

GKN plc: The Impact of International Financial Reporting Standards (“IFRS”)
Re-statement of 2004 Financial Information

Financial Results	2004 IFRS (unaudited)	2004 UK GAAP *
Sales – continuing subsidiaries	£3,481m	£3,484m
Trading profit – continuing subsidiaries before significant items**	£215m	£162m
Operating loss – continuing subsidiaries	£(24)m	£(87)m
Profit / (loss) before tax before significant items – continuing operations**	£155m	£132m
Profit / (loss) before tax – continuing operations	£(83)m	£(118)m
Profit from discontinued operations	£887m	£720m
Profit for the year	£772m	£580m
Earnings per share	105.0p	78.8p
Net assets	£928m	£1,490m

* *The UK GAAP numbers presented above are as reported in the 2004 Annual Report reformatted in line with presentational requirements under IFRS.*

** *Significant items are those which because of size or incidence require separate disclosure to enable underlying trading performance to be assessed. They comprise restructuring costs, asset impairment charges and profits on sale of businesses which were classified as exceptional in the 2004 UK GAAP accounts.*

Highlights

- No further material differences highlighted from December 2004 IFRS update.
- Improvement in reported results arises primarily from treatment of pension obligations.
- Presentation of Income Statement reformatted under IFRS to focus on continuing operations.
- Business trading fundamentals, cash generation and operational performance, not affected.
- Reconciliation of profit before tax, goodwill amortisation and exceptional items:

	2004 IFRS £m	2004 Result £m
PBT (UK GAAP)	221	221
Pensions (net)	26	-
Share based payments	(3)	-
	244	221
Presentation of JV tax	(3)	(3)
	241	218
Continuing operations	155	132
Discontinued operations	86	86
	241	218

Nigel Stein, Finance Director of GKN plc, commented:

“The transition to IFRS has introduced accounting treatment and presentational changes. The positive impact on our reported 2004 results is, however, in line with the guidance we gave last December.

“The major change relates to pension accounting where deficits now come on to the balance sheet as liabilities whereas under UK GAAP they were written off through the Income Statement. This change increases reported profits, though the underlying performance and fundamentals of the Group remain unchanged.

“Familiarity with the new concepts and formats introduced by IFRS will develop over time, both within GKN and the wider financial community. As always we will endeavour to keep all stakeholders informed on a timely basis of the key elements of the Group’s performance.”

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1.0 **Introduction**

The purpose of this statement is to provide an update on, and more details of, the impact of International Financial Reporting Standards (IFRS) on GKN's 2004 Financial Statements. We provided an indication of the major impacts on the Income Statement with our trading update statement on 13 December last year and can confirm that no additional factors affecting 2004 profits have emerged since then. The appendix to this statement contains reconciliations of the 2004 Income Statement, Cash Flow and Balance Sheets from a UK GAAP to an IFRS basis. These statements are unaudited.

This statement contains no information in respect of 2005 performance under IFRS.

2.0 **Differences between UK GAAP and IFRS**

For GKN in 2004 the key differences between UK GAAP and IFRS are identified below and their impact is summarised in the tables above and at the end of this section. Paragraph 2.8 details presentational differences, the key of which for GKN in 2004 is the treatment of discontinued activities (mainly AgustaWestland).

2.1 **IAS 19 – Employee Benefits**

Under UK GAAP employee defined benefit arrangements were accounted for under SSAP 24 where the cost of providing the benefits was charged against operating profit on a systematic and rational basis over the period during which the Group expected to derive benefits from the employees' services. The SSAP 24 charge includes the service cost of benefits and imputed interest costs on balance sheet prepayments and scheme surpluses and or deficits. The application of SSAP 24 resulted in the recognition of a prepayment, this asset is reversed as a result of IAS 19 adoption.

IAS 19 permits an approach very similar to FRS 17 to be used and we have adopted this. Therefore the IFRS employee benefits numbers now being reported are consistent with the note disclosures given in our 2004 Annual Report under UK GAAP. There is a difference in the valuation of equity investments in that FRS 17 requires mid-market price to be used whereas IFRS requires the bid price to be used. This has resulted in an increase of £7m in the post-employment liability as at 31 December 2004 previously reported under FRS17.

In summary, IAS 19 results in the Group's pension deficits, primarily that relating to the UK scheme, being recorded as a balance sheet liability. The impact of changes in the value of the deficits will be recorded in the Statement of Recognised Income and Expenses rather than the Income Statement. Annual charges to the Income Statement will continue to comprise a service cost, charged against operating profit, and a finance cost, now to be charged along with other interest and similar charges.

Adopting IAS 19 results in a positive impact of £26m on profit before tax in 2004 compared with SSAP24 although net shareholders' funds at 31 December 2004 are reduced by £786m before the recognition of a deferred tax asset.

2.2 **IFRS 2 – Share-based payments**

Under UK GAAP the cost of share awards and share based arrangements was based on the intrinsic value of the awards, with the exception of SAYE schemes for which no cost was recognised.

IFRS 2 requires the charges in respect of remuneration schemes with share based components to reflect the fair values. This has meant that options granted since 7 November 2002 have been valued at the date of grant and amortised through the Income Statement over a defined period. The Group granted options in both 2003 and 2004. The charge for these awards and other relevant remuneration schemes was £3m in the 2004 IFRS accounts.

2.3 **IAS 38 – Research and Development**

Under UK GAAP research costs must be written off immediately whereas development costs may either be capitalised or written off as incurred; the latter option being that adopted in our UK GAAP Annual Reports. IAS 38 requires research costs to be written off as incurred while development expenditure is required to be capitalised where certain criteria are met.

Under IFRS we will write off research costs immediately while development costs will be capitalised where a new or substantially improved product or process results and other relevant criteria are met.

In our Automotive and OffHighway businesses, most development expenditure results in incremental improvements to existing products or processes and significant capitalisation is considered unlikely except in those businesses, such as Torque Technology, which are in a relatively early stage of development. As a result, in the IFRS balance sheets at 1 January and 31 December 2004 there are no costs to capitalise which were previously written off under UK GAAP.

In our Aerospace businesses, certain development expenditure has been capitalised under UK GAAP as part of non-recurring costs (“NRCs”) which are held as inventory. Given the nature of these contracts IFRS necessitates the reclassification of NRCs including elements as intangible assets. As a direct consequence, the NRCs under IFRS are subject to a different basis of establishing their appropriate carrying value. A restatement of £13m has been reflected in the IFRS transition balance sheet in respect of this. No impairment charges were required to be recognised during 2004 though a lower level of amortisation has resulted.

NRC reclassification resulted in £36m being reclassified from inventory to intangible assets.

2.4 **IFRS 3 – Business Combinations**

Under UK GAAP goodwill on acquisitions made since 1 January 1998 was capitalised and amortised over its estimated economic useful life up to a maximum of 20 years. When an acquired business was sold and goodwill had been previously deducted from reserves, the goodwill was taken into account in calculating the profit or loss on sale.

IFRS 3 deals with accounting for businesses acquired and requires intangible assets (such as intellectual property) to be fair valued at the date of acquisition and amortised over an appropriate time period. Any residual goodwill is not amortised but is subject to an annual impairment review. Consequently, there is no charge for goodwill amortisation in 2004. On disposals the recycling of goodwill previously written off to reserves is not required under IFRS. Furthermore, cumulative exchange differences on net investments are deferred within equity until realisation of the investment. These exchange differences are recognised in the Income Statement in the period of realisation.

The transitional arrangements contained in IFRS do not require this standard to be applied to acquisitions made prior to 1 January 2004 and the Group has taken this option.

The IFRS acquisition balance sheet for Tochigi Fuji Sangyo contained capitalised intellectual property of £5m which is being amortised over 5 years and has therefore resulted in a £1m charge to profit for the 9 months of 2004 for which it was a subsidiary.

2.5 **Deferred Tax**

Under UK GAAP deferred tax was provided on timing differences between the accounting and taxable profit i.e. focused on the Income Statement. Deferred tax assets are only recognised to the extent that they may be regarded as recoverable. IFRS results in deferred tax being provided on all temporary differences between book carrying values and the tax base of assets and liabilities, i.e. a balance sheet focus.

Excluding the recognition of post-employment obligations under IAS 19, the net effect of the adoption of IFRS on the deferred tax position of the Group at 31 December 2004 is an increase in the net liability by £15m to £69m (1 January 2004 - £28m increase to £72m). This movement is comprised of an increase of £52m (1 January 2004 - £56m) in the liability on fixed assets (due mainly to the requirement under IFRS to recognise deferred tax on non-qualifying assets on business combinations), partially offset by an increase of £33m (1 January 2004 - £22m) in the asset in respect of other temporary differences (largely due to the reversal of liabilities in respect of SSAP24 pension balances not permitted under IFRS accounting), and a £4m (1 January 2004 - £6m) movement in the recognition of deferred tax assets for tax losses.

As at 31 December 2004 a deferred tax asset of £184m (1 January 2004 - £203m) arose from the inclusion of pension and other post-employment benefits under IAS19, £12m of this £19m movement on pensions was an additional charge to the Income Statement.

Including IAS 19 the total net deferred tax balance at 31 December 2004 is an asset of £115m (1 January 2004 - £131m).

2.6 **Other Changes**

IFRS has resulted in a number of other minor changes such as the reclassification of computer software from tangible (PPE) to intangible assets, the definition of cash and cash equivalents and increased disclosure in certain areas. These changes have no material effect on reported profits or net assets.

2.7 AgustaWestland

The IFRS financial information for AgustaWestland used in restating the 2004 GKN financial statements has been based on data supplied by AgustaWestland which has yet to be subject to any formal external review. The only impact on the 2004 Income Statement of any further adjustment will be to alter the analysis within profit from discontinued operations on the face of the Income Statement.

2.8 Presentational Differences

There are also a number of presentational differences in the primary financial statements, the main areas of which are identified below.

2.8.1. Joint Ventures

IFRS permits two alternative treatments of joint ventures, both of which differ from UK GAAP.

- (i) The post tax results of joint ventures are included in the consolidated Income Statement before profit before tax. In the consolidated balance sheet the investment is carried as a fixed asset at the share of the joint venture's equity (the equity method).
- (ii) The share of the joint venture's profit, balance sheet and cash flow is incorporated in the shareholder's financial statements (proportional consolidation).

Under UK GAAP profits (and sales) are proportionally consolidated while the investment is carried at the share of equity but with expanded disclosure.

We have decided to follow the first IFRS option which in future will mean a slight reduction in profit before tax and lower headline sales.

2.8.2. Discontinued Businesses

Results of continuing and discontinued activities are segregated in the Income Statement. Sales of discontinued businesses are not reported and their profits are shown below those of continuing operations. Separate EPS figures are also required to be shown. The identification of discontinued operations is broadly similar under UK GAAP and IFRS.

2.8.3. Exceptional Items

IFRS does not use the terminology "exceptional items". Instead, significant items are separately reported where this is necessary to enable results to be properly interpreted.

We intend to show profits and losses on business divestments separately within operating profit together with such other items which need disclosure because of their size or incidence. These will include the cost of major restructuring initiatives.

2.8.4. Segmental Reporting

Applying the more prescriptive nature of segmental reporting dictated by IFRS our segmental analysis will change going forward in two significant respects. Firstly, the analysis will provide greater segmentation between the constituent businesses within GKN including an element of disaggregation of our Automotive businesses, separate disclosure of the OffHighway business and identification of unallocable central stewardship costs. Secondly, additional net asset and other financial information will be provided.

Consistent with the overall treatment of joint ventures within the Income Statement drawn up under IFRS, segmental reporting of joint ventures will be at the after tax level.

A segmental analysis of 2004 sales and profit is presented within the appendix to this press release.

2.8.5. Dividends

IFRS does not permit dividends to be accrued where they have not been approved at the balance sheet date. Under current practice, therefore, the final dividend will not be provided for until approved at the annual general meeting whilst the interim dividend will now not be provided for until it has been approved by the Board.

2.8.6. Retirement Obligations

Retirement obligations are required to be shown separately within long-term liabilities.

3.0 Summary of the Impact on 2004 of moving to IFRS from UK GAAP

	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items £m	Total £m
<u>Profit after tax for the year ended 31 December 2004</u>			
As reported under UK GAAP	159	421	580
IAS 19 - post employment obligations:			
Trading profit	55	-	55
Financing cost	(29)	-	(29)
Deferred tax	(12)	-	(12)
Share based payments	(3)	-	(3)
Lower amortisation of NRCs	1	-	1
Amortisation of purchased intangible assets	(1)	-	(1)
Deferred tax	2	-	2
Amortisation of goodwill written back:			
Subsidiaries	-	23	23
Joint ventures - continuing	-	1	1
Joint ventures - discontinued	-	5	5
Impairment of goodwill	-	(12)	(12)
Adjustment to profit on sale of AgustaWestland:			
Change in share of equity following application of IFRS	-	57	57
Deferred tax on properties sold	-	9	9
Realisation of cumulative currency adjustment	-	(4)	(4)
Non recycling of goodwill written off to reserves on original acquisition	-	100	100
As reported under IFRS	172	600	772

<u>Net assets</u>	31 December 2004 £m	1 January 2004 £m
As reported under UK GAAP	1,490	942
Retirement benefit obligations:		
Increase in liability under IAS 19	(588)	(678)
Write off of SSAP 24 prepayment	(198)	(93)
Deferred tax relating to pension liability	184	203
NRC restatement on transition to IFRS	(12)	(13)
Change in equity value of joint ventures		
AgustaWestland	-	(55)
Fair value adjustments	(1)	(1)
Increase in net deferred tax liability	(15)	(28)
Goodwill amortisation written back	23	-
Impairment of goodwill	(12)	-
Fair value adjustments	(1)	-
Provision for final dividend written back	58	57
As reported under IFRS	928	334

4.0 **2005 Financial Statements**

4.1 **IAS 32 and 39**

In addition to the adjustments noted above, 2005 will see the application of IAS 32 and 39 – Financial Instruments.

These require certain financial instruments to be recognised at fair value at the balance sheet date with changes in value taken through the Income Statement. This introduces the potential for considerable volatility into the reported profit unless hedge accounting is used.

The Group policy will be to continue to hedge foreign exchange transactions and a percentage of its overseas net assets. It is expected that translational hedges of the Group's overseas assets will be reported using hedge accounting. We will continue to review the use of transactional hedge accounting.

IAS 32 and 39 comparative figures for 2004 are not required and have not been prepared. It is not possible to predict the impact of these standards on future accounting periods.

4.2 **Other Changes**

The application and interpretation of IFRS continues to evolve and it may be that further refinements will be required to the 2004 results when the audited 2005 financial statements are prepared. However, it is not considered likely that such changes will be material.

5.0 **Conclusion**

The application of IFRS to GKN's 2004 results has had a beneficial impact on reported profits, largely through the changed treatment of pensions and other post-employment benefits. At the same time net assets have been reduced by the full recognition of related liabilities on the balance sheet.

Looking forward, the application of IAS 32 and 39 will introduce more volatility and unpredictability into the Income Statement and, to the extent hedge accounting is not adopted, we will isolate and explain the impact on the Group's results.

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Basis of preparation and changed accounting policies

These unaudited extracts from the financial statements have been prepared to show the impact on GKN's 2004 results of moving from UK GAAP to International Financial Reporting Standards ("IFRS"). They exclude the impact of IAS32 and IAS39 which are not applicable until 1 January 2005. UK GAAP information has been extracted from the Group's audited accounts for the year ended 31 December 2004 which contain an unqualified audit opinion.

They consolidate the accounts for the year to 31 December 2004 of the company and its subsidiaries unless those subsidiaries are subject to severe long-term restrictions on the ability of the Group to control them. There have been no changes to the companies consolidated or their status from UK GAAP.

Transitional Arrangements

Rules regarding transitional arrangements are set out in IFRS 1 which generally requires full retrospective adoption of all accounting standards effective at the reporting date. There are, however, certain permitted exceptions in relation to business combinations and fixed assets carried at cost or earlier valuations and the Group has taken advantage of these.

Accounting Policies

The implementation of IFRS has resulted in a number of changes in accounting policies. The main amended policies are summarised below.

Research and Development Costs

Research expenditure is written off as incurred.

Where development expenditure results in new or substantially improved products or processes and it is probable that recovery will take place, it is capitalised and amortised over the product's life up to a maximum of 7 years in Automotive and 15 years in Aerospace starting from the date on which serial production commences. Costs are capitalised as intangible unless physical assets, such as tooling, exist when they are classified as tangible fixed assets.

Computer Software Costs

Where computer software costs are capitalised they are categorised as intangible assets. The amortisation period is from 3-5 years, as under UK GAAP.

Taxation

Full provision is made for deferred tax on all temporary timing differences resulting from the difference between the carrying value of an asset or liability and its tax base.

Deferred tax assets are recognised to the extent that it is probable that the deferred tax asset will be recovered in future. In particular, at 31 December 2004 an asset of £184m (2003- £203m) has been recognised in respect of post-employment benefit obligations.

No deferred tax is recognised on the unremitted profits of overseas branches, subsidiaries and joint ventures except to the extent that the parent is unable to control the timing of any future profit remittances by the overseas entity and it is probable that a future remittance will take place.

Pensions and Other Post-Employment Benefits

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world. In the UK and in certain overseas companies pension arrangements are made through externally funded defined benefit schemes, the contributions to which are based on the advice of independent actuaries or in accordance with the rules of the schemes. In other overseas companies funds are retained within the business to provide for retirement obligations.

The Group also operates a number of defined contribution pension schemes and retirement plans which provide certain employees with defined post-employment healthcare benefits.

The Group accounts for all post-employment defined benefits schemes through full recognition of the schemes' surpluses or deficits on balance sheet at the end of each year. Actuarial gains and losses are included in the statement of recognised income and expense. Current service costs are recognised within operating profit. Returns on scheme assets and interest on obligations are recognised as a component of finance costs.

Share Based Payments

Share options granted to employees since 7 November 2002 are valued at the date of grant using an appropriate option pricing model and are charged to operating profit over the performance or vesting period of the scheme. The annual charge is modified to take account of shares forfeited by employees who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely the option will vest.

Companies Acquired

The opening fair value of businesses acquired since 1 January 2004 includes an assessment of the value of certain intangible assets. Such assets are amortised over their useful lives. Any residual goodwill is not amortised but is subject to an annual impairment review.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash and bank deposits and overdrafts together with short-term, highly liquid investments.

Reconciliation of consolidated income statement for the year ended 31 December 2004

	Notes	Under IFRS (unaudited)				
		Under UK GAAP £m	Adjustments (unaudited) £m	Total £m	Before significant items £m	Significant items* £m
Sales						
Continuing subsidiaries	1	3,484	(3)	3,481	3,481	-
Operating profit / (loss)						
Trading profit	2	162	53	215	215	-
Goodwill amortisation	3	(23)	23	-	-	-
Amortisation of purchased intangibles	4	-	(1)	(1)	(1)	-
Goodwill impairment and restructuring costs	5	(250)	(12)	(262)	-	(262)
Profit on sale of businesses	6	24	-	24	-	24
		(87)	63	(24)	214	(238)
Financing costs						
Interest payable and similar charges		(69)	-	(69)	(69)	-
Finance cost of net pension liability	7	-	(29)	(29)	(29)	-
Interest receivable		23	-	23	23	-
Total financing costs		(46)	(29)	(75)	(75)	-
Share of post tax earnings of continuing joint ventures and associated company	3	15	1	16	16	-
Loss before tax from continuing operations		(118)	35	(83)	155	(238)
Taxation	8	(22)	(10)	(32)	(45)	13
Loss from continuing operations		(140)	25	(115)	110	(225)
Discontinued operations						
Share of post tax earnings of joint ventures	3	57	5	62	62	-
Profit on disposal of joint ventures, after tax	9	663	162	825	-	825
Profit from discontinued operations		720	167	887	62	825
Profit for the year		580	192	772	172	600
Profit attributable to minority interests		3	-	3	3	-
Profit attributable to equity shareholders		577	192	769	169	600
		580	192	772	172	600
Earnings per share - p						
Total						
Basic		78.8	26.2	105.0		
Diluted		78.4	26.1	104.5		
Continuing operations						
Basic		(19.5)	3.4	(16.1)		
Diluted		(19.4)	3.4	(16.0)		

*Significant items are those which, because of size or incidence, require separate disclosure to enable underlying trading performance to be assessed. They comprise restructuring costs and profits on sale of businesses which were classified as exceptional items in the 2004 UK GAAP accounts.

Reconciliation of transition date consolidated balance sheet (1 January 2004)

	Notes	Under UK GAAP £m	Adjustments (unaudited) £m	Under IFRS (unaudited) £m
Assets				
Non-current assets				
Goodwill	10	340	-	340
Intangible assets	11	-	34	34
Property, plant and equipment	12	1,329	17	1,346
Investments in joint ventures and associated company accounted for under the equity method	13	286	(56)	230
Other investments		6	-	6
Deferred tax assets	14	6	221	227
Other receivables	15	114	(93)	21
		<u>2,081</u>	<u>123</u>	<u>2,204</u>
Current assets				
Inventories	16	487	(64)	423
Trade and other receivables		510	-	510
Cash and cash equivalents		131	-	131
		<u>1,128</u>	<u>(64)</u>	<u>1,064</u>
Total assets		<u>3,209</u>	<u>59</u>	<u>3,268</u>
Liabilities				
Current liabilities				
Borrowings		(37)	-	(37)
Trade and other payables and provisions	17	(759)	(8)	(767)
Current tax liabilities		(166)	-	(166)
Dividend payable	18	(57)	57	-
		<u>(1,019)</u>	<u>49</u>	<u>(970)</u>
Non-current liabilities				
Borrowings		(887)	-	(887)
Deferred tax liabilities	19	(50)	(46)	(96)
Post-employment benefit obligations	20	(233)	(678)	(911)
Provisions for other liabilities and charges	21	(78)	8	(70)
		<u>(1,248)</u>	<u>(716)</u>	<u>(1,964)</u>
Total liabilities		<u>(2,267)</u>	<u>(667)</u>	<u>(2,934)</u>
Net assets		<u>942</u>	<u>(608)</u>	<u>334</u>
Equity				
Ordinary shares		367	-	367
Share premium		14	-	14
Other reserves	22	(56)	(20)	(76)
Retained earnings		601	(588)	13
Total shareholders' equity		<u>926</u>	<u>(608)</u>	<u>318</u>
Minority interests in equity		16	-	16
Total equity		<u>942</u>	<u>(608)</u>	<u>334</u>

Reconciliation of consolidated balance sheet at 31 December 2004

	Notes	Under UK GAAP £m	Adjustments (unaudited) £m	Under IFRS (unaudited) £m
Assets				
Non-current assets				
Goodwill	10	197	11	208
Intangible assets	11	-	44	44
Property, plant and equipment	12	1,278	9	1,287
Investments in joint ventures accounted for under the equity method	13	95	(1)	94
Other investments		7	-	7
Deferred tax assets	14	6	193	199
Other receivables	15	208	(198)	10
		<u>1,791</u>	<u>58</u>	<u>1,849</u>
Current assets				
Inventories	16	507	(64)	443
Trade and other receivables		577	-	577
Cash and cash equivalents		860	-	860
		<u>1,944</u>	<u>(64)</u>	<u>1,880</u>
Total assets		<u>3,735</u>	<u>(6)</u>	<u>3,729</u>
Liabilities				
Current liabilities				
Borrowings		(54)	-	(54)
Trade and other payables and provisions	17	(834)	(9)	(843)
Current income tax liabilities		(128)	-	(128)
Dividend payable	18	(58)	58	-
		<u>(1,074)</u>	<u>49</u>	<u>(1,025)</u>
Non-current liabilities				
Borrowings		(741)	-	(741)
Deferred tax liabilities	19	(60)	(24)	(84)
Post employment benefit obligations	20	(266)	(588)	(854)
Provisions for other liabilities and charges	21	(104)	7	(97)
		<u>(1,171)</u>	<u>(605)</u>	<u>(1,776)</u>
Total liabilities		<u>(2,245)</u>	<u>(556)</u>	<u>(2,801)</u>
Net assets		<u>1,490</u>	<u>(562)</u>	<u>928</u>
Equity				
Ordinary shares		368	-	368
Share premium		15	-	15
Other reserves	22	(44)	(17)	(61)
Own shares		(30)	-	(30)
Retained earnings		1,151	(545)	606
Total shareholders' equity		<u>1,460</u>	<u>(562)</u>	<u>898</u>
Minority interests in equity		30	-	30
Total equity		<u>1,490</u>	<u>(562)</u>	<u>928</u>

Statement of recognised income and expense for the year ended 31 December 2004

	Under UK GAAP £m	Adjustments (unaudited) £m	Under IFRS (unaudited) £m
Currency variations	(31)	3	(28)
Unrealised gain arising on change in status of associate	2	-	2
Actuarial losses arising on retirement benefit obligations, net of deferred tax - subsidiaries	-	(50)	(50)
- joint ventures	-	(7)	(7)
Share based payments	-	3	3
Net losses not recognised in income statement	(29)	(51)	(80)
Profit attributable to equity shareholders	577	192	769
Total recognised income for the year	548	141	689
Dividends	(86)	1	(85)
Issue of ordinary shares net of costs	2	-	2
Purchase of own shares into treasury	(30)	-	(30)
Goodwill previously written off to reserves	100	(100)	-
Cumulative currency difference realised on disposal of AgustaWestland	-	4	4
	534	46	580
Shareholders' equity at 1 January 2004	926	(608)	318
Shareholders' equity at 31 December 2004	1,460	(562)	898

Reconciliation of cash flow statement for the year ended 31 December 2004

	Under UK GAAP £m	Adjustments (unaudited) £m	Under IFRS (unaudited) £m
Cash flow from operating activities			
Cash generated from operations	179	14	193
Interest received	21	-	21
Interest paid	(67)	-	(67)
Tax paid	(47)	-	(47)
Dividends received from joint ventures	10	-	10
Net cash from operating activities	<u>96</u>	<u>14</u>	<u>110</u>
Cash flow from investing activities			
Acquisitions of subsidiaries	(15)	-	(15)
Acquisitions of joint ventures	(8)	-	(8)
Proceeds from sale of property, plant and equipment	8	(1)	7
Purchase of property, plant, equipment and intangible assets	(184)	(13)	(197)
Proceeds from sale of subsidiaries	29	-	29
Proceeds from sale of joint ventures	1,039	-	1,039
Investment loans and capital contributions	(1)	-	(1)
Net cash used in investing activities	<u>868</u>	<u>(14)</u>	<u>854</u>
Cash flow from financing activities			
Net proceeds from issue of share capital	2	-	2
Purchase of own shares into treasury	(30)	-	(30)
Finance lease payments	(1)	-	(1)
Repayment of borrowings	(127)	-	(127)
Dividends paid to shareholders	(86)	-	(86)
Dividends paid to minority interests	(1)	-	(1)
Net cash used in financing activities	<u>(243)</u>	<u>-</u>	<u>(243)</u>
Effect of exchange rate changes	<u>(3)</u>	<u>-</u>	<u>(3)</u>
Net increase in cash and cash equivalents	718	-	718
Cash and cash equivalents at 1 January 2004	<u>109</u>	<u>-</u>	<u>109</u>
Cash and cash equivalents at 31 December 2004	<u>827</u>	<u>-</u>	<u>827</u>

Reconciliation of cash generated from operations for the year ended 31 December 2004

	Under UK GAAP £m	Adjustments (unaudited) £m	Under IFRS (unaudited) £m
Continuing operations			
Cash generated from operations			
Loss from continuing operations	(140)	25	(115)
Adjustments for:			
Tax	22	10	32
Depreciation and amortisation	160	10	170
Goodwill amortisation	23	(23)	-
Profit on sale of businesses	(24)	-	(24)
Impairment of goodwill	100	12	112
Impairment of property, plant and equipment	104	-	104
Charge for share based payments	-	3	3
Interest receivable	(23)	-	(23)
Interest payable and similar charges	69	-	69
Share of post tax earnings of joint ventures	(15)	(1)	(16)
Decrease in post-employment obligations	-	(120)	(120)
Changes in working capital:			
Increase in inventories	(20)	2	(18)
Decrease in receivables	6	5	11
Additional advance UK pension scheme funding	(100)	100	-
Increase in payables	17	(9)	8
	179	14	193

There was no cash generated from discontinued activities which were all joint ventures accounted for under the equity method.

Notes to financial statement reconciliations - analysis of adjustments

	£m
1 Sales	
Cash discounts allowed re-classified from cost of sales	<u>(3)</u>
2 Trading profit	
Reduction in pension charge	55
Share based payments	(3)
Reduction in amortisation of Aerospace non-recurring costs	<u>1</u>
	<u>53</u>
3 Goodwill amortisation in continuing operations	
Goodwill amortisation not charged under IFRS:	
Subsidiaries	23
Share of joint ventures	<u>1</u>
	<u>24</u>
Goodwill amortisation in discontinued operations	<u>5</u>
4 Amortisation of purchased intangibles	
Arising on businesses acquired in the year	<u>(1)</u>
5 Goodwill impairment and restructuring costs	
Impairment of goodwill written back per note 3 above	<u>(12)</u>
6 Profit on sale of businesses	
Profit on sale of business within continuing operations shown as exceptional items under UK GAAP	<u>24</u>
7 Finance cost on net pension liability	
Expected return on pension scheme assets	106
Interest on pension scheme obligations	<u>(135)</u>
	<u>(29)</u>
8 Taxation	
Deferred tax on post-employment obligation adjustment	(12)
Timing differences	<u>2</u>
	<u>(10)</u>
9 Profit on disposal of joint ventures after tax	
Change in equity value of AgustaWestland following adoption of IFRS	57
Goodwill written off directly to reserves on original acquisition, not required to be recycled through profit under IFRS	100
Cumulative currency differences realised on disposal	(4)
Deferred tax release on properties sold	<u>9</u>
	<u>162</u>

Notes to financial statement reconciliations - analysis of adjustments (continued)

	As at 31 December 2004 £m	As at 1 January 2004 £m
10 Goodwill		
Goodwill written off in 2004 under UK GAAP and reinstated under IFRS	23	-
Less: value impaired	(12)	-
	<u>11</u>	<u>-</u>
11 Intangible assets		
Aerospace non-recurring costs transferred from inventories	38	36
Less: restatement	(12)	(13)
	<u>26</u>	<u>23</u>
Computer software transferred from property, plant and equipment	14	11
Intangible assets arising on acquisition in the year	4	-
	<u>44</u>	<u>34</u>
12 Property, plant and equipment		
Non-recurring costs and tooling transferred from inventories	26	28
Computer software transferred to intangible assets	(14)	(11)
Fair value adjustments on acquisitions in the year	(3)	-
	<u>9</u>	<u>17</u>
13 Investments in joint ventures and associated company accounted for under the equity method		
AgustaWestland	-	(55)
Other	(1)	(1)
	<u>(1)</u>	<u>(56)</u>
14 Deferred tax assets		
Relating to post-employment pension obligation	184	203
Fixed assets	(87)	8
Other temporary timing differences	66	6
Losses	30	4
	<u>193</u>	<u>221</u>
15 Other receivables		
Write-off of SSAP 24 prepayment	(198)	(93)
	<u>(198)</u>	<u>(93)</u>
16 Inventories		
Transfers to:		
Intangible assets (non-recurring costs in Aerospace)	(38)	(36)
Property, plant and equipment	(26)	(28)
	<u>(64)</u>	<u>(64)</u>
17 Trade and other payables and provisions		
Reclassification of provisions due within one year	(9)	(8)
	<u>(9)</u>	<u>(8)</u>
18 Dividend payable		
Provision for final dividend reversed	58	57
	<u>58</u>	<u>57</u>
19 Deferred tax liabilities		
Fixed assets	35	(64)
Other temporary timing differences	(33)	16
Losses	(26)	2
	<u>(24)</u>	<u>(46)</u>
20 Post-employment obligations		
Recognition of post-employment obligations on an IAS 19 basis	(588)	(678)
	<u>(588)</u>	<u>(678)</u>
21 Provisions for other liabilities and charges		
Reclassification to current liabilities	9	8
Fair value adjustments on acquisition in the year	(2)	-
	<u>7</u>	<u>8</u>
22 Other reserves		
Deferred tax liability on properties fair valued on acquisition	(20)	(21)
Share based payments	3	1
	<u>(17)</u>	<u>(20)</u>

Segmental analysis of sales and profit under IFRS for the year ended 31 December 2004

<i>Subsidiaries</i>	Driveline	Powder Metallurgy	Other Automotive	OffHighway	Aerospace	Corporate and Unallocated	Total
	£m	£m	£m	£m	£m	£m	£m
Sales	1,899	590	136	287	569	-	3,481
Trading profit	151	3	9	21	42	(11)	215
Amortisation of purchased intangibles	(1)	-	-	-	-	-	(1)
Goodwill impairment and restructuring	(35)	(206)	-	(6)	(11)	(4)	(262)
Profit on sale of businesses	-	-	-	23	1	-	24
Operating profit	115	(203)	9	38	32	(15)	(24)
Share of post tax earnings of continuing joint ventures and associated company	15	-	1	-	-	-	16

Income statement for the year ended 31 December 2004: UK GAAP in IFRS format

UK GAAP	UK GAAP Total £m	Continuing		Discontinued operations £m	Non-operating exceptionals £m	Tax £m	Gross up interest £m	UK GAAP in IFRS format £m	IFRS
		Joint ventures £m	Associated Company £m						
Sales									
Subsidiaries	3,484	-	-	-	-	-	-	3,484	
Share of joint ventures	916	(161)	-	(755)	-	-	-	-	
Share of associated company	47	-	(47)	-	-	-	-	-	
	4,447	(161)	(47)	(755)	-	-	-	3,484	Sales
Operating (loss)/profit									
Subsidiaries:									
<i>Continuing operations</i>									
Before goodwill amortisation and exceptional items	162	-	-	-	-	-	-	162	Trading profit
Goodwill amortisation	(23)	-	-	-	-	-	-	(23)	Goodwill amortisation
Exceptional items including goodwill impairment	(250)	-	-	-	-	-	-	(250)	Goodwill impairment and restructuring costs
Share of continuing joint ventures:									
Before goodwill amortisation	18	(18)	-	-	-	-	-	-	
Goodwill amortisation	(1)	1	-	-	-	-	-	-	
<i>Discontinued operations</i>									
Before goodwill amortisation	87	-	-	(87)	-	-	-	-	
Goodwill amortisation	(5)	-	-	5	-	-	-	-	
Share of associated company	1	-	(1)	-	-	-	-	-	
	-	-	-	-	24	-	-	24	Profit on sale of businesses
Total operating loss	(11)	(17)	(1)	(82)	24	-	-	(87)	Operating loss
Profits less losses on sale or closure of businesses:									
Subsidiaries	24	-	-	-	(24)	-	-	-	
Joint ventures (and related assets)	663	-	-	(663)	-	-	-	-	
Net interest payable:									
Subsidiaries	(46)	-	-	-	-	-	(23)	(69)	Interest payable and similar charges
	-	-	-	-	-	-	23	23	Interest receivable
Share of joint ventures (discontinued)	(1)	-	-	1	-	-	-	-	
	-	17	1	-	-	(3)	-	15	Share of post tax earnings of continuing joint ventures and associated company
Taxation	(49)	-	-	-	-	27	-	(22)	Taxation
Profit after tax	580	-	-	(744)	-	24	-	(140)	Loss from continuing operations
	-	-	-	81	-	(24)	-	57	Share of post tax earnings of joint ventures
	-	-	-	663	-	-	-	663	Profit on disposal of joint ventures, after tax
	-	-	-	744	-	(24)	-	720	Profit from discontinued operations
Profit on ordinary activities after taxation	580	-	-	-	-	-	-	580	Profit for the year

Balance sheet at 31 December 2004: UK GAAP in IFRS format

	UK GAAP format £m	Receivables £m	Payables £m	Provisions £m	Taxation £m	UK GAAP IFRS format £m	
Fixed assets							Non-current assets
Intangible assets	197	-	-	-	-	197	Goodwill
Tangible assets	1,278	-	-	-	-	1,278	Property, plant and equipment
Investments:							
Joint ventures	95	-	-	-	-	95	Investments in joint ventures accounted for under the equity method
Other investments	7	-	-	-	-	7	Other investments
	-	-	-	-	6	6	Deferred tax assets
	-	208	-	-	-	208	Other receivables
Total fixed assets	1,577	208	-	-	6	1,791	
Current assets							
Stocks	507	-	-	-	-	507	Inventories
Debtors:							
Due within one year	577	-	-	-	-	577	Trade and other receivables
Due in more than one year	214	(208)	-	-	(6)	-	
Cash at bank and in hand	860	-	-	-	-	860	Cash and cash equivalents
	2,158	(208)	-	-	(6)	1,944	
	3,735	-	-	-	-	3,735	Total assets
Creditors: amounts falling due within one year							Current liabilities
Short-term borrowings	(51)	-	(3)	-	-	(54)	Borrowings
Creditors	(837)	-	3	-	-	(834)	Trade and other payables and provisions
Taxation payable	(128)	-	-	-	-	(128)	Current tax liabilities
Dividend payable	(58)	-	-	-	-	(58)	Dividend payable
	(1,074)	-	-	-	-	(1,074)	
Creditors: amounts falling due after one year							Non-current liabilities
Term loans and obligations under finance leases	(741)	-	-	-	-	(741)	Borrowings
Provisions for liabilities and charges	(430)	-	-	370	-	(60)	Deferred tax liabilities
	-	-	-	(266)	-	(266)	Post-employment benefit obligations
	-	-	-	(104)	-	(104)	Provisions for other liabilities and charges
	(1,171)	-	-	-	-	(1,171)	
	(2,245)	-	-	-	-	(2,245)	Total liabilities
Net assets	1,490	-	-	-	-	1,490	Net assets