

## Consolidated profit and loss account

For the year ended 31 December 1999

	Notes	Continuing operations		1999 Total £m	1998 Total £m
		Acquisitions in year £m	Other companies £m		
<b>SALES</b>					
Subsidiaries	2	354	3,354	3,708	2,972
Share of joint ventures		–	828	828	704
Share of associates		–	107	107	30
		<b>354</b>	<b>4,289</b>	<b>4,643</b>	<b>3,706</b>
<b>OPERATING PROFIT</b>					
Subsidiaries					
Before goodwill amortisation and exceptional items		52	344	396	331
Goodwill amortisation		(14)	(2)	(16)	–
Exceptional litigation provision release		–	–	–	248
Total	3	38	342	380	579
Share of joint ventures					
Before goodwill amortisation		–	148	148	126
Goodwill amortisation		–	(5)	(5)	(3)
Total		–	143	143	123
Share of associates		–	14	14	6
<b>TOTAL OPERATING PROFIT</b>		<b>38</b>	<b>499</b>	<b>537</b>	<b>708</b>
<b>EXCEPTIONAL ITEMS</b>					
Profits less losses on sale or closure					
of businesses	4	–	11	11	–
Share of associate's restructuring costs		–	(2)	(2)	–
<b>PROFIT BEFORE INTEREST AND TAXATION</b>		<b>38</b>	<b>508</b>	<b>546</b>	<b>708</b>
Interest (payable)/receivable					
Subsidiaries	5			(21)	20
Share of joint ventures and associates	5			(24)	(21)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>				<b>501</b>	<b>707</b>
Taxation	6			(139)	(137)
Profit on ordinary activities after taxation				362	570
Minority interests – equity				(4)	(3)
<b>EARNINGS OF THE YEAR</b>				<b>358</b>	<b>567</b>
<b>DIVIDENDS</b>	7			<b>(45)</b>	<b>(115)</b>
<b>TRANSFER TO RESERVES</b>	24			<b>313</b>	<b>452</b>
<b>EARNINGS PER SHARE</b>	8			<b>50.4p</b>	<b>80.2p</b>
<b>DILUTED EARNINGS PER SHARE</b>	8			<b>49.3p</b>	<b>78.6p</b>

### RESULTS BEFORE GOODWILL AMORTISATION AND

#### EXCEPTIONAL ITEMS

OPERATING PROFIT		£558m	£463m
PROFIT BEFORE TAXATION		£513m	£462m
EARNINGS PER SHARE	8	52.4p	46.0p

## Consolidated balance sheet

At 31 December 1999			1999	Restated (note 1)
	Notes	£m	£m	1998 £m
<b>FIXED ASSETS</b>				
Intangible assets – goodwill	10		402	39
Tangible assets	11		1,214	976
Investments				
Joint ventures				
Share of gross assets		1,165		1,056
Share of gross liabilities		(887)		(820)
		278		236
Associates		8		15
Other investments		69		49
	12		355	300
			1,971	1,315
<b>CURRENT ASSETS</b>				
Stocks	13	527		430
Debtors	14	678		571
Cash at bank and in hand	15	197		278
		1,402		1,279
<b>CREDITORS: amounts falling due within one year</b>				
Short-term borrowings	16	(62)		(56)
Creditors	17	(1,113)		(1,025)
Taxation payable	18	(141)		(110)
Dividend payable		–		(75)
		(1,316)		(1,266)
<b>NET CURRENT ASSETS</b>			86	13
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			2,057	1,328
<b>CREDITORS: amounts falling due beyond one year</b>	19		(408)	(75)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	22		(272)	(236)
<b>NET ASSETS</b>			1,377	1,017
<b>CAPITAL AND RESERVES</b>				
Called up share capital	23		359	356
Share premium account	24		352	303
Revaluation reserve	24		52	55
Other reserves	24		76	37
Profit and loss account	24		515	256
<b>EQUITY INTEREST</b>			1,354	1,007
<b>MINORITY INTERESTS – EQUITY</b>			23	10
			1,377	1,017

The accounts were approved by the Board of Directors on 7 March 2000 and were signed by:  
David Lees, C K Chow, David J Turner, Directors.

## Statement of total recognised gains and losses

For the year ended 31 December 1999	1999 £m	1998 £m
<b>EARNINGS OF THE YEAR</b>		
Subsidiaries	265	491
Share of joint ventures	87	72
Share of associates	6	4
	<b>358</b>	567
Currency variations	(15)	1
Merger of GKN Defence and Alvis plc	–	(6)
<b>TOTAL RECOGNISED GAINS AND LOSSES OF THE YEAR</b>	<b>343</b>	562
Prior year adjustment (note 1)	(8)	–
<b>TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT</b>	<b>335</b>	562

Earnings of the year on an historical cost basis are not materially different from those reported above.

## Reconciliation of movements in shareholders' equity

For the year ended 31 December 1999	1999 £m	Restated 1998 £m
Total recognised gains and losses of the year	343	562
Dividends	(45)	(115)
Issue of ordinary shares net of costs	18	6
Purchased goodwill on 1997 acquisitions	–	(3)
Goodwill on businesses sold	31	11
<b>TOTAL INCREASE</b>	<b>347</b>	461
Shareholders' equity at 1 January 1999 (note 1)	1,007	546
<b>SHAREHOLDERS' EQUITY AT 31 DECEMBER 1999</b>	<b>1,354</b>	1,007

## Movement in net funds

For the year ended 31 December 1999	1999 £m	1998 £m
Increase in cash	36	13
Decrease in liquid resources and financing	(289)	(144)
<b>CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>	<b>(253)</b>	(131)
Currency variations	20	(16)
Net proceeds of ordinary share issues	13	6
Subsidiaries acquired and sold	(200)	(1)
<b>TOTAL DECREASE</b>	<b>(420)</b>	(142)
Net funds at 1 January 1999	139	281
<b>NET (BORROWINGS)/FUNDS AT 31 DECEMBER 1999</b>	<b>(281)</b>	139

## Consolidated cash flow statement

For the year ended 31 December 1999

	Notes	£m	1999 £m	£m	1998 £m
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	A		<b>391</b>		388
<b>DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES</b>			<b>82</b>		37
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>					
Interest received		27		31	
Interest paid		(54)		(10)	
Dividends paid to minority interests		(12)		(1)	
			<b>(39)</b>		20
<b>TAXATION</b>					
United Kingdom		7		(14)	
Overseas		(71)		(68)	
			<b>(64)</b>		(82)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>					
Purchase of tangible fixed assets		(236)		(209)	
Sale of tangible fixed assets		16		8	
Investment loans and additional capital contributions to joint ventures and associates		(31)		(14)	
Other financial investments		(6)		(6)	
			<b>(257)</b>		(221)
<b>ACQUISITIONS AND DISPOSALS</b>					
Purchase of subsidiaries	B	(290)		(129)	
Purchase of joint ventures		(1)		(54)	
Sale of subsidiaries	B	–		17	
Sale of joint ventures and associates		45		–	
			<b>(246)</b>		(166)
<b>EQUITY DIVIDENDS PAID</b>			<b>(120)</b>		(107)
<b>CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>			<b>(253)</b>		(131)
<b>MANAGEMENT OF LIQUID RESOURCES</b>					
Increase in short-term loans and deposits		(30)		(1)	
Decrease in short-term loans and deposits		151		248	
	C		<b>121</b>		247
<b>FINANCING</b>					
Net proceeds from ordinary share issues		13		6	
Proceeds of bond issue		296		–	
Proceeds of other term borrowings		69		6	
Repayment of other term borrowings		(201)		(107)	
Finance leases		(9)		(8)	
	C		<b>168</b>		(103)
<b>INCREASE IN CASH</b>	C		<b>36</b>		13

## Notes on the cash flow statement

A NET CASH INFLOW FROM OPERATING ACTIVITIES	1999 £m	1998 £m
Operating profit from continuing operations	380	579
Depreciation and goodwill amortisation	148	107
Profit on sale of tangible fixed assets	(3)	(3)
Increase in stocks	(65)	(67)
Increase in debtors	(107)	(3)
Increase in creditors	30	5
Increase/(decrease) in provisions	9	(259)
(Decrease)/increase in customer advances	(1)	29
<b>NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES</b>	<b>391</b>	<b>388</b>

B PURCHASE AND SALE OF SUBSIDIARIES	Acquisitions		Sales	
	1999 £m	1998 £m	1999 £m	1998 £m
Fixed assets	(176)	(48)	–	22
Working capital and provisions	20	(6)	–	12
Taxation payable	29	–	–	(4)
Cash	(1)	(2)	–	1
Loans and finance leases	200	2	–	(1)
Minority interests	10	(1)	–	(23)
	<b>82</b>	<b>(55)</b>	<b>–</b>	<b>7</b>
Change from joint venture status	–	1	–	(2)
Surplus on sales	–	–	–	2
Goodwill	(372)	(39)	–	11
Total consideration	(290)	(93)	–	18
Deferred consideration	(1)	(38)	–	–
Consideration (paid)/received	(291)	(131)	–	18
Less: cash	1	2	–	(1)
<b>NET CASH (OUTFLOW)/INFLOW</b>	<b>(290)</b>	<b>(129)</b>	<b>–</b>	<b>17</b>

C ANALYSIS OF MOVEMENTS IN NET FUNDS	Net funds at end of year		Change in 1999		
	1999 £m	1998 £m	Cash £m	Liquid resources £m	Financing £m
Bank balances and cash	177	165	12	–	–
Short-term loans and deposits	20	113	–	(93)	–
Bank overdrafts	(22)	(43)	21	–	–
Other short-term borrowings	(40)	(13)	–	–	(27)
Term loans	(394)	(57)	–	–	(337)
Finance leases:					
due within one year	(8)	(8)	–	–	–
due in more than one year	(14)	(18)	–	–	4
	<b>(281)</b>	<b>139</b>	<b>33</b>	<b>(93)</b>	<b>(360)</b>
Net proceeds of ordinary share issues			–	–	(13)
Subsidiaries acquired and sold (excluding cash)			–	–	200
Currency variations			3	(28)	5
<b>NET CASH INFLOW/(OUTFLOW)</b>			<b>36</b>	<b>(121)</b>	<b>(168)</b>

CASH CONSISTS OF CASH IN HAND AND BANK BALANCES AND OVERDRAFTS REPAYABLE ON DEMAND AS DEFINED BY FRS 1 (REVISED). LIQUID RESOURCES CONSIST OF SHORT-TERM INVESTMENTS, LOANS AND DEPOSITS EXCLUDING CASH.

## Notes on the Accounts

### 1 Basis of consolidation

**ACCOUNTING POLICIES** These accounts are prepared under the historical cost convention, as modified by the revaluation of land and buildings, and comply with UK applicable accounting standards including FRS 12 'Provisions, Contingent Liabilities and Contingent Assets' and FRS 13 'Derivatives and other Financial Instruments: Disclosures'. Compliance with FRS 12 has resulted in:

- (a) Certain liabilities totalling £42 million at 31 December 1998, previously categorised as 'Creditors: amounts falling due within one year' being reclassified as 'Provisions for liabilities and charges'. This change has no impact on reported profits; and
- (b) A change in the accounting policy with regard to provisions for environmental liabilities in the Group's waste management joint venture company. This has resulted in a prior year adjustment which reduces shareholders' equity at 1 January 1999 by £8 million to £1,007 million. There is no material impact on profit in either 1998 or 1999.

Comparative balance sheet figures have been restated accordingly.

The Group's accounting policies are shown in the notes on pages 53 to 74. Local legislation prevents certain overseas subsidiaries from conforming with the accounting policies adopted by the Group. Adjustments are made on consolidation so that the group accounts are presented on a uniform basis.

**COMPOSITION OF THE GROUP ACCOUNTS** The group accounts consolidate the accounts for the year to 31 December 1999 of the Company and its subsidiaries.

**SUBSIDIARIES ACQUIRED AND SOLD** The results of subsidiaries acquired or sold during the year are included in the consolidated profit and loss account from the date of acquisition or to the date of disposal. In the case of acquisitions during the year the acquisition method of accounting has been used.

**DISCONTINUED OPERATIONS** Where material, profits or losses are analysed as discontinued operations where businesses are sold or closed by the date on which the accounts are approved. Where businesses are treated as sold or closed in the current year, the prior year's analyses are restated to reflect those businesses as discontinued.

**FOREIGN CURRENCIES** The results and cash flows of overseas subsidiaries, joint ventures and associates are translated to sterling at average exchange rates. Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities in foreign currencies are translated at the appropriate forward contract rate or, if not covered, at the exchange rate ruling at the balance sheet date. Differences on revenue transactions are dealt with through the profit and loss account.

Where practicable, the Group's overseas equity investments are hedged by borrowings in the currencies in which those assets are denominated. Differences arising on translation of overseas net assets less exchange differences on borrowings which finance those net assets are dealt with through reserves.

## Notes on the Accounts (continued)

The accounts of operations in countries where hyper-inflationary conditions have existed, are prepared using a stable currency before translation into sterling. The exchange rates used for the currencies most important to the Group's operations are:

	£1 = DM	£1 = euro	£1 = US\$
<b>1999 AVERAGE</b>	<b>2.97</b>	<b>1.52</b>	<b>1.62</b>
1998 average	2.92	N/A	1.66
<b>1999 YEAR END</b>	<b>3.14</b>	<b>1.61</b>	<b>1.61</b>
1998 year end	2.77	N/A	1.66

**DERIVATIVES AND FINANCIAL INSTRUMENTS** The Group's accounting policy for derivatives is only to recognise in the Group profit and loss account gains and losses on hedges of revenues or operating payments as they crystallise.

The Group uses forward foreign exchange contracts to manage its exposure to foreign exchange risks and hedge its investment in overseas subsidiaries and investments designated in foreign currencies. Such financial instruments are treated as hedges against the underlying assets or liabilities, with matching accounting treatments and cash flows. All gains or losses are taken to the statement of total recognised gains and losses until the instrument and the underlying hedged investment are sold, when the profit or loss arising is recognised in the profit and loss account. Interest differentials resulting from the use of financial instruments to hedge these exposures are dealt with in the Group profit and loss account.

Any instruments no longer designated as hedges are restated at market value and any gains or losses are taken directly to the profit and loss account.

The book value of short-term debtors and creditors are the same as their fair values and have been excluded from the financial instrument disclosures other than those on currency exposures.

**GOODWILL** Goodwill arising on consolidation consists of the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill arising on acquisitions completed prior to 31 December 1997 has been eliminated against reserves. Goodwill arising on acquisitions after that date is capitalised as a fixed asset and amortised on a straight line basis over its estimated useful life up to a maximum of 20 years. Where an acquired business is sold and goodwill has been previously deducted from reserves, the goodwill is taken into account in calculating the profit or loss on sale.

## 2 Sales

Sales shown in the profit and loss account exclude value added taxes and, except in the case of long-term contracts, represent the invoiced value of goods and services charged to external customers. On long-term contracts, sales are based either on deliveries made or on the estimated sales value of work done. The geographical markets supplied by subsidiaries, joint ventures and associates are as follows:

	Geographical markets supplied				Total £m
	United Kingdom £m	Continental Europe £m	Americas £m	Rest of the world £m	
<b>SALES BY SUBSIDIARIES</b>					
<i>By business</i>					
Automotive	298	1,050	732	142	2,222
Industrial Services	1	–	152	25	178
Aerospace	842	164	186	116	1,308
<b>Total 1999</b>	<b>1,141</b>	<b>1,214</b>	<b>1,070</b>	<b>283</b>	<b>3,708</b>
<i>By region of origin</i>					
United Kingdom	1,086	188	101	113	1,488
Continental Europe	30	1,012	31	36	1,109
Americas	25	14	936	25	1,000
Rest of the world	–	–	2	109	111
<b>Total 1999</b>	<b>1,141</b>	<b>1,214</b>	<b>1,070</b>	<b>283</b>	<b>3,708</b>
<b>Total 1998</b>	<b>911</b>	<b>1,177</b>	<b>653</b>	<b>231</b>	<b>2,972</b>
<b>SALES BY JOINT VENTURES AND ASSOCIATES</b>					
Group share 1999	<b>290</b>	<b>338</b>	<b>251</b>	<b>56</b>	<b>935</b>
Group share 1998	219	259	206	50	734

Analyses of sales, operating profit and net operating assets of subsidiaries, joint ventures and associates by business and by region of origin are shown on page 76.

In the ordinary course of business, sales and purchases of goods and services take place between subsidiaries, joint ventures and associates priced on an 'arms-length basis'. These transactions are not significant except for amounts charged by GKN Westland Helicopters Ltd to EH Industries Ltd (jointly owned by the Group and Finmeccanica SpA) of £207 million (1998 – £148 million) and, conversely, charges made by EH Industries Ltd to GKN Westland Helicopters Ltd of £54 million (1998 – £48 million) under the terms of contracts in connection with the manufacture and sale of EH101 helicopters. To avoid duplication, the Group's share of EH Industries Ltd sales is excluded from joint venture sales.

There are no other related party transactions requiring disclosure under FRS 8 'Related Party Disclosures'.

## Notes on the Accounts (continued)

## 3 Operating profit

	1999		1998
	Continuing operations		Continuing operations
	Acquisitions in year	Other companies	
	£m	£m	£m
Sales by subsidiaries	354	3,354	2,972
Change in stocks of finished goods and work in progress	(33)	(42)	210
Raw materials and consumables	(101)	(864)	(808)
Staff costs (note 9)	(87)	(1,019)	(958)
Redundancy and reorganisation costs	–	(10)	(5)
Depreciation written off tangible fixed assets (including £4 million in respect of assets under finance leases, 1998 – £6 million)	(13)	(119)	(107)
Amortisation of goodwill	(14)	(2)	–
Other external charges	(68)	(956)	(725)
	<b>(316)</b>	<b>(3,012)</b>	<b>(2,393)</b>
Operating profit	<b>38</b>	<b>342</b>	<b>579</b>

Details of companies acquired and sold are given in the Review of Operations on pages 8 to 39 and note 25.

Other external charges include rental for hire of equipment £15 million (1998 – £17 million) and rental for leased property £15 million (1998 – £12 million). In 1998 there was a credit of £248 million in respect of Meineke litigation. Auditors' remuneration was £2.5 million (1998 – £2.1 million) and non-audit fees payable to PricewaterhouseCoopers in the United Kingdom amounted to £0.7 million (1998 – £0.8 million).

Depreciation is not provided on freehold land. In the case of buildings and computers, depreciation is provided on valuation or original cost. For all other categories of asset, depreciation is provided on the written down value at the beginning of the financial year. Except in special cases, depreciation is not charged on fixed assets capitalised during the year and available for use but a full year's depreciation is charged on fixed assets sold or scrapped during the year.

Depreciation is applied to specific classes of asset by reference to their useful lives. The range of main rates of depreciation used is:

	Straight line	Reducing balance
	%	%
Freehold buildings	2	–
General plant, machinery, fixtures, fittings and equipment	–	10 to 35
Computers and major software	20 to 33 $\frac{1}{3}$	–
Commercial vehicles and cars	–	40 to 45

Leasehold properties are amortised by equal annual instalments over the period of the lease or 50 years whichever is the shorter.

Operating lease rentals are charged to the profit and loss account as incurred over the lease term.

Costs of reorganisation and redundancy which are not part of a fundamental restructuring are charged against operating profit in the period when the announcement is made.

Revenue expenditure on research and development and the cost of acquiring patents and know-how are written off as incurred. Research and development costs totalled £399 million (1998 – £233 million) after including £312 million of expenditure refunded by customers and other parties for development work carried out on their behalf and capital expenditure of £4 million.

#### 4 Profits less losses on sale or closure of businesses

	1999 £m	1998 £m
Sale of Normalair-Garrett (Holdings)	36	–
Sale of Hermetic and reduction of shareholding in Normalair-Garrett (Holdings)	–	13
Goodwill previously written off to reserves	(26)	(11)
	10	2
Other	1	(2)
	11	–

Profits on other disposals are stated after charging £5 million in respect of goodwill previously written off directly to reserves.

#### 5 Interest (payable)/receivable

	1999 £m	1998 £m
<b>SUBSIDIARIES</b>		
Loans to joint ventures and associates	7	7
Short-term investments, loans and deposits	22	28
	29	35
Short-term borrowings (including bank interest £31.6 million, 1998 – £3.1 million)	(37)	(7)
Loans repayable within five years (including bank interest £0.6 million, 1998 – £0.7 million)	(1)	(1)
Loans repayable after five years	(9)	(4)
Finance leases	(3)	(3)
	(21)	20
<b>SHARE OF JOINT VENTURES AND ASSOCIATES</b>		
Interest receivable	3	3
Interest payable	(27)	(24)
	(24)	(21)

## Notes on the Accounts (continued)

## 6 Taxation

	1999	1998
	£m	£m
United Kingdom corporation tax at 30.25% (1998 – 31%) after crediting double taxation relief £37 million (1998 – £54 million)	29	52
Overseas taxation	78	73
Advance corporation tax	(2)	(19)
Deferred taxation	(1)	(2)
	<b>104</b>	104
Adjustment to taxation of earlier years	(3)	1
	<b>101</b>	105
Share of joint ventures	34	30
Share of associates	4	2
	<b>139</b>	137

The UK tax charge includes £2 million (1998 – £3 million) in respect of the capital gain on the disposal of Normalair-Garrett (Holdings) Ltd. No tax was payable on the 1998 exceptional provision release of £248 million.

## 7 Dividends

	1999	1998
	£m	£m
First interim (paid 29 September 1999) 6.3p per 50p share on 714.6 million shares (1998 – 5.75p per 50p share on 707.3 million shares)	45	40
Second interim nil (1998 – 10.55p per 50p share on 708.8 million shares)	–	75
	<b>45</b>	115

## 8 Earnings per share

Earnings per share for 1999 are based on the earnings of the year of £358 million (1998 – £567 million) and calculated on the weighted average number of 710.2 million shares in issue and ranking for dividend (1998 – 707.2 million shares). Diluted earnings per share, which takes into account options over GKN plc shares, is calculated on the weighted average number of 726.0 million (1998 – 721.9 million) shares.

Earnings per share before goodwill amortisation and exceptional items, which the directors consider gives a useful additional indication of underlying performance, is calculated on the earnings of the year adjusted as follows:

	Earnings		Earnings per share	
	1999 £m	1998 £m	1999 p	1998 p
Earnings of the year	<b>358</b>	567	<b>50.4</b>	80.2
Included in operating profit				
Goodwill amortisation	<b>21</b>	3	<b>3.0</b>	0.4
Meineke litigation credit	–	(248)	–	(35.0)
Exceptional items	<b>(9)</b>	–	<b>(1.3)</b>	–
Taxation attributable to exceptional items	<b>2</b>	3	<b>0.3</b>	0.4
Earnings before goodwill amortisation and exceptional items	<b>372</b>	325	<b>52.4</b>	46.0

## 9 Staff costs and directors' remuneration

	1999 £m	1998 £m
Wages and salaries	<b>925</b>	793
Social security costs	<b>128</b>	120
Other pension costs	<b>53</b>	45
	<b>1,106</b>	958

The average numbers employed by subsidiaries during the year were:

	1999	1998
United Kingdom	<b>13,842</b>	14,373
Continental Europe	<b>15,003</b>	14,833
Americas	<b>9,148</b>	4,760
Rest of the world	<b>1,792</b>	1,551
	<b>39,785</b>	35,517

Details of the directors' remuneration, pension entitlements and share options are contained in the Report on Directors' Remuneration on pages 85 to 91.

## Notes on the Accounts (continued)

## 10 Goodwill

	Subsidiaries £m	Joint ventures £m	Total £m
<b>COST</b>			
At 1 January 1999	39	97	136
Additions	372	5	377
Currency variations	7	(10)	(3)
At 31 December 1999	<b>418</b>	<b>92</b>	<b>510</b>
<b>AMORTISATION</b>			
At 1 January 1999	–	(3)	(3)
Charge for the year	(16)	(5)	(21)
At 31 December 1999	<b>(16)</b>	<b>(8)</b>	<b>(24)</b>
<b>NET BOOK VALUE</b>	<b>402</b>	<b>84</b>	<b>486</b>

Joint venture goodwill in the above table is included in the Group's share of the fixed assets of joint ventures shown in note 12.

## 11 Tangible assets

	Land and buildings £m	Other tangible fixed assets £m	Capital work in progress £m	Total £m
<b>COST OR VALUATION</b>				
At 1 January 1999	351	1,429	86	1,866
Currency variations	(15)	(73)	(1)	(89)
Subsidiaries acquired	44	255	10	309
Capital expenditure	11	102	134	247
Transfers	18	101	(119)	–
Disposals	(6)	(33)	(2)	(41)
At 31 December 1999	<b>403</b>	<b>1,781</b>	<b>108</b>	<b>2,292</b>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 1999	26	864	–	890
Currency variations	(1)	(49)	–	(50)
Subsidiaries acquired	1	133	–	134
Disposals	(1)	(27)	–	(28)
Charge for the year	8	124	–	132
At 31 December 1999	<b>33</b>	<b>1,045</b>	<b>–</b>	<b>1,078</b>
<b>NET BOOK VALUE</b>	<b>370</b>	<b>736</b>	<b>108</b>	<b>1,214</b>
Owned assets	365	724	108	1,197
Assets under finance leases	5	12	–	17
	<b>370</b>	<b>736</b>	<b>108</b>	<b>1,214</b>

	Cost or	Accumulated	Net book value	
	valuation	depreciation	1999	1998
	£m	£m	£m	£m
Analysis of land and buildings:				
Freehold land	82	–	<b>82</b>	74
Freehold buildings	298	(24)	<b>274</b>	242
Long leases	2	(1)	<b>1</b>	1
Short leases (expiring on or before 31 December 2049)	21	(8)	<b>13</b>	8
	<b>403</b>	<b>(33)</b>	<b>370</b>	<b>325</b>
				<b>£m</b>
Cost or valuation of land and buildings at 31 December 1999 includes:				
1996 valuation				<b>199</b>
Earlier years' valuations				<b>7</b>
At cost or fair value on acquisition				<b>197</b>
				<b>403</b>

Major freehold and long leasehold properties in the UK, US, Germany and France were valued at 31 December 1996 by DTZ Debenham Thorpe and King Sturge & Co, chartered surveyors.

Properties were valued, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of open market value and existing use value except for specialised properties which were valued on a depreciated replacement cost basis.

The original cost of land and buildings at 31 December 1999 was £375 million; the notional net book value on the original cost basis would have been £301 million.

Capital work in progress is expenditure on fixed assets in the course of construction. Transfers are made to other fixed asset categories when assets are available for use.

Where fixed assets are financed by leasing agreements which give rights approximating to ownership, the assets are treated as if they have been purchased and the capital element of the leasing commitments is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital which reduces the outstanding obligation.

## Notes on the Accounts (continued)

## 12 Investments

	1999 £m	Restated 1998 £m
Joint ventures		
Fixed assets	821	736
Current assets	344	320
Liabilities due within one year	(369)	(397)
Liabilities due beyond one year (note 1)	(518)	(423)
Group share of net assets	278	236
Associates	8	15
Loans to joint ventures and associates	58	43
Interest in own shares	11	6
	<b>355</b>	<b>300</b>

The movement in the book value of investments is as follows:

At 1 January 1999 (note 1)	300	198
Profit retained by joint ventures and associates	37	29
Currency variations	(14)	–
Additions	49	85
Disposals	(8)	(5)
Other movements	(9)	(7)
At 31 December 1999	<b>355</b>	<b>300</b>

Joint ventures, although not subsidiaries, are those businesses in which the Group has a long-term interest and is able to share control with its partners under a contractual arrangement. Associates are those businesses in which the Group has a long-term interest and is able to exercise significant influence through its representation on the board of directors.

Joint ventures and associates except for CHEP USA are stated at the Group's share of net assets. The launch costs of CHEP USA were capitalised up to a total of \$85 million. These costs are being amortised over 10 years from September 1993. The Group's share of unamortised costs at 31 December 1999 amounted to £10 million (1998 – £12 million). The Group's 50% investment in CHEP USA is held by a subsidiary which is liable, with its partner, for the obligations of CHEP USA.

The Group's share of net assets of joint ventures and associates includes net debt without recourse to the Group of £479 million (1998 – £435 million).

Interest in own shares represents the cost, less amounts written off, of 3,855,790 50p ordinary shares acquired by the GKN Employee Benefit Trust and the GKN Overseas Employee Benefit Trust in the open market in connection with the GKN long-term incentive plans together with the price to be received from employees in respect of 1,892,971 50p ordinary shares issued to the GKN Qualifying Employee Share Ownership Trust (QUEST). At 31 December 1999 the shares, on which dividend and voting rights have been waived, had a market value of £56.1 million.

The Group's investment in shares of Alvis plc, included within associates, had a market value of £39.9 million at 31 December 1999 (1998 – £62.2 million).

### 13 Stocks

	1999	1998
	£m	£m
Raw materials and consumables	140	114
Work in progress	190	139
Long-term work in progress	108	80
Finished goods and goods for resale	89	97
	<b>527</b>	<b>430</b>

Stocks, other than long-term work in progress, are valued at the lower of cost and estimated net realisable value, due allowance being made for obsolete or slow-moving items. Cost includes the relevant proportion of works overheads assuming normal levels of activity.

Long-term work in progress consists of net costs, after deducting foreseeable losses, of £629 million (1998 – £553 million) less payments on account of £521 million (1998 – £473 million). Payments received from customers are deducted from stock and work in progress to the extent of the cost of the work carried out and any excess is shown as customer advances. Profit on long-term contracts is taken when sales are recognised based on estimated overall profitability. On aerospace contracts where volumes are not contractually fixed, net non-recurring initial costs consisting of design, development and tooling, are amortised on a straight line basis over five years from the start of serial production subject to the programme remaining in existence. On major commercial programmes where a component is integral to the aircraft the amortisation period may be extended up to a maximum of ten years.

The replacement cost of stocks is not materially different from the historical cost value.

### 14 Debtors

	1999	1998
	£m	£m
Due within one year:		
Trade debtors	478	357
Amounts recoverable on contracts	7	12
Amounts owed by joint ventures and associates	43	60
Advance corporation tax recoverable	3	30
Other debtors	58	32
Prepayments and accrued income	27	26
	<b>616</b>	<b>517</b>
Due in more than one year:		
Advance corporation tax recoverable	3	1
Other debtors	59	53
	<b>678</b>	<b>571</b>

## Notes on the Accounts (continued)

## 15 Cash at bank and in hand

	1999	1998
	£m	£m
Bank balances and cash	177	165
Short-term loans and deposits	20	113
	<b>197</b>	<b>278</b>

## 16 Short-term borrowings

Bank overdrafts (note 20)	22	43
Short-term loans (note 20)	40	13
	<b>62</b>	<b>56</b>

## 17 Creditors

		Restated
Trade creditors	417	312
Bills payable	10	15
Customer advances	342	343
Amounts owed to joint ventures and associates	16	13
Indirect and payroll taxes	33	31
Obligations under finance leases (note 20)	8	8
Other creditors	106	137
Accruals and deferred income (note 1)	181	166
	<b>1,113</b>	<b>1,025</b>

## 18 Taxation payable

United Kingdom taxation	57	68
Overseas taxation	84	42
	<b>141</b>	<b>110</b>

## 19 Creditors: amounts falling due beyond one year

	1999 £m	1998 £m
Term loans (note 20)	394	57
Obligations under finance leases (note 20)	14	18
	<b>408</b>	<b>75</b>

### Term loans include:

Unsecured £300 million 6.75% bonds maturing in 2019 less issue costs of £4 million.

Secured term loans of £32 million (1998 – £37 million) include £30 million debenture stocks of Westland Group plc which are secured by a floating charge on the undertaking and assets of that company and certain of its subsidiaries and guaranteed by GKN plc.

## 20 Analysis of financial liabilities

The disclosures made in notes 20 and 21 should be read in conjunction with the discussion of the Group's objectives, policies and strategies with regard to financial instruments on pages 45 to 47 of the Financial Review. Short-term debtors and creditors arising directly from the Group's operations are excluded from the following disclosures other than those on currency exposures.

After taking into account the various interest rate and forward foreign exchange contracts entered into by the Group, the effective currency and interest rate exposure of the Group's borrowings as at 31 December 1999 were as follows:

	Floating rate borrowings £m	Fixed rate borrowings £m	Total borrowings £m	Fixed rate borrowings	
				Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	14	330	344	7.3	18.7
US Dollar	59	16	75	6.1	0.5
Euro currencies	36	1	37	2.5	3.7
Other	21	1	22	5.6	1.7
	<b>130</b>	<b>348</b>	<b>478</b>	<b>7.2</b>	<b>17.7</b>

The interest rates on floating rate borrowings are determined by reference to applicable LIBORs. The US Dollar fixed rate borrowing represents a \$25 million interest rate swap from a variable rate to a fixed rate of 6.1%.

## Notes on the Accounts (continued)

The maturity profile of the Group's borrowings at 31 December 1999 is as follows:

	1999 £m	1998 £m
Loans and overdrafts repayable as follows:		
within one year	62	56
one to two years	20	16
two to five years	41	3
after five years	333	38
	<b>456</b>	<b>113</b>
Finance leases repayable as follows:		
within one year	8	8
one to two years	5	7
two to five years	8	11
after five years	1	–
	<b>22</b>	<b>26</b>
Total borrowings	<b>478</b>	<b>139</b>

At 31 December 1999 the Group had the following undrawn committed borrowing facilities:

	£m
Expiring within one year	91
Expiring in more than one year but not more than two years	259
Expiring in more than two years	441
	<b>791</b>

## 21 Financial instruments

### A) FINANCIAL ASSETS

	Bank balances and cash £m	Short-term loans and deposits £m
Sterling	105	20
US Dollar	33	–
Euro currencies	25	–
Other	14	–
	<b>177</b>	<b>20</b>

The bank balances and cash comprise £158 million in respect of short-term balances earning interest and £19 million in respect of balances which are non-interest earning. The year end weighted average interest rate on the interest earning cash balances, which is all floating and set by reference to relevant LIBORs, is 4.2%.

Surplus cash is deposited for the short-term for periods typically with a maturity of less than three months. The weighted average interest rate on the deposit account balances is 2.6%.

**B) CURRENCY EXPOSURES**

As explained on page 47 of the Financial Review, the Group's objective in managing the currency exposures from its net overseas investments is to ensure that changes in the sterling equivalent of assets and liabilities caused by currency movements do not significantly impact on Group net worth. At 31 December 1999, there were £1,057 million of synthetic borrowings created through the use of forward foreign exchange contracts to hedge the Group's net overseas investments. These borrowings are denominated in US dollars (67%), euro (31%) and other currencies (2%) and are mirrored by synthetically created sterling deposits. Gains and losses arising from these currency exposures are recognised in the statement of total recognised gains and losses. Interest differentials resulting from the use of financial instruments to hedge these exposures are dealt with in the Group profit and loss account.

After taking into account the effects of forward foreign exchange contracts, at 31 December 1999 there were no material currency exposures that give rise to gains or losses recognised in the profit and loss account.

**C) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

The comparison of fair and book values of all the Group's financial assets and liabilities at 31 December 1999 is set out below. Market values have been used to determine fair value.

	Book value £m	Fair value £m
<b>FINANCIAL INSTRUMENTS HELD OR ISSUED TO FINANCE THE GROUP'S OPERATIONS:</b>		
Bank balances and cash	177	177
Short-term loans and deposits	20	20
Short-term borrowings and current portion of long-term borrowings	(62)	(62)
Long-term borrowings	(394)	(404)
Finance leases	(22)	(22)
<b>FINANCIAL INSTRUMENTS HELD TO MANAGE THE INTEREST RATE AND CURRENCY PROFILE:</b>		
Forward rate agreements	–	(4)
Forward foreign exchange contracts	–	1
Interest rate swaps	–	–
<b>FINANCIAL INSTRUMENTS HELD TO HEDGE THE CURRENCY EXPOSURE ON EXPECTED FUTURE TRADING TRANSACTIONS:</b>		
Forward foreign exchange contracts	–	19
	<b>(281)</b>	<b>(275)</b>

## Notes on the Accounts (continued)

The following methods and assumptions were used in estimating fair values for financial instruments:

- Short-term borrowings, cash and deposits approximate to book value due to their short maturities.
- Bank and other loans carrying fixed rates of interest – the repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at 31 December 1999.
- Eurosterling bonds – quoted market value.
- Debenture – quoted market value.
- Interest rate swaps – discounted cash flow analysis, to determine the estimated amount the Group would receive or pay to terminate the agreements. Discounted cash flow analyses are based on interest rates derived from market yield curves.
- Forward foreign exchange contracts – difference between marked-to-market and forward rate.

### D) HEDGES

As explained in the Financial Review on pages 46 and 47, the Group's policy is to hedge the following exposures:

- Interest rate risk – using interest rate swaps and forward rate agreements.
- Translational and transactional currency exposures – using forward foreign exchange contracts.

Gains or losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains or losses on instruments used for hedging both transactional and translational exposures and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains £m
Gains and losses arising before 1 January 1999 that were not recognised in 1999	49	(13)	36
Gains and losses arising in 1999 that were not recognised in that year	6	(26)	(20)
<b>Unrecognised gains and losses on hedges at 31 December 1999</b>	<b>55</b>	<b>(39)</b>	<b>16</b>
Expected to be recognised in 2000	18	(24)	(6)
Expected to be recognised after 2000	37	(15)	22
	<b>55</b>	<b>(39)</b>	<b>16</b>

There were no material gains and losses arising in previous years recognised in 1999.

## 22 Provisions for liabilities and charges

	Deferred taxation £m	Post- retirement £m	Other £m	Total £m
At 1 January 1999 – restated (note 1)	–	189	47	236
Charge for the year	–	26	5	31
Credit for the year	(1)	–	(6)	(7)
Currency variations	–	(19)	(1)	(20)
Subsidiaries acquired	2	11	31	44
Paid or accrued during the year	–	(9)	(3)	(12)
At 31 December 1999	<b>1</b>	<b>198</b>	<b>73</b>	<b>272</b>

### DEFERRED TAXATION

Provision is made for deferred taxation to the extent that there is a reasonable probability that such tax will become payable in the foreseeable future. For United Kingdom subsidiaries the provision is calculated at 30% less losses available for set-off against future profits.

The potential full deferred taxation liability, including the Group's share of joint ventures, arising on fixed asset and other timing differences was £113 million (1998 – £93 million). No provision is made for any additional taxation which might arise on remittance of retained profits of overseas subsidiaries, joint ventures and associates except where distributions of such profits are planned. The 1999 charge to profits for deferred taxation on a full liability basis would have been £23 million (1998 – £27 million).

### POST-RETIREMENT

Post-retirement includes provisions relating to pension benefits of £163 million (1998 – £165 million) and provisions for other post-retirement benefits of £35 million (1998 – £24 million).

### OTHER

Other provisions comprise mainly legal and other claims, environmental and warranty provisions, the timing of which is inherently uncertain. They are established based on historical information or professional assessment.

## 23 Share capital

	1999 Number (‘000)	1998 Number (‘000)	1999 £m	1998 £m
<b>Ordinary shares of 50p each</b>				
Authorised	<b>900,000</b>	900,000	<b>450</b>	450
Allotted, called up and fully paid				
At 1 January 1999	<b>711,828</b>	708,594	<b>356</b>	354
Issued under employee share option schemes	<b>6,463</b>	3,234	<b>3</b>	2
At 31 December 1999	<b>718,291</b>	711,828	<b>359</b>	356

## Notes on the Accounts (continued)

The options held by Group employees over GKN plc shares were as follows:

	SAYE scheme Number (‘000)	UK and overseas executive schemes Number (‘000)
At 1 January 1999	15,399	3,182
Granted	2,245	–
Exercised	(3,527)	(906)
Lapsed	(700)	(12)
At 31 December 1999	<b>13,417</b>	<b>2,264</b>
Option price per share	130.35-794p	105.45-484p
Exercisable at dates extending to	2006	2006

The options granted in 1999 under the GKN SAYE scheme are at 794p per share exercisable between 2002 and 2006.

The consideration received by GKN plc on the exercise of options in 1999 was £52.5 million. Employees paid £13.9 million to the Group for the issue of these shares and the balance of £38.6 million comprised contributions to the GKN Qualifying Employee Share Ownership Trust (QUEST) from subsidiaries.

## 24 Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
<b>GROUP</b>					
At 1 January 1999	303	55	37	264	659
Restatement of prior year (note 1)	–	–	–	(8)	(8)
At 1 January 1999 as restated	303	55	37	256	651
Transfer from profit and loss account	–	–	–	313	313
Currency variations:					
overseas net assets	–	(2)	(1)	(38)	(41)
foreign currency borrowings	–	–	–	26	26
Net premium on share issues	49	–	–	(34)	15
Subsidiaries, joint ventures and associates acquired and sold	–	–	–	31	31
Transfers between reserves	–	(1)	40	(39)	–
At 31 December 1999	<b>352</b>	<b>52</b>	<b>76</b>	<b>515</b>	<b>995</b>
Parent company and subsidiaries	352	52	61	426	891
Joint ventures and associates	–	–	15	89	104
	<b>352</b>	<b>52</b>	<b>76</b>	<b>515</b>	<b>995</b>

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
<b>PARENT COMPANY</b>					
At 1 January 1999	303	–	203	661	1,167
Transfer from profit and loss account	–	–	–	331	331
Net premium on share issues	49	–	–	–	49
At 31 December 1999	<b>352</b>	<b>–</b>	<b>203</b>	<b>992</b>	<b>1,547</b>

Cumulative goodwill eliminated directly against reserves amounts to £781 million (1998 – £816 million).

## 25 Acquisitions

### A) THE INTERLAKE CORPORATION

On 10 February 1999 the Group acquired the whole of the issued share capital of The Interlake Corporation (Interlake) for a cash consideration of £145 million (\$238 million). The calculation of goodwill arising on the acquisition is shown below.

	Book value prior to acquisition £m	Revaluations £m	Accounting policy alignment £m	Fair value to the Group £m
Fixed assets – tangible assets	109	9	(4)	114
– intangible assets	5	(5)	–	–
Stocks	34	(4)	7	37
Debtors	51	–	–	51
Loans and finance leases	(183)	(9)	–	(192)
Creditors	(59)	(12)	–	(71)
Taxation payable	(23)	(5)	–	(28)
Provisions for liabilities and charges	(24)	(19)	–	(43)
Minority interest	(9)	–	–	(9)
Net liabilities	(99)	(45)	3	(141)
Goodwill				297
Consideration including costs				156

The above table shows the adjustments made to the net liabilities of Interlake to bring the accounts onto a GKN basis in accordance with the requirements of FRS 7. The principal adjustments related to revaluations of properties, pensions, environmental, monetary and other liabilities. The fair value of certain of these items remains provisional pending the outcome of on-going regulatory reviews.

## Notes on the Accounts (continued)

The results of Interlake prior to acquisition, prepared on the basis of its pre-acquisition accounting policies and under US generally accepted accounting principles, are summarised below.

	1 month to 31 January 1999	Year to 31 December 1998
	£m	£m
<b>CONSOLIDATED PROFIT AND LOSS ACCOUNT</b>		
Sales	29	332
Operating profit	3	40
Exceptional item	–	1
Interest payable	(2)	(22)
Profit before taxation	1	19
Taxation	–	(3)
Minority interest	–	(8)
Profit for the period	1	8

There were no other recognised gains and losses other than the profit for the period.

Interlake's sales and operating profit for the 11 months to 31 December 1999 amounted to £318 million and £49 million respectively. Interlake's contribution to Group cash flow for the same period was: £57 million to net cash inflow from operating activities, interest payments of £8 million, tax payments of £6 million and payments of £29 million in respect of capital expenditure and financial investment.

**B) OTHER ACQUISITIONS**

Other acquisitions made by the Group during the year were as follows:

	Date	Additional direct shareholding %	Group shareholding at 31 December 1999 %
<b>SUBSIDIARIES</b>			
Sintered Metal Components (Pty) Ltd (South Africa)	April	74	100
Fairview Sintered Metals Inc (USA)	May	100	100
Asian Driveshaft Sdn Bhd (Malaysia)	June	15.8	57.9
Michigan Sintered Metals Inc (USA)	July	100	100
Elite Metal Products Inc (USA)	August	100	100
Zenith Sintered Products Inc (USA)	September	100	100
Borg-Warner's forged powdered metal operations in Gallipolis (USA)	October	100	100

The book and fair value of net assets acquired and total consideration payable for subsidiary acquisitions, excluding Interlake, are analysed below.

	Book value prior to acquisition	Revaluations	Fair value to the Group
	£m	£m	£m
Tangible fixed assets	63	(1)	62
Working capital and provisions	6	(1)	5
Cash	1	–	1
Loans and finance leases	(8)	–	(8)
Minority interests	(1)	–	(1)
	<u>61</u>	<u>(2)</u>	<u>59</u>
Less already owned as joint venture investment			–
Net assets acquired			59
Goodwill			75
Consideration including costs			<u>134</u>

The post-acquisition contribution of subsidiary acquisitions, excluding Interlake, to Group cash flow was a net cash inflow of £4 million from operating activities, payments of £nil in respect of interest and taxation and payments of £3 million in respect of capital expenditure and financial investment.

## 26 Post-retirement benefits

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world.

In the UK, pension arrangements are made through externally funded defined benefit schemes. Independent actuarial valuations of all schemes have been carried out using the projected unit method. The main GKN Group Pension Scheme was valued at April 1999, using a market value related basis assuming a yield pre-retirement of 6.5% per annum, which will exceed the annual rate of increases in pensionable salaries by 2.5%, and a yield post-retirement of 5.0% per annum, which will exceed pension increases by 2.5%. The Executive and Senior Staff Scheme was valued at April 1998 also on a market value related basis, with assumptions of a yield pre-retirement of 7.0% per annum exceeding the annual rate of increases in salaries by 2.0% and a yield post-retirement of 6.0% per annum exceeding annual pension increases by 3.25%. The Westland Staff Scheme was valued as at April 1997 with the main assumption being a long-term yield on scheme assets of 8.5% per annum which will exceed the annual rate of increases in salaries by 2.5%, in pensions by 4.5% and in UK equity dividends by 4.25%.

The aggregate market value of the assets at the valuation dates was £1,783 million and the aggregate funding level on an on-going basis was 101%. Company contributions in the year totalled £31 million (1998 – £28 million) compared with the regular cost in accordance with the application of SSAP 24 of £27 million (1998 – £23 million). The total charge to operating

## Notes on the Accounts (continued)

profit was £23 million (1998 – £22 million). A cumulative advance payment of £57 million is included in other debtors (1998 – £48 million).

In certain overseas companies funds are retained within the business to provide for retirement obligations. The annual charge to provide for these obligations, which is determined in accordance with actuarial advice or local statutory requirements, amounted to £26 million (1998 – £19 million).

The Group operates a number of retirement plans which provide certain employees with post-retirement healthcare benefits. The liability for providing these benefits is recognised on an actuarial basis and included in post-retirement and other provisions disclosed in note 22. The principal actuarial assumptions for the main plan as at December 1997, the date of the last review, were that the discount rate would be 8% per annum and that medical costs would initially increase by 8% per annum falling to 5% over 10 years.

### 27 Commitments and contingent liabilities

#### CONTINGENT LIABILITIES

At 31 December 1999 the Group had contingent liabilities in respect of bank and other guarantees amounting to £1 million (1998 – £3 million). In the case of certain companies engaged in long-term contracts, performance bonds and customer financing obligations have also been entered into in the normal course of business.

#### CAPITAL EXPENDITURE

Contracts placed against capital expenditure sanctioned at 31 December 1999 so far as not provided for by subsidiaries amounted to £51 million (1998 – £85 million) and the Group's share not provided for by joint ventures and associates amounted to £27 million (1998 – £53 million).

#### OPERATING LEASES

The minimum payments which the Group is committed to make in 2000 under operating leases are as follows:

	1999		1998	
	Land and buildings £m	Equipment £m	Land and buildings £m	Equipment £m
Leases which expire:				
within one year	1	3	1	4
two to five years	7	7	11	9
after five years	6	1	9	1
	<b>14</b>	<b>11</b>	21	14

## Balance sheet of GKN plc

At 31 December 1999

	Notes	1999 £m	1998 £m
<b>FIXED ASSETS</b>			
Investments:			
Subsidiaries at cost or valuation			
less amounts written off		973	973
Interest in own shares		11	6
		<u>984</u>	979
<b>CURRENT ASSETS</b>			
Amounts owed by subsidiaries		<u>1,222</u>	<u>629</u>
<b>CREDITORS: amounts falling due within one year</b>			
Short-term loans		–	(1)
Creditors and accruals		(4)	(2)
Taxation		–	(7)
Dividends payable		–	(75)
		<u>(4)</u>	<u>(85)</u>
<b>NET CURRENT ASSETS</b>		<u>1,218</u>	<u>544</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,202</u>	<u>1,523</u>
<b>CREDITORS: amounts falling due beyond one year</b>			
Term loans – 6.75% bonds due 2019		<u>(296)</u>	<u>–</u>
<b>NET ASSETS</b>		<u>1,906</u>	<u>1,523</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	23	359	356
Share premium account	24	352	303
Other reserves	24	203	203
Profit and loss account	24	<u>992</u>	<u>661</u>
<b>EQUITY INTEREST</b>		<u>1,906</u>	<u>1,523</u>

The balance sheet was approved by the Board of Directors on 7 March 2000 and was signed by: David Lees, C K Chow, David J Turner, Directors.

As permitted by the Companies Act 1985 a separate profit and loss account for the parent company has not been presented.

Information on the principal divisions, subsidiaries, joint ventures and associates is shown on pages 94 and 95.

## Segmental analysis

	Sales		Operating profit		Net operating assets	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
<b>BY BUSINESS</b>						
Automotive						
Subsidiaries	2,222	2,062	246	223	1,102	931
Joint ventures	172	168	27	23	114	113
	<b>2,394</b>	<b>2,230</b>	<b>273</b>	<b>246</b>	<b>1,216</b>	<b>1,044</b>
Industrial Services						
Subsidiaries	178	47	29	18	41	11
Joint ventures	632	522	118	100	572	525
	<b>810</b>	<b>569</b>	<b>147</b>	<b>118</b>	<b>613</b>	<b>536</b>
Aerospace						
Subsidiaries	1,308	863	121	90	165	(13)
Joint ventures	24	14	3	3	81	52
Associates	107	30	14	6	16	35
	<b>1,439</b>	<b>907</b>	<b>138</b>	<b>99</b>	<b>262</b>	<b>74</b>
	<b>4,643</b>	<b>3,706</b>	<b>558</b>	<b>463</b>	<b>2,091</b>	<b>1,654</b>
Goodwill amortisation	–	–	(21)	(3)	–	–
Exceptional litigation credit	–	–	–	248	–	–
Total	<b>4,643</b>	<b>3,706</b>	<b>537</b>	<b>708</b>	<b>2,091</b>	<b>1,654</b>
<b>BY REGION OF ORIGIN</b>						
United Kingdom						
Subsidiaries	1,488	1,215	134	127	224	96
Joint ventures	221	194	48	44	236	208
Associates	103	28	13	6	16	34
	<b>1,812</b>	<b>1,437</b>	<b>195</b>	<b>177</b>	<b>476</b>	<b>338</b>
Continental Europe						
Subsidiaries	1,109	1,128	160	157	512	526
Joint ventures	317	260	55	42	223	240
	<b>1,426</b>	<b>1,388</b>	<b>215</b>	<b>199</b>	<b>735</b>	<b>766</b>
Americas						
Subsidiaries	1,000	537	93	40	519	257
Joint ventures	238	201	37	33	270	202
	<b>1,238</b>	<b>738</b>	<b>130</b>	<b>73</b>	<b>789</b>	<b>459</b>
Rest of the world						
Subsidiaries	111	92	9	7	53	50
Joint ventures	52	49	8	7	38	40
Associates	4	2	1	–	–	1
	<b>167</b>	<b>143</b>	<b>18</b>	<b>14</b>	<b>91</b>	<b>91</b>
	<b>4,643</b>	<b>3,706</b>	<b>558</b>	<b>463</b>	<b>2,091</b>	<b>1,654</b>

(1) THE ANALYSES OF OPERATING PROFIT BY BUSINESS AND BY REGION OF ORIGIN INCLUDE AN ALLOCATION OF COSTS INCURRED IN THE UNITED KINGDOM.

(2) INTRA-GROUP SALES BETWEEN BUSINESSES AND REGIONS ARE NOT SIGNIFICANT.

(3) GOODWILL AMORTISATION IS ATTRIBUTABLE TO BUSINESS SEGMENTS AS FOLLOWS: AUTOMOTIVE £8 MILLION (1998 – NIL), INDUSTRIAL SERVICES £9 MILLION (1998 – £3 MILLION) AND AEROSPACE £4 MILLION (1998 – NIL) AND TO REGION OF ORIGIN AS FOLLOWS: UNITED KINGDOM NIL (1998 – NIL), CONTINENTAL EUROPE £5 MILLION (1998 – £3 MILLION), AMERICAS £16 MILLION (1998 – NIL) AND REST OF THE WORLD NIL (1998 – NIL).

(4) NET OPERATING ASSETS REPRESENT TANGIBLE FIXED ASSETS, STOCKS AND DEBTORS (EXCLUDING ACT RECOVERABLE) LESS CREDITORS (EXCLUDING LEASES, TAXATION AND DIVIDENDS PAYABLE). NET OPERATING ASSETS OF JOINT VENTURES AND ASSOCIATES COMPRISE THE GROUP'S SHARE AND EXCLUDE NET DEBT AND NET NON-OPERATING LIABILITIES AMOUNTING TO £497 MILLION (1998 – £474 MILLION).

(5) 1998 FIGURES FOR NET OPERATING ASSETS HAVE BEEN RESTATED TO REFLECT THE REQUIREMENTS OF FRs 12 (SEE NOTE 1 ON THE ACCOUNTS).

## Group five year financial record

	1999	1998	1997	1996	1995
	£m	£m	£m	£m	£m
<b>CONSOLIDATED PROFIT AND LOSS ACCOUNTS</b>					
<b>SALES</b>					
Subsidiaries	3,708	2,972	2,834	2,873	2,894
Share of joint ventures and associates	935	734	549	464	411
	<b>4,643</b>	<b>3,706</b>	<b>3,383</b>	<b>3,337</b>	<b>3,305</b>
Subsidiaries	396	331	297	260	249
Share of joint ventures and associates	162	132	104	90	72
<b>OPERATING PROFIT BEFORE GOODWILL AMORTISATION</b>					
<b>AND EXCEPTIONAL ITEMS</b>	<b>558</b>	<b>463</b>	<b>401</b>	<b>350</b>	<b>321</b>
Interest (payable)/receivable					
Subsidiaries	(21)	20	20	25	18
Share of joint ventures and associates	(24)	(21)	(15)	(12)	(11)
<b>PROFIT BEFORE TAX, GOODWILL AMORTISATION</b>					
<b>AND EXCEPTIONAL ITEMS</b>	<b>513</b>	<b>462</b>	<b>406</b>	<b>363</b>	<b>328</b>
Goodwill amortisation	(21)	(3)	–	–	–
Exceptional profits/(losses)					
Subsidiaries	11	248	–	(270)	(6)
Share of joint ventures and associates	(2)	–	–	–	–
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>					
	<b>501</b>	<b>707</b>	<b>406</b>	<b>93</b>	<b>322</b>
Taxation	(139)	(137)	(124)	(123)	(120)
Minority interests	(4)	(3)	(6)	(12)	(15)
<b>EARNINGS/(LOSS) OF THE YEAR</b>					
	<b>358</b>	<b>567</b>	<b>276</b>	<b>(42)</b>	<b>187</b>
Dividends	(45)	(115)	(104)	(93)	(83)
<b>TRANSFER TO/(FROM) RESERVES</b>					
	<b>313</b>	<b>452</b>	<b>172</b>	<b>(135)</b>	<b>104</b>
<b>EARNINGS/(LOSS) PER SHARE</b>					
	<b>50.4p</b>	<b>80.2p</b>	<b>39.2p</b>	<b>(6.0)p</b>	<b>27.0p</b>
<b>EARNINGS PER SHARE BEFORE GOODWILL AMORTISATION</b>					
<b>AND EXCEPTIONAL ITEMS</b>	<b>52.4p</b>	<b>46.0p</b>	<b>39.2p</b>	<b>32.6p</b>	<b>28.7p</b>
<b>DIVIDEND/RETURN OF CAPITAL PER SHARE</b>					
	<b>18.0p</b>	<b>16.3p</b>	<b>14.75p</b>	<b>13.25p</b>	<b>12.0p</b>
<b>CONSOLIDATED BALANCE SHEETS</b>					
Tangible fixed assets	1,214	976	842	699	707
Stocks	527	430	375	328	405
Creditors less debtors	(433)	(477)	(567)	(414)	(439)
<b>NET OPERATING ASSETS</b>					
	<b>1,308</b>	<b>929</b>	<b>650</b>	<b>613</b>	<b>673</b>
Net (borrowings)/funds	(281)	139	281	528	464
Intangible assets – goodwill	402	39	–	–	–
Fixed asset investments	355	300	206	187	179
Taxation and dividend payable	(135)	(154)	(108)	(113)	(128)
Provisions for liabilities and charges	(272)	(236)	(442)	(450)	(190)
<b>NET ASSETS EMPLOYED</b>					
	<b>1,377</b>	<b>1,017</b>	<b>587</b>	<b>765</b>	<b>998</b>
Equity interest	1,354	1,007	554	725	926
Minority interests	23	10	33	40	72
	<b>1,377</b>	<b>1,017</b>	<b>587</b>	<b>765</b>	<b>998</b>

(1) THE 1996 ACCOUNTS INCLUDE A PROVISION FOR MEINEKE LITIGATION OF £270 MILLION. FOLLOWING THE RESULT OF THE APPEAL, THE BALANCE ON THE PROVISION OF £248 MILLION WAS RELEASED IN 1998.

(2) EARNINGS AND DIVIDEND PER SHARE ARE SHOWN AS RESTATED TO REFLECT THE TWO FOR ONE SHARE SPLIT IN MAY 1998.

(3) NET OPERATING ASSETS ARE DEFINED IN NOTE 4 ON PAGE 76.

(4) 1998 FIGURES FOR CREDITORS, PROVISIONS AND EQUITY HAVE BEEN RESTATED TO REFLECT THE REQUIREMENTS OF FRS 12 (SEE NOTE 1 ON THE ACCOUNTS). EARLIER YEARS HAVE NOT BEEN RESTATED.