upon the environment, and that the process for data collection enabled the reporting of reliable data. In addition, as part of the certification to ISO 14001, external independent certifying bodies are required to assess the suitability of systems to gather and report data.

Performance

We continue to focus on the key performance indicators of energy consumption and associated carbon dioxide (CO₂) emissions, waste generation and water usage. Given the diverse range of business processes across the Group, performance against these indicators is again reported on a divisional basis (in the main reported relative to production measured in terms of tonnes of product shipped). This also allows the use of an alternative metric for our Aerospace business; the drive towards ever lighter components means that sales, rather than weight of product shipped, is a more appropriate measure of activity. Performance data for CO₂ emissions includes direct emissions from our plants and indirect emissions from power stations that generate the electricity we use.

Operating sites are required to set targets, particularly on energy consumption, water use and waste generation, in line with the commitment to continuous improvement.



Our business processes across the Group are diverse and this is reflected in the range of environmental performance by division. Overall, most divisions achieved similar or slightly improved performances in each of the four key performance indicators when compared with 2005 as shown in the charts above.

The only significant exceptions to this are, firstly, in regard to the increase in the generation of waste at GKN Sheepbridge Stokes (included in the Other Automotive division). Waste generation at this UK plant in 2006 included extraordinary waste created by the dismantling of equipment in preparation for the transfer of production to a new cylinder liner plant in China. Secondly, in regard to the significant reduction in water usage by Sinter Metals; despite manufacturing a high volume of small products using energy and water intensive processes, the business has achieved a 40% reduction in water consumption compared to 2005.

During the year there were six environmental enforcement actions against GKN companies worldwide. The majority of these actions were due to technical breaches of permit requirements which did not result in any environmental damage. Total fines for all actions of £13,300 reflect the relatively minor nature of the offences.

GKN is committed to achieving accreditation to ISO 14001 at all its manufacturing sites throughout the world. 103 sites across 23 countries are certified to ISO 14001 and a further five are planning to achieve accreditation in 2007. Our Driveline manufacturing

facilities in Germany continue to maintain certification to the ECO Management and Audit Scheme (EMAS).

GKN is a founder member of the UK Emissions Trading Scheme, having committed to reducing carbon emissions by 10,000 tonnes by 2007 compared to a 2001 baseline. We continue to outperform against this commitment, having reduced emissions by more than 50,000 tonnes over the period of the scheme. The incentive payments we have received as a result are being invested in energy saving schemes in the UK to reduce further our CO₂ emissions. Such schemes include the installation of energy efficient systems for lighting and heating control, and rapid action doors.

During the year, the GKN Green Scheme was replaced by the GKN Environmental Award, part of the new GKN Excellence Awards. Nominations were received from businesses across the divisions, each of which demonstrated employee involvement in environmental matters and real environmental improvement. The winner of the inaugural Environmental Award was GKN Armstrong Wheels in the US for the conversion of seven acres of waste grassland adjacent to the plant back to a natural prairie. This OffHighway site worked closely with the State of Iowa Department of Fisheries and Wildlife through the State's Department of Natural Resources, which provided seed and technical advice, to implement the project. The success of the project has allowed the area to be used for recreational and educational purposes by the local community and its schools.

£694,500

donated to over
350 charitable and
community causes
around the world

Contributing positively to our communities

Support for local communities is one of the promises made by both GKN and its employees. The Group's Community Policy encourages businesses to adopt purchasing and recruitment practices which support local communities. Businesses are also encouraged to develop their own community programmes which are relevant and specific to the local communities in which they operate. Community support, both by way of financial donations and through the volunteer work of our employees, is widespread across GKN's worldwide operations.

In 2006, charity and community donations by GKN plc and its subsidiary companies totalled £694,500. Those organisations to which cash contributions were made during 2006 are listed on GKN's website.

The winner of the new GKN Society and Community Award, one of the GKN Excellence Awards introduced during the year, was GKN Driveline Porto Alegre in Brazil for its commitment to the Casa dos Sonhos (Dream House) Foundation. It has been an important and long-term contributor to the Foundation, which provides support for both the elderly and the young and offers educational and health assistance. GKN employees help out at the Foundation and, together with donations collected, help to provide cultural and educational activities.

At the beginning of 2007, GKN launched an exciting new project which aims to raise \$1 million across the Group during the year for charitable purposes. GKN Mission Everest is a record breaking attempt to fly powered paragliders over Mount Everest. GKN is sponsoring the project and, using the flight as an inspiration to achieve something extraordinary, has launched a drive to redouble its efforts to support the communities in which it operates. In addition to specific fundraising activities for the Global Angels Foundation, a registered charity to help children in Africa, contributions to local community initiatives, whether in cash or in kind, made by Group employees during 2007 will be matched by GKN for the benefit of the Foundation. More information can be found at www.gknmissioneverest.com.

As part of its community activities, GKN is also committed to the promotion of training and development outside the Group. In the UK, GKN has for a number of years been an active supporter of a number of highly practical programmes which operate at primary, secondary and tertiary levels of education and encourage young people to develop careers in engineering or business. Such programmes include Young Enterprise, to which GKN provides financial support and the provision of a representative on its Board; the Engineering Development Trust, through which GKN sponsors Year In Industry placements and provides supervising engineers for Engineering Education Scheme projects; and the West Midlands Technology Tree, a project which brings primary schools into contact with the world of engineering. Income from the GKN Millennium Trust, a charitable trust established in 1995, is used to fund a Chair of Manufacturing Engineering at Cambridge University.

GKN is also a founder member of the UK PerCent Club, a voluntary benchmark standard which measures community-related contributions made by companies.

Suppliers

All GKN businesses are required to adhere to the Group's new Supplier Management Policy. This prohibits companies from engaging suppliers that offer inadequate health and safety standards for employees, infringe internationally accepted standards of workers' rights, use child or forced labour, adopt unsound environmental practices, have poor standards of social responsibility or that fail to comply with relevant laws and regulations.

Conclusion

2006 was a year of significant progress with the roll-out of the GKN Code and policies and the commitment to the 12 promises. Together these form the foundation of our behaviour which underpins GKN's Values and ensures that we deliver on our commitment to act as a good corporate citizen.

2007 is set to be another challenging year, particularly in light of our Mission Everest fund raising initiative. We look forward to reporting on our achievements in the 2007 review.



Wayne Smith works at GKN Aerospace in St Louis, Missouri in the USA and is also a member of the prestigious Greater St Louis Amateur Baseball Hall of Fame following a lifetime of achievement in the sport. Today he dedicates himself to helping others through a Boys and Girls Club which tries to help inner-city youth with issues such as personal development, job readiness and tutoring – the same club which helped Wayne on the road to success.

