

APPENDICES

These appendices do not form the statutory accounts of the Group. The statutory accounts for the year ended 31 December 2002 have been filed with the Registrar of Companies and contained an unqualified audit report. The audited results for 2003 were approved by the Board on 27 February 2004 and have been agreed with the auditors.

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Consolidated Profit and Loss Account

For the year ended 31 December 2003

	Notes	Continuing operations	
		2003 £m	2002 £m
Sales			
Subsidiaries		3,334	3,305
Share of joint ventures		1,064	1,051
Share of associates		187	96
		4,585	4,452
Operating profit			
Subsidiaries:			
Before goodwill amortisation and impairment and exceptional items		168	196
Goodwill amortisation		(31)	(31)
Goodwill impairment		(91)	(11)
Exceptional items	2	-	(37)
Total subsidiaries		46	117
Share of joint ventures:			
Before goodwill amortisation		129	116
Goodwill amortisation		(6)	(6)
Total share of joint ventures		123	110
Share of associates		5	3
Total operating profit		174	230
Exceptional items			
Profits less losses on sale or closure of businesses:			
Subsidiaries	2	(4)	(2)
Associated company	2	59	-
Profit before interest and taxation		229	228
Net interest payable:			
Subsidiaries		(56)	(47)
Share of joint ventures and associates		-	(1)
Profit on ordinary activities before taxation		173	180
Taxation		(70)	(77)
Profit on ordinary activities after taxation		103	103
Minority interests – equity		(2)	(3)
Earnings of the year		101	100
Dividends	3	(85)	(83)
Transfer to reserves		16	17
Earnings per share – p	4	13.8	13.7
Diluted earnings per share – p	4	13.7	13.6

Results before goodwill amortisation and impairment and exceptional items

Operating profit - £m		302	315
Profit before tax - £m		246	267
Earnings per share – p	4	22.8	25.2

Consolidated Balance Sheet

At 31 December 2003

	2003	2002
	£m	£m
Fixed assets		
Intangible assets - goodwill	340	470
Tangible assets	1,329	1,374
	1,669	1,844
Investments		
Joint ventures:		
Share of gross assets	1,201	1,198
Share of gross liabilities	(944)	(972)
	257	226
Associates	29	39
Other investments	6	17
	292	282
Total fixed assets	1,961	2,126
Current assets		
Stocks	487	488
Debtors	630	561
Cash at bank and in hand	131	105
	1,248	1,154
Creditors: amounts falling due within one year		
Short-term borrowings	(36)	(43)
Creditors	(760)	(772)
Taxation payable	(166)	(182)
Dividend payable	(57)	(56)
	(1,019)	(1,053)
Net current assets	229	101
Total assets less current liabilities	2,190	2,227
Creditors: amounts falling due beyond one year		
Term loans and obligations under finance leases	(887)	(894)
Provisions for liabilities and charges	(361)	(373)
Net assets	942	960
Capital and reserves		
Called up share capital	367	366
Share premium account	14	13
Revaluation reserve	40	45
Other reserves	(96)	(81)
Profit and loss account	601	607
Equity interest	926	950
Minority interest - equity	16	10
	942	960

Statement of total recognised gains and losses

For the year ended 31 December 2003

	2003	2002
	£m	£m
Earnings of the year		
Subsidiaries	5	26
Share of joint ventures	92	71
Share of associates	4	3
	101	100
Currency variations	(41)	(43)
Other reserve movements	(1)	(4)
Total recognised gains and losses of the year	59	53

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 2003

	2003	2002
	£m	£m
Total recognised gains and losses of the year	59	53
Dividends	(85)	(83)
Issue of Ordinary Shares net of costs	2	12
Formation of AgustaWestland	-	(2)
Total decrease	(24)	(20)
Shareholders' equity at 1 January	950	970
Shareholders' equity at 31 December	926	950

Movement in net debt

For the year ended 31 December 2003

	2003	2002
	£m	£m
Increase/(decrease) in cash	28	(74)
Increase in liquid resources and financing	6	60
Cash inflow/(outflow) before use of liquid resources and financing	34	(14)
Currency variations	13	66
Net proceeds of Ordinary Share issues	2	9
New finance leases	(1)	-
Subsidiaries acquired and sold	(7)	(10)
Total decrease	41	51
Net borrowings at 1 January	(834)	(885)
Net borrowings at 31 December	(793)	(834)

Consolidated cash flow statement

For the year ended 31 December 2003

	2003	2002
	£m	£m
Net cash inflow from operating activities (note a)	287	361
Dividends from joint ventures and associates	68	45
Returns on investments and servicing of finance		
Interest received	17	22
Interest paid	(70)	(56)
Dividends paid to minority interests	(1)	(1)
	(54)	(35)
Taxation		
United Kingdom	-	-
Overseas	(63)	(38)
	(63)	(38)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(162)	(213)
Sale of tangible fixed assets	13	20
Investment loans and capital contributions	(4)	1
Other financial investments	4	-
	(149)	(192)
Acquisitions and disposals		
Purchase of subsidiaries	(45)	(47)
Purchase of joint ventures and associates	(1)	(37)
Sale of subsidiaries	2	9
Sale of associated company	73	-
	29	(75)
Equity dividends paid	(84)	(80)
Cash inflow/(outflow) before use of liquid resources and financing	34	(14)
Management of liquid resources		
Increase in short-term loans and deposits	(32)	(61)
Decrease in short-term loans and deposits	28	53
	(4)	(8)
Financing		
Net proceeds of Ordinary Share issues	2	9
Proceeds of other term borrowings	497	1,402
Repayment of other term borrowings	(498)	(1,460)
Finance leases	(3)	(3)
	(2)	(52)
Increase/(decrease) in cash	28	(74)

(a) Net cash inflow from operating activities

For the year ended 31 December 2003

	2003	2002
	£m	£m
Operating profit	46	117
Depreciation	182	177
Goodwill amortisation	31	31
Impairment of goodwill	91	11
Profit on sale of tangible fixed assets	(5)	(6)
Impairment of tangible fixed assets	2	4
Decrease/(increase) in stocks	4	(5)
Increase in debtors	(43)	(10)
(Decrease)/increase in creditors	(24)	44
(Decrease)/increase in provisions	(3)	8
Increase/(decrease) in customer advances	9	(4)
Exceptional items (note 2)	(3)	(6)
Net cash inflow from operating activities	287	361

Note:

Included in cash inflow from operating activities is expenditure of £13 million (2002- £52 million) in respect of operating exceptional items.

Segmental analysis

	Sales		Operating profit*		Net operating assets	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
By business						
Automotive:						
Subsidiaries	2,775	2,746	168	177	1,333	1,290
Joint ventures	162	161	26	23	83	85
Associates	99	43	1	1	45	41
	3,036	2,950	195	201	1,461	1,416
Aerospace:						
Subsidiaries	559	559	23	25	347	353
Joint ventures	902	890	103	93	383	243
Associates	88	53	4	2	-	(6)
	1,549	1,502	130	120	730	590
UK pension deficit	-	-	(23)	(6)	-	-
Sub-total	4,585	4,452	302	315	2,191	2,006
Goodwill amortisation and impairment	-	-	(128)	(48)	-	-
Exceptional items	-	-	-	(37)	-	-
Group total	4,585	4,452	174	230	2,191	2,006
By region of origin						
Europe:						
Subsidiaries	1,801	1,687	133	129	902	837
Joint ventures	947	933	108	99	410	272
Associates	88	53	4	2	-	(6)
	2,836	2,673	245	230	1,312	1,103
Americas:						
Subsidiaries	1,244	1,349	42	54	681	724
Joint ventures	46	62	8	10	27	32
	1,290	1,411	50	64	708	756
Rest of the World:						
Subsidiaries	289	269	16	19	97	82
Joint ventures	71	56	13	7	29	24
Associates	99	43	1	1	45	41
	459	368	30	27	171	147
UK pension deficit	-	-	(23)	(6)	-	-
	4,585	4,452	302	315	2,191	2,006

* Operating profit for 2002 has been re-analysed to show separately the charge in respect of the UK pension deficit, most of which relates to businesses which are no longer part of the Group.

Notes:

- The analyses of operating profit by business and by region of origin include an allocation of costs incurred in the United Kingdom other than the pension deficit noted above.
- Intra-group sales between businesses and regions are not significant.
- Operating profit/(loss) after charging goodwill amortisation and impairment and exceptional items is analysed by business as follows: Automotive £89 million (2002 - £143 million), Aerospace £108 million (2002 - £93 million) and UK pension deficit £(23)million (2002 - £(6)million) and by region of origin as follows: Europe £212 million (2002 - £192 million), Americas £(66) million (2002 - £19 million) and Rest of the World £28 million (2002 - £25 million).
- Net operating assets are analysed as follows:

	2003	2002
	£m	£m
Tangible fixed assets	1,329	1,374
Stocks	487	488
Debtors	623	551
Creditors - short-term	(759)	(770)
Total subsidiaries	1,680	1,643
Net operating assets of joint ventures and associates	511	363
	2,191	2,006

1. Basis of preparation

The financial information comprises the consolidated profit and loss account, consolidated balance sheet and consolidated cash flow statement and notes thereto which have been extracted from the audited financial statements.

There have been no changes in accounting policy in the year.

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

	£1=euro	£1=US\$
2003 average	1.45	1.64
2002 average	1.59	1.50
2003 year-end	1.42	1.79
2002 year-end	1.53	1.61

2. Exceptional items

	2003 £m	2002 £m
a) Operating exceptional items		
Asset impairments	-	(14)
Redundancy costs	-	(15)
Other	-	(8)
	-	(37)

Operating exceptional items in 2002 arose from the substantial downturn in civil aviation markets and uncertainties surrounding North American vehicle production levels which were apparent in the second half of 2001, as a result of which the Group took steps to reduce capacity in a number of Aerospace and Automotive plants. A reassessment was also made of the carrying value of certain Aerospace assets.

These actions resulted in a charge to operating profit of £106 million in 2001 and a further £37 million in 2002 in respect of actions which had not been announced by 31 December 2001 and could not, therefore, be accrued. The cash outflow from these and earlier actions was £13 million in 2003, £52 million in 2002 and £27 million in 2001.

	2003 £m	2002 £m
b) Non-operating exceptional items - Profits less losses on sale or closure of businesses		
i) Subsidiaries	(4)	(2)
ii) Sale of shares in associated company - Alvis plc	59	-

There was no goodwill previously written off to reserves on the businesses sold or closed during the year.

Losses on sale of subsidiaries includes provisions relating to a small operation where divestment was ongoing at the date these accounts were signed and completion is expected in the first quarter of the year.

There was a £3 million cash outflow in 2003 in respect of a prior year business closure.

3. Dividends

	2003 £m	2002 £m
Equity dividends		
Interim (paid 30 September 2003) 3.8p per share (2002 - 3.7p per share)	28	27
Final 7.8p per share (2002 - 7.6p per share)	57	56
	85	83

4. Earnings per share

Earnings per share for 2003 are based on earnings of the year of £101 million (2002 - £100 million) and calculated on the weighted average number of 733.0 million shares in issue and ranking for dividend (2002 - 729.2 million shares). Diluted earnings per share, which takes into account options over GKN plc shares, is calculated on the weighted average number of 736.1 million (2002 - 734.6 million) shares.

Earnings per share before goodwill amortisation and impairment 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	
	2003 £m	2002 £m	2003 p	2002 p
Earnings of the year	101	100	13.8	13.7
Included in operating profit:				
Goodwill amortisation	37	37	5.0	5.1
Goodwill impairment	91	11	12.4	1.4
Exceptional items	-	37	-	5.1
Non-operating exceptional items	(55)	2	(7.5)	0.3
Deferred tax attributable to goodwill impairment	(9)	-	(1.2)	-
Tax attributable to exceptional items	2	(3)	0.3	(0.4)
Earnings before goodwill amortisation and impairment and exceptional items	167	184	22.8	25.2

5. 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 an externally funded defined benefit scheme. An independent actuarial valuation of the scheme was carried out as at April 2003 using the projected unit method. The market value related basis assumed a yield pre-retirement of 7.5% per annum, which exceeded the annual rate of increases in pensionable salaries by 3.4% (2.65% in respect of future service) with a yield post-retirement of 5% per annum (4.75% in respect of future service), which exceeded pension increases by 2.4% (2.15% in respect of future service). The aggregate market value of the assets at the valuation date was £1,297 million and the aggregate funding level on an ongoing basis was 69%.

Company contributions in the year to the UK scheme totalled £54 million (2002 - £33 million) compared with the regular cost in accordance with the application of SSAP 24 of £10 million (2002 - £11 million). The total charge to operating profit was £33 million (2002 - £17 million). There were no curtailment costs charged against exceptional items in respect of closure of businesses (2002 - £3 million). A cumulative advance payment of £93 million is included in long-term debtors (2002 - £72 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 £35 million (2002 - £31 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. 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.

The Group operates a number of small defined contribution schemes outside the United Kingdom. The charge to the profit and loss account in the year was £4 million (2002 - £4 million). There were no outstanding or prepaid contributions at the balance sheet date.

The following information is given in accordance with the transitional arrangements of FRS 17

Actuarial assessments of all the principal defined benefit post-retirement plans were carried out as at 31 December 2003. The major assumptions used were:

	2003			2002			2001		
	UK %	USA %	Europe %	UK %	USA %	Europe %	UK %	USA %	Europe %
Rate of increase in salaries	4.3	3.5	3.0	3.9	3.5	3.0	4.0	3.5	3.0
Rate of increase in pensions in payment	2.8	2.5	1.5	2.4	2.5	2.0	2.5	2.5	2.0
Discount rate	5.4	6.0	5.5	5.5	6.5	5.5	6.0	7.25	6.0
Inflation assumption	2.8	2.4	1.5	2.4	2.4	2.0	2.5	2.5	2.0
Rate of increases in medical costs: initial/long-term	9.5/4.3	8.5/5.0	n/a	8.0/3.9	8.5/5.0	n/a	8.0/4.5	9.0/5.0	n/a

In the UK the rate of increase in medical costs is assumed to be fixed for the next three years and thereafter tapers down over a further five years to the long-term rate. In the US the rate is assumed to reduce by 0.5 percentage points per annum over a seven year period.

5. Post-retirement benefits continued

The fair value of the assets in the schemes and the expected rates of return were:

	UK		USA		Europe	
	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m
At 31 December 2003						
Equities	7.5	941	8.5	84	-	-
Bonds	4.8	417	5.0	33	4.5	9
Property	7.0	70	-	-	-	-
Cash	4.0	18	3.5	1	-	-
Other assets	5.4	42	-	-	5.5	11
		1,488		118		20
At 31 December 2002						
Equities	7.5	794	8.5	67	-	-
Bonds	4.6	414	5.0	32	-	-
Property	7.0	59	-	-	-	-
Cash	4.0	37	3.5	4	-	-
Other assets	5.4	33	-	-	6.0	7
		1,337		103		7
At 31 December 2001						
Equities	7.5	951	8.5	92	-	-
Bonds	5.2	390	6.4	31	-	-
Property	7.0	54	-	-	-	-
Cash	4.0	27	4.2	4	-	-
Other assets	5.9	40	5.9	3	7.0	4
		1,462		130		4

The overall position in respect of funded defined benefit pension schemes, unfunded pension obligations and other post-retirement provisions is:

	31 December 2003				31 December 2002
	UK £m	USA £m	Europe £m	Total £m	
Total market value of assets	1,488	118	20	1,626	1,447
Present value of post-retirement liabilities	(2,037)	(252)	(241)	(2,530)	(2,333)
Gross deficit	(549)	(134)	(221)	(904)	(886)
Related deferred tax credit	131	52	20	203	202
Net post-retirement liability	(418)	(82)	(201)	(701)	(684)
Post-retirement liability already included in balance sheet	13	45	173	231	229
SSAP 24 prepayment	(93)	-	-	(93)	(72)
Additional liability	(498)	(37)	(28)	(563)	(527)

If the net post-retirement liability of £563 million set out above were to be recognised in the financial statements, together with deferred tax, net assets and the profit and loss reserve would be as follows:

	31 December 2003	31 December 2002
	£m	£m
Net assets per balance sheet	942	960
Net post-retirement liability already included in balance sheet	138	157
Net assets excluding net post-retirement liability	1,080	1,117
Net post-retirement liability under FRS 17	(701)	(684)
Net assets including net post-retirement liability	379	433
Profit and loss reserve	601	607
Additional net post-retirement liability	(563)	(527)
Profit and loss reserve including net post-retirement liability	38	80

5. **Post-retirement benefits** continued

Analysis of the amounts that would be charged to operating profit of subsidiaries

	2003 £m	2002 £m
Current service cost	(30)	(30)
Past service cost	(1)	-
Total operating charge	(31)	(30)

Analysis of the amounts that would be (charged)/credited to other finance income of subsidiaries

	2003 £m	2002 £m
Expected return on pension scheme assets	92	105
Interest on pension scheme liabilities	(129)	(121)
Net charge	(37)	(16)
Total net charge to profit before tax under FRS 17	(68)	(46)
Actual charge to profit before tax for the year	(68)	(48)
Difference	-	2

History of experience gains and losses that would be recognised in the statement of total recognised gains and losses 2003

	UK	USA	Europe
Difference between the expected and the actual return on scheme assets			
Amount - £m	116	13	-
Percentage of scheme assets	7.8%	11.4%	-
Experience gains and losses on scheme liabilities			
Amount - £m	13	(7)	(3)
Percentage of the present value of scheme liabilities	0.6%	(2.7%)	(1.3%)
Effect of changes in assumptions underlying the present value of scheme liabilities			
Amount - £m	(149)	(18)	(1)
Percentage of the present value of scheme liabilities	(7.3%)	(7.4%)	-
Total amount which would have been recognised in the statement of total recognised gains and losses			
Amount - £m	(20)	(12)	(4)
Percentage of the present value of scheme liabilities	(1.0%)	(4.7%)	(1.5%)

2002

	UK	USA	Europe
Difference between the expected and the actual return on scheme assets			
Amount - £m	(251)	(28)	-
Percentage of scheme assets	(18.8%)	(27.2%)	-
Experience gains and losses on scheme liabilities			
Amount - £m	(89)	(8)	-
Percentage of the present value of scheme liabilities	(4.7%)	(3.4%)	-
Effect of changes in assumptions underlying the present value of scheme liabilities			
Amount - £m	(80)	(24)	(5)
Percentage of the present value of scheme liabilities	(4.2%)	(10.2%)	(2.4%)
Total amount which would have been recognised in the statement of total recognised gains and losses			
Amount - £m	(420)	(60)	(5)
Percentage of the present value of scheme liabilities	(22.2%)	(25.5%)	(2.4%)

Movement in scheme gross deficits during year

	UK £m	USA £m	Europe £m	Total £m
Gross deficit at 1 January 2003	(551)	(132)	(203)	(886)
Current service cost	(13)	(10)	(7)	(30)
Contributions	54	13	20	87
Other net expenses	(19)	(8)	(12)	(39)
Actuarial loss	(20)	(12)	(4)	(36)
Currency variations	-	15	(15)	-
Gross deficit at 31 December 2003	(549)	(134)	(221)	(904)

6. AgustaWestland

The Group's share of AgustaWestland's results and net assets was as follows:

	2003	2002
	£m	£m
Sales	876	865
Operating profit before goodwill amortisation and restructuring costs	102	104
Restructuring costs	-	(11)
Goodwill amortisation	(6)	(5)
Operating profit	96	88
Net interest	-	(2)
Profit before tax	96	86
Taxation	(24)	(29)
Profit after tax	72	57
Fixed assets	183	186
Current assets	860	861
	1,043	1,047
Liabilities due within one year	(489)	(602)
Liabilities due beyond one year	(385)	(305)
	169	140

The restructuring costs of £11 million in 2002 arose from the consolidation of AgustaWestland's UK operation onto its Yeovil site and the closure of the Weston-super-Mare facility.