

Balance sheet of GKN plc

At 31 December 2006

	Notes	2006 £m	2005 Restated £m
Fixed assets			
Investment in subsidiaries at cost	2	3,559	3,550
Current assets			
Amounts due from subsidiaries		50	47
Current liabilities			
Amounts owed to subsidiaries		(2,772)	(2,768)
		(2,772)	(2,768)
Net current liabilities		(2,722)	(2,721)
Total assets less current liabilities		837	829
Net assets		837	829
Capital and reserves			
Called up share capital	4	371	370
Share premium account	4	25	23
Profit and loss account	1, 3	441	436
		837	829

The financial statements on pages 104 and 105 were approved by the Board of Directors and authorised for issue on 26 February 2007. They were signed on its behalf by:

Roy Brown, Sir Kevin Smith, Nigel Stein, Directors

Notes on the balance sheet of GKN plc

Significant accounting policies and basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. New accounting standards issued by the Accounting Standards Board and effective from 1 January 2006 have had no impact on the accounts of the Company. The clarification of the treatment of share-based payment schemes in stand-alone Company accounts has resulted in the recognition in the year of the impact of these schemes on the investments held by the Company; see notes 2 and 4 below.

The principal accounting policies are summarised below. They have been applied consistently in both years presented.

The Directors have reviewed the presentation of the Company's balance sheet in the light of emerging best practice in corporate financial reporting. As a result the separate presentation of the Company's shares held in treasury as a component of equity adopted in 2005 has been amended. The cost of acquiring the shares is now shown as a deduction from retained earnings.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Treasury shares

GKN shares which have been purchased and not cancelled are held as treasury shares and deducted from shareholders' equity.

Dividends

The annual final dividend is not provided for until approved at the Annual General Meeting whilst interim dividends are charged in the period they are paid.

1 Profit and loss account

As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. The profit for the year ended 31 December 2006 was £124 million (2005 – loss £73 million).

Auditors' remuneration for audit services to the Company was £0.5 million (2005 – £0.5 million).

2 Fixed asset investments

	2006 £m	2005 £m
Cost		
At 1 January	3,550	3,550
Additions	9	–
At 31 December	3,559	3,550

The addition represents the increase in the investment in subsidiaries attributable to the recognition of the share-based payment arrangements over the Company's shares. Principal subsidiary and joint venture companies, the investments which are all held through intermediate holding companies, are shown on pages 108 and 109 of the Group financial statements.

3 Profit and loss account

	2006 £m	2005 Restated £m
At 1 January	436	625
Profit/(loss) for the year	124	(73)
Share-based payments	9	–
Purchase of treasury shares	(40)	(30)
Dividends	(88)	(86)
At 31 December	441	436

Treasury shares of £100 million (2005 – £60 million) have been deducted from the profit and loss account.

4 Reconciliation of movements in shareholders' funds

	2006 £m	2005 £m
At 1 January	829	1,008
Share issues	3	10
Profit/(loss) for the year	124	(73)
Share-based payments	9	–
Purchase of treasury shares	(40)	(30)
Dividends	(88)	(86)
At 31 December	837	829

Details of the share capital and share premium of GKN plc are disclosed in notes 26 and 27 to the Group financial statements.