

Consolidated profit and loss account for the year ended 31 December 2000

	Notes	Continuing operations		2000	Before	Exceptional	1999
		Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation* £m	Total £m	exceptional items and goodwill amortisation £m	items and goodwill amortisation* £m	Total £m
Sales							
Subsidiaries							
acquisitions		76	–	76	354	–	354
other companies		4,048	–	4,048	3,354	–	3,354
	2	4,124	–	4,124	3,708	–	3,708
Share of joint ventures							
acquisitions		19	–	19	–	–	–
other companies		891	–	891	828	–	828
		910	–	910	828	–	828
Share of associates		62	–	62	107	–	107
		5,096	–	5,096	4,643	–	4,643
Operating profit							
Subsidiaries							
acquisitions		5	(1)	4	52	(14)	38
other companies		416	(74)	342	344	(2)	342
	3	421	(75)	346	396	(16)	380
Share of joint ventures							
acquisitions		2	–	2	–	–	–
other companies		166	(5)	161	148	(5)	143
		168	(5)	163	148	(5)	143
Share of associates		4	–	4	14	–	14
		593	(80)	513	558	(21)	537
Operating profit							
Exceptional items							
Profits less losses on sale or							
closure of businesses	4	–	27	27	–	11	11
Share of associate's exceptional items	4	–	6	6	–	(2)	(2)
		593	(47)	546	558	(12)	546
Profit before interest and taxation							
Interest (payable)/receivable							
Subsidiaries	5	(31)	–	(31)	(21)	–	(21)
Share of joint ventures and associates	5	(34)	–	(34)	(24)	–	(24)
		528	(47)	481	513	(12)	501
Profit on ordinary activities before taxation							
Taxation	6	(133)	(24)	(157)	(137)	(2)	(139)
		395	(71)	324	376	(14)	362
Profit on ordinary activities after taxation							
Minority interests – equity		(5)	–	(5)	(4)	–	(4)
		390	(71)	319	372	(14)	358
Earnings of the year							
Dividends	7	(143)	–	(143)	(45)	–	(45)
		247	(71)	176	327	(14)	313
Transfer to reserves	24						
Earnings per share – p	8	54.5	(9.9)	44.6	52.4	(2.0)	50.4
Diluted earnings per share – p	8	53.8	(9.8)	44.0	51.3	(2.0)	49.3

* Total operating profit is stated after charging operating exceptional items of £45 million (1999 – nil) (note 4) and goodwill amortisation of £35 million (1999 – £21 million).

Consolidated balance sheet at 31 December 2000

	Notes	£m	2000 £m	Restated (note 1) 1999 £m
Fixed assets				
Intangible assets – goodwill	10		579	402
Tangible assets	11		1,391	1,214
Investments				
Joint ventures				
Share of gross assets		1,392		1,155
Share of gross liabilities		(1,053)		(887)
			339	268
Associates		16		8
Other investments		82		69
	12		437	345
			2,407	1,961
Current assets				
Stocks	13	602		527
Debtors	14	755		678
Cash at bank and in hand	15	143		197
			1,500	1,402
Creditors: amounts falling due within one year				
Short-term borrowings	16	(116)		(62)
Creditors	17	(1,104)		(1,113)
Taxation payable	18	(204)		(141)
Dividend payable		(93)		–
			(1,517)	(1,316)
Net current (liabilities)/assets			(17)	86
Total assets less current liabilities			2,390	2,047
Creditors: amounts falling due beyond one year	19		(623)	(408)
Provisions for liabilities and charges	22		(291)	(272)
Net assets			1,476	1,367
Capital and reserves				
Called up share capital	23		361	359
Share premium account	24		290	352
Revaluation reserve	24		48	52
Other reserves	24		176	76
Profit and loss account	24		582	505
Equity interest			1,457	1,344
Minority interests – equity			19	23
			1,476	1,367

The accounts were approved by the Board of Directors on 6 March 2001 and were signed by:
Sir David Lees, Sir C K Chow, David J Turner, Directors.

Statement of total recognised gains and losses for the year ended 31 December 2000

	2000 £m	1999 £m
Earnings of the year		
Subsidiaries	218	265
Share of joint ventures	92	87
Share of associates	9	6
	319	358
Currency variations	3	(15)
Other reserve movements	(5)	–
Total recognised gains and losses of the year	317	343
Prior year adjustment (note 1)	(10)	(8)
Total gains and losses recognised since last annual report	307	335

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 2000

	2000 £m	Restated 1999 £m
Total recognised gains and losses of the year	317	343
Dividends	(143)	(45)
Issue of ordinary shares net of costs	10	18
Redemption of 'B'Shares	(84)	–
Goodwill on businesses sold and closed	13	31
Total increase	113	347
Shareholders' equity at 1 January 2000 (note 1)	1,344	997
Shareholders' equity at 31 December 2000	1,457	1,344

Movement in net funds for the year ended 31 December 2000

	2000 £m	1999 £m
(Decrease)/increase in cash	(66)	36
Decrease in liquid resources and financing	(81)	(289)
Cash outflow before use of liquid resources and financing	(147)	(253)
Currency variations	(72)	20
Net proceeds of ordinary share issues	12	13
Redemption of 'B'Shares	(84)	–
New finance leases	(5)	–
Subsidiaries acquired and sold	(24)	(200)
Total decrease	(320)	(420)
Net (borrowings)/funds at 1 January 2000	(281)	139
Net borrowings at 31 December 2000	(601)	(281)

Consolidated cash flow statement for the year ended 31 December 2000

	Notes	£m	2000 £m	£m	1999 £m
Net cash inflow from operating activities	A		365		391
Dividends from joint ventures and associates			48		82
Returns on investments and servicing of finance					
Interest received		28		27	
Interest paid		(57)		(54)	
Dividends paid to minority interests		(3)		(12)	
			(32)		(39)
Taxation					
United Kingdom		6		7	
Overseas		(71)		(71)	
			(65)		(64)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(261)		(236)	
Sale of tangible fixed assets		8		16	
Investment loans and additional capital contributions to joint ventures and associates		(45)		(31)	
Other financial investments		(2)		(6)	
			(300)		(257)
Acquisitions and disposals					
Purchase of subsidiaries	B	(214)		(290)	
Purchase of joint ventures		(12)		(1)	
Sale of subsidiaries	B	114		–	
Sale of joint ventures and associates		(1)		45	
			(113)		(246)
Equity dividends paid			(50)		(120)
Cash outflow before use of liquid resources and financing			(147)		(253)
Management of liquid resources					
Increase in short-term loans and deposits		(13)		(30)	
Decrease in short-term loans and deposits		7		151	
	C		(6)		121
Financing					
Net proceeds from ordinary share issues		12		13	
Redemption of 'B'Shares		(84)		–	
Proceeds of bond issue		–		296	
Proceeds of other term borrowings		356		69	
Repayment of other term borrowings		(188)		(201)	
Finance leases		(9)		(9)	
	C		87		168
(Decrease)/increase in cash	C		(66)		36

Notes on the cash flow statement

A Net cash inflow from operating activities

Exceptional items relate to expenditure incurred, principally redundancies, on business closures. Included in cash inflow from operating activities is expenditure of £12 million in respect of operating exceptional items (note 4).

	2000 £m	1999 £m
Operating profit from continuing operations	346	380
Depreciation and goodwill amortisation	193	148
Profit on sale of tangible fixed assets	(5)	(3)
Increase in stocks	(59)	(65)
Increase in debtors	(55)	(107)
(Decrease)/increase in creditors	(25)	30
(Decrease)/increase in provisions	(1)	9
Decrease in customer advances	(27)	(1)
Exceptional items	(2)	–
Net cash inflow from operating activities	365	391

B Purchase and sale of subsidiaries

	Acquisitions		Sales	
	2000 £m	1999 £m	2000 £m	1999 £m
Fixed assets	(92)	(176)	34	–
Working capital and provisions	(9)	20	9	–
Taxation payable	6	29	(1)	–
Cash	1	(1)	3	–
Loans and finance leases	26	200	(2)	–
Minority interests	(13)	10	5	–
	(81)	82	48	–
Change from joint venture status	20	–	–	–
Surplus on sales	–	–	64	–
Goodwill	(160)	(372)	5	–
Total consideration	(221)	(290)	117	–
Deferred consideration	8	(1)	–	–
Consideration (paid)/received	(213)	(291)	117	–
Less: cash	(1)	1	(3)	–
Net cash (outflow)/inflow	(214)	(290)	114	–

C Analysis of movements in net funds

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.

	Net borrowings at end of year		Cash £m	Change in 2000	
	2000 £m	1999 £m		Liquid resources £m	Financing £m
Bank balances and cash	117	177	(60)	–	–
Short-term loans and deposits	26	20	–	6	–
Bank overdrafts	(38)	(22)	(16)	–	–
Other short-term borrowings	(78)	(40)	–	–	(38)
Term loans	(610)	(394)	–	–	(216)
Finance leases					
due within one year	(5)	(8)	–	–	3
due in more than one year	(13)	(14)	–	–	1
	(601)	(281)	(76)	6	(250)
Net proceeds of ordinary share issues			–	–	(12)
Redemption of 'B'Shares			–	–	84
Subsidiaries acquired and sold (excluding cash)			–	–	24
New finance leases			–	–	5
Currency variations			10	–	62
Net cash (outflow)/inflow			(66)	6	(87)

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. Three new accounting pronouncements have been applied in the period:

UITF Abstract 24 'Accounting for Start-up Costs' – The only impact of the application of this Abstract is that unamortised start-up costs in CHEP USA, which totalled £10 million at the end of 1999, have been written off as a prior year adjustment. There is no material impact on profits in either 2000 or 1999. Comparative balance sheet figures have been restated accordingly.

FRS 15 'Tangible Fixed Assets' – The Group has adopted the transitional arrangement of the Standard and has retained the book amounts of certain tangible assets which were previously revalued.

FRS 16 'Current Tax' – This Standard has had no impact on the Group's results.

The Group's accounting policies are shown in the notes on pages 47 to 69. 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 2000 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 exchange rates used for the currencies most important to the Group's operations are:

	£1 = DM	£1 = euro	£1 = US\$
2000 average	3.21	1.64	1.52
1999 average	2.97	1.52	1.62
2000 year end	3.11	1.59	1.49
1999 year end	3.14	1.61	1.61

Derivatives and financial instruments

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

The Group uses forward foreign exchange contracts to manage its exposure to foreign exchange risks and hedge a proportion of its investment in overseas subsidiaries and investments designated in foreign currencies, where such hedging can be carried out on an economically acceptable basis. 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 values 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	
Sales by subsidiaries					
<i>By business</i>					
Automotive	280	1,004	1,022	224	2,530
Industrial Services	–	–	206	26	232
Aerospace	961	130	169	102	1,362
Total 2000	1,241	1,134	1,397	352	4,124
<i>By region of origin</i>					
United Kingdom	1,184	157	75	102	1,518
Continental Europe	35	957	25	35	1,052
Americas	22	20	1,286	9	1,337
Rest of the World	–	–	11	206	217
Total 2000	1,241	1,134	1,397	352	4,124
Total 1999	1,141	1,214	1,070	283	3,708
Sales by joint ventures and associates					
Group share 2000	264	382	274	52	972
Group share 1999	290	338	251	56	935

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 71.

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 £258 million (1999 – £207 million) and, conversely, charges made by EH Industries Ltd to GKN Westland Helicopters Ltd of £60 million (1999 – £54 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

	Acquisitions in year £m	2000 Continuing operations Other companies £m	1999 Continuing operations £m
Sales by subsidiaries	76	4,048	3,708
Change in stocks of finished goods and work in progress	1	30	(75)
Raw materials and consumables	(36)	(907)	(965)
Staff costs (note 9)	(15)	(1,150)	(1,106)
Redundancy and reorganisation costs			
exceptional (note 4)	–	(45)	–
other	(1)	(7)	(10)
Depreciation written off tangible fixed assets (including £4 million in respect of assets under finance leases, 1999 – £4 million)	(3)	(160)	(132)
Amortisation of goodwill	(1)	(29)	(16)
Other external charges	(17)	(1,438)	(1,024)
	(72)	(3,706)	(3,328)
Operating profit	4	342	380

Details of companies acquired and sold are given in the review of operations on pages 10 to 27 and note 25.

Other external charges include rental for hire of equipment £16 million (1999 – £15 million) and rental for leased property £18 million (1999 – £15 million). Auditors' remuneration was £2.7 million (1999 – £2.5 million) and non-audit fees payable to PricewaterhouseCoopers in the United Kingdom amounted to £1.5 million (1999 – £0.7 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 £325 million (1999 – £399 million) after including £237 million of expenditure refunded by customers and other parties for development work carried out on their behalf and capital expenditure of £5 million.

4 Exceptional items

	2000 £m	1999 £m
Operating exceptional items		
GKN Aerospace Services restructuring costs	(45)	–
Profits less losses on sale or closure of businesses		
Sale of companies to Dana	62	–
Goodwill previously written off to reserves	(5)	–
	57	–
GKN Aerospace Services sale and closure of businesses	(17)	–
Goodwill previously written off to reserves	(8)	–
	(25)	–
Sale of Normalair-Garrett (Holdings) Ltd	–	36
Goodwill previously written off to reserves	–	(26)
	–	10
Other	(5)	1
Total	27	11
Share of associate's exceptional items		
Alvis plc – gain on sale of shares in Avimo Group Ltd	6	–
Alvis plc – restructuring costs	–	(2)
	6	(2)

The operating exceptional item of £45 million represents the cost of restructuring GKN Aerospace Services. The restructuring involves the rationalisation and closure of certain manufacturing facilities with the transfer of business into seven centres of excellence. In addition, a further £25 million has been charged in respect of business closures net of the gain of £7 million arising on the sale of the London Heliport. The total exceptional cost of £70 million includes £8 million of goodwill previously written off to reserves, fixed asset impairments of £11 million and other asset write downs of £13 million giving a net cash impact of £38 million.

The business swap with Dana gave rise to an exceptional gain of £57 million on companies sold after charging £5 million in respect of goodwill previously written off directly to reserves. It is not possible to ascertain the goodwill attributable to all the businesses sold to Dana as they were acquired as part of a larger group more than twenty years ago.

Notes on the accounts continued

5 Interest (payable)/receivable

	2000 £m	1999 £m
Subsidiaries		
Loans to joint ventures and associates	7	7
Short-term investments, loans and deposits	19	22
	26	29
Short-term borrowings (including bank interest £15.0 million, 1999 – £31.6 million)	(28)	(37)
Loans repayable within five years (including bank interest £1.1 million, 1999 – £0.6 million)	(1)	(1)
Loans repayable after five years	(24)	(9)
Finance leases	(4)	(3)
	(31)	(21)
Share of joint ventures and associates		
Interest receivable	5	3
Interest payable	(39)	(27)
	(34)	(24)

6 Taxation

	2000 £m	1999 £m
United Kingdom		
Corporation tax at 30% (1999 – 30.25%)	65	66
Advance corporation tax	(10)	(2)
Deferred tax	–	(1)
Adjustments in respect of prior years	(6)	(9)
	49	54
Double tax relief	(22)	(37)
	27	17
Overseas		
Corporation taxes	88	78
Deferred tax	(5)	–
Adjustments in respect of prior years	9	6
	92	84
Share of joint ventures and associates	38	38
	157	139

The UK tax charge includes £5 million and the Overseas tax charge includes £19 million in respect of exceptional items. Of these balances, £23 million relate to the gains arising on the sale of businesses to Dana (1999 – £2 million on the disposal of Normalair-Garrett (Holdings) Ltd).

7 Dividends

	2000 £m	1999 £m
Equity dividends		
First interim (paid 29 September 2000) 6.9p per 50p share on 717.3 million shares (1999 – 6.3p per 50p share on 714.6 million shares)	50	45
Final 12.9p per 50p share on 722.0 million shares (1999 – nil)	93	–
	143	45

Non-equity dividends

A dividend of 0.188p per 11.7p redeemable 'B' Share was paid on 31 October 2000 in respect of those shares still in issue on that date. The cost of this dividend was £40,184.

8 Earnings per share

Earnings per share for 2000 is based on the earnings of the year of £319 million (1999 – £358 million) and calculated on the weighted average number of 715.4 million shares in issue and ranking for dividend (1999 – 710.2 million shares). Diluted earnings per share, which takes into account options over GKN plc shares, is calculated on the weighted average number of 725.2 million (1999 – 726.0 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	
	2000 £m	1999 £m	2000 p	1999 p
Earnings of the year	319	358	44.6	50.4
Included in operating profit				
Goodwill amortisation	35	21	4.9	3.0
Exceptional items	45	–	6.3	–
Non-operating exceptional items	(33)	(9)	(4.6)	(1.3)
Taxation attributable to exceptional items	24	2	3.3	0.3
Earnings before goodwill amortisation and exceptional items	390	372	54.5	52.4

Notes on the accounts continued

9 Staff costs and Directors' remuneration

	2000 £m	1999 £m
Wages and salaries	989	925
Social security costs	129	128
Other pension costs	47	53
	1,165	1,106

The average numbers employed by subsidiaries during the year were:

	2000	1999
United Kingdom	13,625	13,842
Continental Europe	14,490	15,003
Americas	12,032	9,148
Rest of the World	2,827	1,792
	42,974	39,785

Details of the Directors' remuneration, pension entitlements and share options are contained in the report on Directors' remuneration on pages 80 to 86.

10 Goodwill

	Subsidiaries £m	Joint ventures £m	Total £m
Cost			
At 1 January 2000	418	92	510
Additions	160	15	175
Adjustment to the fair value of Interlake (note 25)	16	–	16
Currency variations	33	1	34
At 31 December 2000	627	108	735
Amortisation			
At 1 January 2000	16	8	24
Charge for the year	30	5	35
Currency variations	2	–	2
At 31 December 2000	48	13	61
Net book value at 31 December 2000	579	95	674
Net book value at 31 December 1999	402	84	486

Joint venture goodwill in the above table is included in the Group's share of net 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
Cost or valuation				
At 1 January 2000	403	1,781	108	2,292
Currency variations	11	48	5	64
Subsidiaries acquired and sold	10	88	3	101
Capital expenditure	10	123	125	258
Transfers	6	124	(130)	–
Disposals	(3)	(49)	(2)	(54)
At 31 December 2000	437	2,115	109	2,661
Accumulated depreciation				
At 1 January 2000	33	1,045	–	1,078
Currency variations	1	25	–	26
Subsidiaries acquired and sold	3	40	–	43
Disposals	(1)	(50)	–	(51)
Charge for the year	9	154	–	163
Impairment (note 4)	–	11	–	11
At 31 December 2000	45	1,225	–	1,270
Net book value at 31 December 2000	392	890	109	1,391
Owned assets	379	875	104	1,358
Assets under finance leases	13	15	5	33
	392	890	109	1,391
Net book value at 31 December 1999	370	736	108	1,214
	Cost or valuation £m	Accumulated depreciation £m	Net book value	
			2000 £m	1999 £m
Analysis of land and buildings:				
Freehold land	86	–	86	82
Freehold buildings	317	(35)	282	274
Long leases	3	(1)	2	1
Short leases (expiring on or before 31 December 2050)	31	(9)	22	13
	437	(45)	392	370

Notes on the accounts continued

	£m
Cost or valuation of land and buildings at 31 December 2000 includes:	
1996 valuation	185
Earlier years' valuations	14
At cost or fair value on acquisition	238
	437

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 2000 was £409 million; the notional net book value on the original cost basis would have been £327 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.

12 Investments

	2000 £m	Restated 1999 £m
Joint ventures		
Goodwill (note 10)	95	84
Other fixed assets	890	727
Current assets	407	344
Liabilities due within one year	(590)	(369)
Liabilities due beyond one year	(463)	(518)
Group's share of net assets	339	268
Associates	16	8
Loans to joint ventures and associates	73	58
Interest in own shares	5	11
Other investments	4	-
	437	345

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

	2000 £m	Restated 1999 £m
At 1 January 2000 (note 1)	345	290
Profit retained by joint ventures and associates	53	37
Currency variations	13	(14)
Additions	59	49
Disposals	(27)	(8)
Other movements	(6)	(9)
At 31 December 2000	437	345

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 are stated at the Group's share of net assets.

The Group's share of net assets of joint ventures and associates includes net debt without recourse to the Group of £641 million (1999 – £479 million).

Interest in own shares represents (i) the cost, less amounts written off, of 3,219,689 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 and (ii) the price to be received from employees in respect of 999,424 50p ordinary shares issued to the GKN Qualifying Employee Share Ownership Trust (QUEST). At 31 December 2000 the shares, on which dividend rights have been waived, had a market value of £29.8 million.

The Group's investment in shares of Alvis plc, shown as an associate, had a market value of £33.6 million at 31 December 2000 (1999 – £39.9 million).

Notes on the accounts continued

13 Stocks

	2000 £m	1999 £m
Raw materials and consumables	169	140
Work in progress	246	190
Long-term work in progress	75	108
Finished goods and goods for resale	112	89
	602	527

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 £631 million (1999 – £629 million) less payments on account of £556 million (1999 – £521 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. Work in progress includes £71 million (1999 – £41 million) in respect of net non-recurring costs.

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

14 Debtors

	2000 £m	1999 £m
Due within one year:		
Trade debtors	500	478
Amounts recoverable on contracts	37	7
Amounts owed by joint ventures and associates	38	43
Advance corporation tax recoverable	2	3
Other debtors	67	58
Prepayments and accrued income	39	27
	683	616
Due in more than one year:		
Advance corporation tax recoverable	–	3
Other debtors	72	59
	755	678

15 Cash at bank and in hand

	2000 £m	1999 £m
Bank balances and cash	117	177
Short-term loans and deposits	26	20
	143	197

16 Short-term borrowings

	2000 £m	1999 £m
Bank overdrafts (note 20)	38	22
Short-term loans (note 20)	78	40
	116	62

17 Creditors

	2000 £m	1999 £m
Trade creditors	429	417
Bills payable	10	10
Customer advances	315	342
Amounts owed to joint ventures and associates	15	16
Indirect and payroll taxes	37	33
Obligations under finance leases (note 20)	5	8
Other creditors	83	106
Accruals and deferred income	210	181
	1,104	1,113

18 Taxation payable

	2000 £m	1999 £m
United Kingdom taxation	85	57
Overseas taxation	119	84
	204	141

Notes on the accounts continued

19 Creditors: amounts falling due beyond one year

	2000 £m	1999 £m
Term loans (note 20)	610	394
Obligations under finance leases (note 20)	13	14
	623	408

Term loans include:

- Bank borrowings.
- Unsecured £300 million 6.75% bonds maturing in 2019 less issue costs of £4 million.
- Secured term loans of £33 million (1999 – £32 million), including £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 in the financial review on pages 38 to 40. 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 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
At 31 December 2000					
Sterling	320	330	650	7.2	17.7
US Dollar	11	1	12	2.8	13.3
Euro zone currencies	28	1	29	2.1	3.9
Other	52	1	53	–	5.0
	411	333	744	7.2	17.6
At 31 December 1999					
Sterling	14	330	344	7.3	18.7
US Dollar	59	16	75	6.1	0.5
Euro zone currencies	36	1	37	2.5	3.7
Other	21	1	22	5.6	1.7
	130	348	478	7.2	17.7

The interest rates on floating rate borrowings are determined by reference to applicable LIBORs.

The maturity profile of the Group's borrowings at 31 December 2000 was as follows:

	2000 £m	1999 £m
Bank loans, overdrafts and other borrowings repayable as follows:		
within one year	116	62
one to two years	17	20
two to five years	263	41
after five years	330	333
	726	456
Finance leases repayable as follows:		
within one year	5	8
one to two years	4	5
two to five years	6	8
after five years	3	1
	18	22
Total borrowings	744	478

At 31 December 2000 the Group had the following undrawn committed borrowing facilities:

	2000 £m	1999 £m
Expiring within one year	86	91
Expiring in more than one year but not more than two years	120	259
Expiring in more than two years	412	441
	618	791

21 Financial instruments

A) Financial assets

	Bank and cash balances		Short-term loans and deposits	
	2000 £m	1999 £m	2000 £m	1999 £m
Sterling	20	105	18	20
US Dollar	36	33	–	–
Euro zone currencies	45	25	–	–
Other	16	14	8	–
	117	177	26	20

The bank and cash balances comprise £54 million (1999 – £158 million) in respect of short-term balances earning interest and £63 million (1999 – £19 million) in respect of balances which are non-interest earning. The weighted average interest rate at year end on the interest earning cash balances, which was all floating and set by reference to relevant LIBORs, was 5.3% (1999 – 4.2%). Surplus cash is deposited for short-term periods typically with a maturity of less than three months. The weighted average interest rate on the deposit account balances is 4.3% (1999 – 2.6%).

Notes on the accounts continued

B) Currency exposures

As explained in the financial review on page 40, the Group's objective in managing the translational currency exposures arising from its overseas investments is to ensure that changes in the sterling equivalent of assets and liabilities caused by currency movements do not have a material impact on the sterling value of shareholders' equity. At 31 December 2000, there were £414 million of synthetic borrowings created through the use of forward foreign exchange contracts to hedge such exposures denominated in euro (83%), yen (14%) and other currencies (3%) and mirrored by synthetically created sterling deposits. Net gains and losses arising from these translational 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 2000 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 2000 is set out below:

	2000		1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial instruments held or issued to finance the Group's operations:				
Bank and cash balances	117	117	177	177
Short-term loans and deposits	26	26	20	20
Short-term borrowings and current portion of long-term borrowings	(116)	(116)	(62)	(62)
Long-term borrowings	(610)	(637)	(394)	(404)
Finance leases	(18)	(18)	(22)	(22)
Financial instruments held to manage interest rate and currency exposures:				
Interest rate swaps and similar instruments	(5)	(4)	–	(4)
Forward foreign exchange contracts	–	(8)	–	1
Financial instruments held to hedge currency exposures on expected future trading transactions:				
Forward foreign exchange contracts	–	(14)	–	19
	(606)	(654)	(281)	(275)

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.
- Long-term borrowings: 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 2000. Bonds – quoted closing market value.
- Interest rate instruments – discounted cash flow analysis based on interest rates derived from market yield curves.
- Forward foreign exchange contracts and currency swaps – marked-to-market.

D) Hedges

As explained in the financial review on pages 39 and 40, the Group's policy is to hedge the exposures summarised below. Translational currency exposures are hedged where the costs and results of such hedging are economically acceptable.

- Interest rate risk – using interest rate swaps, swaptions and forward rate agreements.
- Transactional and translational currency exposures – using forward foreign exchange contracts and currency swaps.

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 currency exposures and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 31 December 1999	55	(39)	16
Gains and losses from previous years recognised in 2000	(11)	6	(5)
Gains and losses arising before 1 January 2000 that were not recognised in 2000	44	(33)	11
Gains and losses arising in 2000 that were not recognised in that year	(11)	(21)	(32)
Unrecognised gains and losses on hedges at 31 December 2000	33	(54)	(21)
Expected to be recognised in 2001	15	(38)	(23)
Expected to be recognised after 2001	18	(16)	2
	33	(54)	(21)

Of the net unrecognised gains and losses on hedges shown at 31 December 2000, a loss of £8 million will be dealt with through reserves and matched with offsetting movements on translational foreign exchange variances. The balance will be accounted for in the profit and loss account together with the profits arising on the ultimate realisation of the underlying hedged transactions.

Notes on the accounts continued

22 Provisions for liabilities and charges

	Deferred taxation £m	Post- retirement £m	Other £m	Total £m
At 1 January 2000	1	198	73	272
Charge for the year	–	21	8	29
Credit for the year	(5)	–	–	(5)
Currency variations	–	4	4	8
Subsidiaries acquired and sold	5	(12)	–	(7)
Adjustment to fair value (note 25)	–	–	16	16
Paid or accrued during the year	–	(16)	(6)	(22)
At 31 December 2000	1	195	95	291

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 £159 million (1999 – £113 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 2000 charge to profits for deferred taxation on a full liability basis would have been £37 million (1999 – £23 million).

Post-retirement

Post-retirement includes provisions relating to pension benefits of £161 million (1999 – £163 million) and provisions for other post-retirement benefits of £34 million (1999 – £35 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

	2000 Number ('000)	1999 Number ('000)	2000 £m	1999 £m
Ordinary shares of 50p each				
Authorised	900,000	900,000	450	450
Allotted, called up and fully paid				
At 1 January 2000	718,291	711,828	359	356
Issued under employee share option schemes	3,712	6,463	2	3
At 31 December 2000	722,003	718,291	361	359
Redeemable 'B'shares of 11.7p each				
Authorised	850,000	–	99	–
Allotted, called up and fully paid				
At 1 January 2000	–	–	–	–
Issued	720,490	–	84	–
Redeemed	(720,490)	–	(84)	–
At 31 December 2000	–	–	–	–

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 2000	13,417	2,264
Granted	4,509	–
Exercised	(3,584)	(780)
Lapsed	(1,108)	–
At 31 December 2000	13,234	1,484
Option price per share	223 – 794p	165.85 – 484p
Exercisable at dates extending to	2007	2006

The options granted in 2000 under the GKN SAYE scheme are at 661p per share exercisable between 2003 and 2007.

The consideration received by GKN plc in 2000 in connection with the exercise of options was £24.7 million. Employees paid £13.2 million to the Group for the issue of these shares and the balance of £11.5 million comprised contributions to the GKN Qualifying Employee Share Ownership Trust (QUEST) from subsidiaries.

Notes on the accounts continued

24 Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Group					
At 1 January 2000	352	52	76	515	995
Restatement of prior year (note 1)	–	–	–	(10)	(10)
At 1 January 2000 as restated	352	52	76	505	985
Transfer from profit and loss account	–	–	–	176	176
Currency variations					
overseas net assets	–	–	(1)	79	78
foreign currency borrowings	–	–	–	(75)	(75)
Net premium on share issues	22	–	–	(14)	8
Issue of 'B'Shares	(84)	–	–	–	(84)
Transfer to capital redemption reserve	–	–	84	(84)	–
Subsidiaries, joint ventures and associates acquired and sold	–	(2)	(1)	16	13
Transfers between reserves	–	(2)	18	(16)	–
Other movements	–	–	–	(5)	(5)
At 31 December 2000	290	48	176	582	1,096
Parent company and subsidiaries	290	48	141	476	955
Joint ventures and associates	–	–	35	106	141
	290	48	176	582	1,096
Parent company					
At 1 January 2000	352	–	203	992	1,547
Transfer from profit and loss account	–	–	–	(118)	(118)
Net premium on share issues	22	–	–	–	22
Issue of 'B'Shares	(84)	–	–	–	(84)
Transfer to capital redemption reserve	–	–	84	(84)	–
At 31 December 2000	290	–	287	790	1,367

Cumulative goodwill eliminated directly against reserves amounts to £785 million (1999 – £781 million).

25 Acquisitions

Acquisitions made by the Group during the year were as follows:

	Date	Additional direct shareholding %	Group shareholding at 31 December 2000 %
Subsidiaries			
ATH-Albarus Transmissões Homocinéticas Ltda (Brazil)	{ Jan	16	
	Oct	35	100
Dana CVJ plant Columbia, South Carolina (USA)	Jan	100	100
Unidrive Pty Ltd (Australia)	Jan	30	60
Hoeganaes Corporation (USA)	Feb	20	100
Schunk Sintermetall-Technik GmbH (Germany)	Feb	100	100
GKN Driveshafts Malaysia Sdn Bhd (Malaysia)	Mar	10	68
Control Solutions Inc (USA)	June	100	100
Agrindustrial Holdings BV (Netherlands, Argentina, Germany, Italy, Spain and UK)	{ May	10	
	July	51	100
GKN Automotive AG (Germany)	Sept	1.5	100
Opel CVJ facility, Kaiserslautern (Germany)	Sept	100	100
Nissan CVJ facility, Tochigi (Japan)	Nov	100	100
Federal Mogul's powder metal facility, Marshall, Illinois (USA)	Nov	100	100
Joint ventures			
Waste Management Deutschland (Germany)	May	50	50
Velcon SA de CV (Mexico)	Nov	10	49

The book and fair value of net assets acquired and total consideration payable for subsidiary acquisitions are analysed below:

	Book value prior to acquisition £m	Revaluations £m	Accounting policy alignment £m	Fair value to the Group £m
Tangible fixed assets	82	(1)	11	92
Working capital and provisions	22	(4)	(9)	9
Taxation payable	(5)	–	(1)	(6)
Cash	(1)	–	–	(1)
Loans and finance leases	(26)	–	–	(26)
	72	(5)	1	68
Less already owned as joint venture investment				(20)
Attributable to minorities				(2)
Minority interests acquired				15
Net assets acquired				61
Goodwill				160
Consideration including costs				221

The post-acquisition contribution of subsidiary acquisitions to group cash flow was a net cash inflow of £12 million from operating activities, payments of £4 million in respect of interest, payments of £6 million in respect of taxation and payments of £14 million in respect of capital expenditure and financial investment.

Notes on the accounts continued

At 31 December 1999, certain fair value adjustments relating to the acquisition of the Interlake Corporation remained provisional in respect of on-going regulatory reviews. From these, further information became available during the year that required an increase of £16 million in provisions at the date of acquisition. The book value of provisions for liabilities and charges prior to acquisition was £24 million. The revaluation recorded in the accounts for the year ended 31 December 1999 was an increase of £19 million and this, together with the adjustment noted above, results in liabilities with a fair value to the Group of £59 million. The total fair value adjustments made on the acquisition of Interlake are £58 million and the goodwill arising thereon is £313 million.

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 the three main schemes have been carried out as at April 2000 using the projected unit method. The market value related basis assumes a yield pre-retirement of 6.5% per annum, which exceeds the annual rate of increases in pensionable salaries by 2.5% (GKN Group Pension Scheme and the Westland Staff Pension Scheme) and 2% (Executive and Senior Staff Pension Scheme) with a yield post-retirement of 5.0% per annum, which exceeds pension increases by 2.5%.

The aggregate market value of the assets at the valuation date was £2,046 million and the aggregate funding level on an on-going basis was 101%. Company contributions in the year totalled £34 million (1999 – £31 million) compared with the regular cost in accordance with the application of SSAP 24 of £29 million (1999 – £27 million). The total charge to operating profit was £25 million (1999 – £23 million). A cumulative advance payment of £66 million is included in other debtors (1999 – £57 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 £18 million (1999 – £26 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 UK plan as at December 2000, the date of the last review, were that the discount rate would be 7% per annum and that medical costs would initially increase by 8% per annum for three years falling to 4.5% over the next five years.

27 Commitments and contingent liabilities

Contingent liabilities

At 31 December 2000 the Group had contingent liabilities in respect of bank and other guarantees amounting to nil (1999 – £1 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 2000 so far as not provided for by subsidiaries amounted to £69 million (1999 – £51 million) and the Group's share not provided for by joint ventures and associates amounted to £31 million (1999 – £27 million).

Operating leases

The minimum payments which the Group is committed to make in 2001 under operating leases are as follows:

	2000		1999	
	Land and buildings £m	Equipment £m	Land and buildings £m	Equipment £m
Leases which expire:				
within one year	1	3	1	3
two to five years	4	10	7	7
after five years	10	–	6	1
	15	13	14	11

28 Post balance sheet event

On 9 February 2001 the Group and Finmeccanica SpA ('Finmeccanica') completed their previously announced agreement under which each party contributed the net assets of their Helicopter businesses to a new joint venture company AgustaWestland, the shares in which are held equally by the Group and Finmeccanica.

If the transaction had taken place at 31 December 2000 the proforma impact on the group balance sheet would have been to increase shareholders' equity by £99 million and increase borrowings by £143 million. AgustaWestland will be accounted for as a 50% joint venture.

Balance sheet of GKN plc at 31 December 2000

	Notes	£m	2000 £m	1999 £m
Fixed assets				
Investments:				
Subsidiaries at cost or valuation				
less amounts written off		1,269		973
Interest in own shares		5		11
			1,274	984
Current assets				
Amounts owed by subsidiaries		847		1,222
Creditors: amounts falling due within one year				
Creditors and accruals		(4)		(4)
Dividend payable		(93)		–
		(97)		(4)
Net current assets			750	1,218
Total assets less current liabilities			2,024	2,202
Creditors: amounts falling due beyond one year				
Term loans – 6.75% bonds due 2019			(296)	(296)
Net assets			1,728	1,906
Capital and reserves				
Called up share capital	23		361	359
Share premium account	24		290	352
Other reserves	24		287	203
Profit and loss account	24		790	992
Equity interest			1,728	1,906

The balance sheet was approved by the Board of Directors on 6 March 2001 and was signed by:

Sir David Lees, Sir 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 90 and 91.