

Financial Statements

Group Financial Statements

Independent Auditors Report	65	13 Property, plant and equipment	98
Consolidated Income Statement	66	14 Investments in joint ventures	99
Consolidated Statement of Comprehensive Income	67	15 Other receivables and investments	100
Consolidated Statement of Changes in Equity	68	16 Inventories	100
Consolidated Balance Sheet	69	17 Trade and other receivables	101
Consolidated Cash Flow Statement	70	18 Trade and other payables	101
Notes to the Financial Statements		19 Net borrowings	102
1 Accounting policies and presentation	71	20 Financial risk management	103
2 Segmental analysis	77	21 Derivative financial instruments	108
3 Operating profit	81	22 Provisions	109
4 Net financing costs	85	23 Share capital	110
5 Taxation	86	24 Acquisitions	111
6 Discontinued operations	89	25 Cash flow reconciliations	112
7 Earnings per share	90	26 Post-employment obligations	113
8 Adjusted performance measures	90	27 Contingent assets and liabilities	118
9 Dividends	91	28 Operating lease commitments minimum lease payments	118
10 Employees including Directors	91	29 Capital expenditure	118
11 Share-based payments	93	30 Related party transactions	118
12 Goodwill and other intangible assets	95	31 Post-balance sheet events	118

Company Financial Statements

Independent Auditors Report	119	3 Fixed asset investments	122
Balance Sheet of GKN plc	120	4 Reserves	122
Notes to the Financial Statements		5 Reconciliation of movements in shareholders funds	122
1 Significant accounting policies and basis of preparation	121		
2 Profit and loss account	121		

Independent Auditors' Report to the Members of GKN plc

We have audited the Group financial statements of GKN plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet and the Consolidated Cash Flow Statement and the related notes. These consolidated financial statements have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities on page 63, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- > give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss and cash flows for the year then ended;
- > have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- > have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

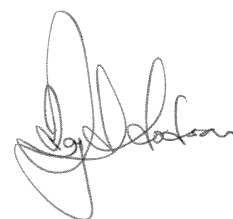
- > certain disclosures of Directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- > the Directors' statement, on page 27, in relation to going concern; and
- > the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the Company financial statements of GKN plc for the year ended 31 December 2009 and on the information in the Directors' remuneration report that is described as having been audited.



Roy Hodson

(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
24 February 2010

Notes:

(a) The maintenance and integrity of the GKN plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Sales	2	4,223	4,376
<i>Trading profit</i>		129	201
<i>Restructuring and impairment charges</i>		(144)	(153)
<i>Amortisation of non-operating intangible assets arising on business combinations</i>		(24)	(10)
<i>Profits and losses on sale or closures of businesses</i>		2	
<i>Change in value of derivative and other financial instruments</i>		76	(124)
Operating profit/(loss)	3	39	(86)
Share of post-tax earnings of joint ventures	14	21	6
<i>Interest payable</i>		(67)	(66)
<i>Interest receivable</i>		3	19
<i>Other net financing charges</i>		(50)	(3)
Net financing costs	4	(114)	(50)
Profit/(loss) before taxation		(54)	(130)
Taxation	5	15	10
Profit/(loss) from continuing operations		(39)	(120)
Profit after taxation from discontinued operations	6	5	13
Profit/(loss) after taxation for the year		(34)	(107)
Profit attributable to non-controlling interests		2	2
Profit/(loss) attributable to equity shareholders		(36)	(109)
		(34)	(107)
Earnings per share p (restated)	7		
Continuing operations basic		(3.2)	(11.7)
Continuing operations diluted		(3.2)	(11.7)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Profit/(loss) after taxation for the year		(34)	(107)
Other comprehensive income			
Currency variations			
Subsidiaries			
Arising in year		(154)	529
Reclassified in year		8	
Joint ventures			
Arising in year		(12)	36
Reclassified in year		(2)	
Derivative financial instruments			
Transactional hedging			
Arising in year		2	(7)
Reclassified in year		5	(1)
Translational hedging arising in year			(213)
Actuarial gains and losses on post-employment obligations			
Subsidiaries	26	(190)	(386)
Joint ventures			
Tax on items taken directly to equity	5	17	(23)
		(326)	(65)
Total comprehensive income/(expense) for the year		(360)	(172)
Total comprehensive income/(expense) for the year attributable to:			
Equity shareholders		(362)	(178)
Non-controlling interests		2	6
		(360)	(172)

Consolidated Balance Sheet

At 31 December 2009

	Notes	2009 £m	Restated 2008 £m
Assets			
Non-current assets			
Goodwill	12	338	367
Other intangible assets	12	187	153
Property, plant and equipment	13	1,636	1,797
Investments in joint ventures	14	112	119
Other receivables and investments	15	24	23
Derivative financial instruments	21	16	42
Deferred tax assets	5	71	52
		2,384	2,553
Current assets			
Inventories	16	563	718
Trade and other receivables	17	644	645
Current tax assets	5	13	17
Derivative financial instruments	21	6	20
Other financial assets	19	20	
Cash and cash equivalents	19	316	114
		1,562	1,514
Total assets		3,946	4,067
Liabilities			
Current liabilities			
Borrowings	19	(72)	(97)
Derivative financial instruments	21	(14)	(56)
Trade and other payables	18	(873)	(972)
Current tax liabilities	5	(79)	(115)
Provisions	22	(84)	(49)
		(1,122)	(1,289)
Non-current liabilities			
Borrowings	19	(564)	(725)
Derivative financial instruments	21	(51)	(136)
Deferred tax liabilities	5	(57)	(63)
Trade and other payables	18	(97)	(38)
Provisions	22	(87)	(54)
Post-employment obligations	26	(996)	(834)
		(1,852)	(1,850)
Total liabilities		(2,974)	(3,139)
Net assets		972	928
Shareholders equity			
Share capital	23	457	372
Share premium account		9	29
Retained earnings		431	290
Other reserves		51	214
		948	905
Non-controlling interests		24	23
Total equity		972	928

The financial statements on pages 66 to 118 were approved by the Board of Directors and authorised for issue on 24 February 2010. They were signed on its behalf by:

Sir Kevin Smith, William Seeger Directors

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Cash flows from operating activities			
Cash generated from operations	25	288	328
Interest received		7	18
Interest paid		(68)	(66)
Tax paid		(15)	(45)
Dividends received from joint ventures		15	24
		227	259
Cash flows from investing activities			
Purchase of property, plant and equipment		(140)	(192)
Purchase of intangible assets		(14)	(13)
Receipt of government refundable advances		28	
Receipt of government capital grants		1	1
Proceeds from sale and realisation of fixed assets		35	7
Acquisition of subsidiaries (net of cash acquired)	24	(99)	(1)
Proceeds from sale of joint ventures continuing/discontinued	3d, 6	1	18
Investment in joint ventures		(2)	(1)
Investment loans and capital contributions		(11)	1
		(201)	(180)
Cash flows from financing activities			
Net proceeds from rights issue	23	403	
Net proceeds from other ordinary share capital transactions	23		1
Net proceeds from borrowing facilities		148	112
Bond buy-back including buy-back premium		(131)	
Repayment of other borrowings		(241)	(33)
Finance lease payments		(1)	(9)
Settlement of forward foreign currency contracts for net investment hedging			(230)
Dividends paid to shareholders	9		(97)
Dividends paid to non-controlling interests		(1)	(3)
		177	(259)
Currency variations on cash and cash equivalents		(9)	24
Movement in cash and cash equivalents			
Cash and cash equivalents at 1 January		94	250
Cash and cash equivalents at 31 December	25	288	94

Notes to the Financial Statements

For the year ended 31 December 2009

1 Accounting policies and presentation

The Group's key accounting policies are summarised below.

Basis of preparation

The consolidated financial statements (the statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union. These statements have been prepared under the historical cost method except where other measurement bases are required to be applied under IFRS as set out below.

These statements have been prepared using all standards and interpretations required for financial periods beginning 1 January 2009. No standards or interpretations have been adopted before the required implementation date.

Standards, revisions and amendments to standards and interpretations issued and adopted

As outlined in the statements for the year ended 31 December 2008, IFRS 8 Operating segments and IAS 23 (Amendments) Borrowing costs were identified as standards likely to impact the reporting of the Group's 2009 results, assets and liabilities with IAS 1 Presentation of financial statements (Revised) impacting the presentation of financial results. These standards were adopted on 1 January 2009.

The adoption of IFRS 8 requires operating segments to be identified on the basis of internal reports used to assess performance and allocate resources by the chief operating decision maker. The chief operating decision maker has been identified as the Executive Committee led by the Chief Executive. The adoption of this standard has not resulted in any change to the segments reported previously with management trading profit maintained as the reportable measure of profit or loss. The main change has been the inclusion of the Group's share of sales and trading profit of joint ventures within the segmental disclosure and disclosure of management based asset measures. Management trading profit includes an allocation of costs incurred by central functions in providing operational and regulatory support to the operating segments with the basis of such allocations applied consistently. Inter segment sales are not significant. In order to provide comparability with previously reported margins, inter segment sales disclosure is included by way of footnote. Comparable information has been re-presented accordingly.

IAS 23 requires the capitalisation of borrowing costs attributable to qualifying assets. The standard has been applied prospectively. During the year one Aerospace investment programme has been identified as a qualifying asset. This programme is in its initial stages and as a result there has been no material impact on the results of the Group from the adoption of this standard.

In terms of the presentation of the financial results, the main impacts have been the adoption of IAS 1 Presentation of financial statements (Revised) with the main presentational changes arising from this standard being the new primary statements Statement of comprehensive income and Statement of changes in equity and the amendment to IAS 1 clarifying the classification of derivative financial instruments as current or non-current. The Group had previously classified derivative financial instruments as current, they are now classified according to their maturity profile with no impact on total assets, total liabilities, results or cash flows. Comparative data has been restated.

The Group also adopted the following relevant amendments to standards with no material impact on its results, assets and liabilities, IAS 38 Intangible assets regarding the acceptability of the units of production amortisation method, IFRS 7 Financial instruments disclosure, including disclosure of the fair value measurement hierarchy and IFRS 2 Share-based payment regarding vesting conditions and cancellations.

Basis of consolidation

The statements incorporate the financial statements of the Company and its subsidiaries (together the Group) and the Group's share of the results and equity of its joint ventures.

Subsidiaries are entities over which, either directly or indirectly, the Company has control through the power to govern financial and operating policies so as to obtain benefit from their activities. Except as noted below, this power is accompanied by a shareholding of more than 50% of the voting rights. The results of subsidiaries acquired or sold during the year are included in the Group's results from the date of acquisition or up to the date of disposal. All business combinations are accounted for by the purchase method. Assets, liabilities and contingent liabilities acquired in a business combination are measured at fair value.

In a single case the Company indirectly owns 100% of the voting share capital of an entity but is precluded from exercising either control or joint control by a contractual agreement with the United States Department of Defense. In accordance with IAS 27 this entity has been excluded from the consolidation and treated as an investment. Further details are contained in note 15.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Accounting policies and presentation *continued*

Intra-group balances, transactions, income and expenses are eliminated.

Non-controlling interests represent the portion of shareholders' earnings and equity attributable to third party shareholders.

Joint ventures

Joint ventures are entities in which the Group has a long term interest and exercises joint control with its partners over their financial and operating policies. In all cases voting rights are 50% or lower. Investments in joint ventures are accounted for by the equity method. The Group's share of equity includes goodwill arising on acquisition.

The Group's share of profits and losses resulting from transactions between the Group and joint ventures are eliminated.

Foreign currencies

Subsidiaries and joint ventures account in the currency of their primary economic environment of operation, determined having regard to the currency which mainly influences sales and input costs. Transactions are translated at exchange rates approximating to the rate ruling on the date of the transaction except in the case of material transactions where actual spot rate may be used if it more accurately reflects the underlying substance of the transaction. Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities in foreign currencies are translated at the exchange rates ruling at the balance sheet date.

Material foreign currency movements arising on the translation of intra-group balances treated as part of the net investment in a subsidiary are recognised through equity. Movements on other intra-group balances are recognised through the income statement.

The Group's presentational currency is sterling. On consolidation, results and cash flows of foreign subsidiaries and joint ventures are translated to sterling at average exchange rates except in the case of material transactions where the actual spot rate is used if it more accurately reflects the underlying substance of the transaction. Assets and liabilities are translated at the exchange rates ruling at the balance sheet date.

Profits and losses on the realisation of currency net investments include the accumulated net exchange differences that have arisen on the retranslation of the currency net investments since 1 January 2004 up to the date of realisation.

Presentation of the income statement

IFRS is not fully prescriptive as to the format of the income statement. Line items and subtotals have been presented on the face of the income statement in addition to those required under IFRS.

Sales shown in the income statement are those of continuing subsidiaries.

Operating profit is profit or loss before discontinued operations, taxation, finance costs and the share of post-tax profit of joint ventures accounted for using the equity method. In order to achieve consistency and comparability between reporting periods, operating profit is analysed to show separately the results of normal trading performance and individually significant charges and credits. Such items arise because of their size or nature and, in 2009, comprise:

- charges relating to the Group-wide restructuring programmes announced in 2004 and 2008;
- the impact of the annual goodwill impairment review;
- asset impairment and restructuring charges which arise from events which are significant to any reportable segment;
- amortisation of the fair value of non-operating intangible assets arising on business combinations;
- profits or losses on businesses sold or closed which do not meet the definition of discontinued operations or which the Group views as capital rather than revenue in nature; and
- changes in the fair value of derivative financial instruments between the opening and closing balance sheets and material currency translation movements arising on intra-group funding transactions.

The Group's post-tax share of joint venture profits is shown as a separate component of profit before tax. Material restructuring and impairment charges are separately identified.

Net finance costs are analysed to show separately interest payable, interest receivable and other net financing charges. Other net financing charges include the net of interest payable on post-employment obligations and the expected return on pension scheme assets and unwind of discounts on fair value amounts arising through business combinations.

1 Accounting policies and presentation *continued*

Revenue recognition

Sales

Revenue from the sale of goods is measured at the fair value of the consideration receivable which generally equates to the invoiced amount, excluding sales taxes and net of allowances for returns, early settlement discounts and rebates.

Invoices for goods are raised when the risks and rewards of ownership have passed which, dependent upon contractual terms, may be at the point of dispatch, acceptance by the customer or, in Aerospace, certification by the customer. Revenue from royalties and the rendering of services is not significant.

Certain businesses, principally those in Powder Metallurgy, recognise an element of revenue via a surcharge mechanism. The surcharge invoiced or credited is generally based on prior period movement in raw material price indices applied to current period deliveries. In those instances where recovery of such increases is guaranteed, irrespective of the level of future deliveries, revenue is recognised, or due allowance made, in the same period as the cost movement takes place.

Other income

Interest income is recognised using the effective interest method. Revenue from dividends is not significant.

Sales and other income is recognised in the income statement when it can be reliably measured and its collectability is reasonably assured.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges.

Cost

Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. Where freehold and long leasehold properties were carried at a valuation at 23 March 2000, these values have been retained as book values and therefore deemed cost at the date of the IFRS transition.

Where assets are in the course of construction at the balance sheet date they are classified as capital work in progress. Transfers are made to other asset categories when they are available for use.

Depreciation

Depreciation is not provided on freehold land or capital work in progress. In the case of all other categories of property, plant and equipment, depreciation is provided on a straight line basis over the course of the financial year from the date the asset is available for use.

Depreciation is applied to specific classes of asset so as to reduce them to their residual values over their estimated useful lives, which are reviewed annually.

The range of main rates of depreciation used are:

	Years
Freehold buildings	Up to 50
Steel powder production plant	18
General plant, machinery, fixtures and fittings	6 to 15
Computers	3 to 5
Commercial vehicles and cars	4 to 5

Property, plant and equipment is reviewed at least annually for indications of impairment. Impairments are charged to the income statement. Similarly, where property, plant and equipment has been impaired and subsequent reviews demonstrate the recoverable value is in excess of the impaired value an impairment reversal is recorded. The amount of the reversal cannot exceed the theoretical net book amount at the date of the reversal had the item not been impaired. Impairment reversals are credited to the income statement against the same line item to which the impairment was previously charged.

Costs attributable to leasehold properties are written off to profit by equal annual instalments over the period of the lease or 50 years, whichever is the shorter.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Accounting policies and presentation *continued*

Leased assets

Operating lease rentals are charged to the income statement as incurred over the lease term. Finance leased assets are not significant.

Discontinued operations

The profit or loss on discontinued operations comprises the trading results up to the date of disposal or discontinuance and the profit or loss on the disposal or closure where businesses are sold or closed by the date on which the financial statements are approved. A discontinued operation is a business or businesses that have either been disposed of or closed or satisfies the criteria to be classified as held for sale and that represents either a material line of business within the Group or within one of its reported segments or a primary geographical area of operation. Where businesses fall to be treated as discontinued in the current year the comparative data is reclassified to reflect those businesses as discontinued.

Borrowing costs

Borrowing costs are capitalised as cost on qualifying tangible and intangible fixed asset expenditure. A qualifying asset is an asset or programme where the period of capitalisation is more than 12 months and the capital value is more than £10 million. For general borrowings the capitalisation rate is the weighted average of the borrowing costs outstanding during the period. For specific funding the amount capitalised is the actual funding cost incurred less any investment income on the temporary investment of those funds.

Financial assets and liabilities

Borrowings are measured initially at fair value which usually equates to proceeds received and includes transaction costs. Borrowings are subsequently measured at amortised cost.

Cash and cash equivalents comprise cash on hand and demand deposits and overdrafts together with highly liquid investments of less than 90 days maturity. Other financial assets comprise investments with more than 90 days until maturity. Unless an enforceable right of set-off exists and there is an intention to net settle, the components of cash and cash equivalents are reflected on a gross basis in the balance sheet.

The carrying value of other financial assets and liabilities, including short term receivables and payables, are stated at amortised cost less any impairment provision unless the impact of the time value of money is considered to be material.

Derivative financial instruments

The Group does not trade in derivative financial instruments. Derivative financial instruments including forward foreign currency contracts are used by the Group to manage its exposure to (i) risk associated with the variability in cash flows in relation to both recognised assets or liabilities or forecast transactions and (ii) changes in the value of the Group's net investment in overseas operations. All derivative financial instruments are measured at the balance sheet date at their fair value.

Where derivative financial instruments are not designated as or not determined to be effective hedges, any gain or loss on remeasurement is taken to the income statement. Where derivative financial instruments are designated as and are effective as cash flow hedges, any gain or loss on remeasurement is held in equity and recycled through the income statement when the designated item is transacted.

Remeasurement gains and losses on derivative financial instruments held as net investment hedges are recognised in equity via the statement of comprehensive income to the extent it is effective until the instrument and the underlying hedged investment are sold, when the profit or loss arising is recognised in the income statement.

Gains or losses on derivative financial instruments no longer designated as effective hedges are taken directly to the income statement.

Derivatives embedded in non-derivative host contracts are recognised at their fair value when the nature, characteristics and risks of the derivative are not closely related to the host contract. Gains and losses arising on the remeasurement of these embedded derivatives at each balance sheet date are taken to the income statement.

Goodwill

Goodwill consists of the excess of the fair value of the consideration over the fair value of the identifiable intangible and tangible assets net of the fair value of the liabilities including contingencies of businesses acquired at the date of acquisition.

Goodwill in respect of business combinations of subsidiaries is recognised as an intangible asset. Goodwill arising on the acquisition of a joint venture is included in the carrying value of the investment.

1 Accounting policies and presentation *continued*

Where negative goodwill arises, following reassessment of fair values, it is credited to the income statement in the period in which the acquisition is made.

Goodwill is not amortised but tested at least annually for impairment. Impairments are charged to the income statement. Goodwill is carried at cost less any recognised impairment losses that arise from the annual assessment of its carrying value. To the extent that the carrying value exceeds the recoverable amount, determined as the higher of estimated discounted future net cash flows or recoverable amount on a fair value less cost to sell basis, goodwill is written down to the recoverable amount and an impairment charge is recognised in the income statement.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment charges.

Computer software

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised and categorised as intangible assets. Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. Amortisation is provided on a straight line basis over its economic useful life which is in the range of three to five years.

Development costs

Where development expenditure results in a new or substantially improved product or process and it is probable that this expenditure will be recovered it is capitalised. Amortisation is charged from the date the asset is available for use. In Aerospace, amortisation is charged over the asset's life up to maximum of fifteen years either on a straight line basis or, where sufficient contractual terms exist, a unit of production method is applied. In Automotive, amortisation is charged on a straight line basis over the asset's life up to a maximum of seven years.

Capitalised development costs are subject to annual impairment reviews. Impairments are charged to the income statement.

Research expenditure is written off as incurred.

Assets acquired on business combinations – non-operating intangible assets

Non-operating intangible assets are intangible assets that are acquired as a result of a business combination, which arise from contractual or other legal rights and are not transferable or separable. On initial recognition they are measured at fair value. Amortisation is charged on a straight line basis to the income statement over their expected useful lives which are:

		Years
Marketing related assets	brands and trademarks	30 50
	agreements not to compete	Life of agreement
Customer related assets	order backlog	Length of backlog
	other customer relationships	2 15
Technology based assets		5 10

Inventories

Inventories are valued at the lower of cost and estimated net realisable value with due allowance being made for obsolete or slow-moving items. Cost is determined on a first in, first out or weighted average cost basis. Cost includes raw materials, direct labour, other direct costs and the relevant proportion of works overheads assuming normal levels of activity. Net realisable value is the estimated selling price less estimated selling costs and costs to complete.

Taxation

Current tax and deferred tax are recognised in the income statement unless they relate to items recognised directly in equity when the related tax is also recognised in equity.

Full provision is made for deferred tax on all temporary differences resulting from the difference between the carrying value of an asset or liability in the statements and its tax base. The amount of deferred tax reflects the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are reviewed at each balance sheet date and are only recognised to the extent that it is probable that they will be recovered against future taxable profits.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Accounting policies and presentation *continued*

Deferred tax is recognised on the unremitted profits of joint ventures. No deferred tax is recognised on the unremitted profits of overseas branches and subsidiaries except to the extent that it is probable that such earnings will be remitted to the parent in the foreseeable future.

Pensions and 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 and defined benefit arrangements which provide certain employees with defined post-employment healthcare benefits.

The Group accounts for all post-employment defined benefit schemes through full recognition of the schemes' surpluses or deficits on the balance sheet at the end of each year. Actuarial gains and losses are included in the statement of comprehensive income. Current and past service costs, curtailments and settlements are recognised within operating profit. Returns on scheme assets and interest on obligations are recognised as a component of other net financing charges.

For defined contribution arrangements the cost charged to the income statement represents the Group's contributions to the relevant schemes in the period in which they fall due.

Government refundable advances

Government refundable advances are reported in Trade and other payables in the balance sheet. Refundable advances include amounts lent by Government, accrued interest and directly attributable costs. Refundable advances are provided to the Group to part-finance expenditures on specific development programmes. The advances are provided on a risk sharing basis, i.e. repayment levels are determined subject to the success of the related programme. Interest is calculated using the effective interest rate method.

Share-based payments

Share options granted to employees and share-based arrangements put in place since 7 November 2002 are valued at the date of grant or award 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.

Standards, revisions and amendments to standards and interpretations issued but not yet adopted

The Group does not intend to adopt any standard, revision or amendment before the required implementation date. The following standards and amendments are likely to impact the reporting of the Group's results, assets and liabilities.

IFRS 3 (Revised) Business combinations (effective for annual periods beginning after 1 July 2009). This standard is to be applied on a prospective basis and will change the recognition of goodwill, acquisition costs and contingent consideration.

The Group is assessing the impact of the following revisions and amendments to standards and interpretations.

IFRS 2 (Amendment) regarding classification of Group arrangements.

IAS 32 (Amendment) regarding presentation on classification of rights issues.

IFRIC 18 Transfer of assets from customers.

IFRIC 19 Extinguishing financial liabilities with equity instruments.

IAS 24 (Amendment) regarding related party transactions.

IAS 39 (Amendment) regarding eligible hedged items.

IFRS 9 Financial instruments.

IAS 27 (Revised) regarding transactions with non-controlling interests.

IAS 38 (Amendment) regarding measurement of intangible assets acquired in business combinations.

IFRS 5 (Amendment) including disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

IAS 1 (Amendment) regarding settlement of a liability by the issue of equity.

IFRIC 17 Distribution of non-cash assets to owners.

1 Accounting policies and presentation *continued*

Significant judgements, key assumptions and estimates

The Group's significant accounting policies are set out above. The preparation of financial statements, in conformity with IFRS, requires the use of estimates, subjective judgement and assumptions that may affect the amounts of assets and liabilities at the balance sheet date and reported profit and earnings for the year. The Directors base these estimates, judgements and assumptions on a combination of past experience, professional expert advice and other evidence that is relevant to the particular circumstance.

The accounting policies where the Directors consider the more complex estimates, judgements and assumptions have to be made are those in respect of acquired non-operating intangible assets – business combinations (note 24), post-employment obligations (note 26), derivative and other financial instruments (notes 3e and 21), taxation (note 5) and impairment of non-current assets (note 12). The details of the principal estimates, judgements and assumptions made are set out in the related notes as identified.

2 Segmental analysis

The Group's reportable segments have been determined based on reports reviewed by the Executive Committee led by the Chief Executive. The operating activities of the Group are structured according to the markets served: automotive, aerospace and off-highway. Automotive is managed according to product groups: driveline, structural and other components and powder metallurgy. Reportable segments derive their sales from the manufacture of products. Revenue from services, inter segment trading and royalties is not significant.

(a) Sales

	Automotive		Powder Metallurgy £m	Aerospace £m	OffHighway £m	Total £m
	Driveline £m	Other Automotive £m				
2009						
Subsidiaries	1,817	52	512	1,486	356	4,223
Joint ventures	175	65			5	245
Management sales	1,992	117	512	1,486	361	4,468
2008						
Subsidiaries	2,123	84	618	1,002	549	4,376
Joint ventures	145	92			4	241
Management sales	2,268	176	618	1,002	553	4,617

Notes to the Financial Statements

For the year ended 31 December 2009

2 Segmental analysis *continued*

(b) Trading profit

	Automotive		Powder Metallurgy £m	Aerospace £m	OffHighway £m	Total £m
	Driveline £m	Other Automotive £m				
2009						
EBITDA	102	1	24	217	3	
Depreciation and impairment of property, plant and equipment	(108)	(2)	(30)	(41)	(14)	
Amortisation of operating intangible assets	(3)		(1)	(6)	(1)	
Trading profit/(loss) subsidiaries	(9)	(1)	(7)	170	(12)	141
Trading profit/(loss) joint ventures	25	(1)		(1)		23
Management trading profit/(loss)	16	(2)	(7)	169	(12)	164
Corporate costs						(12)
Management trading profit including corporate costs						152
Less: joint venture trading profit						(23)
Income statement Trading profit						129
2008						
EBITDA	168		31	136	53	
Depreciation and impairment of property, plant and equipment	(92)	(4)	(32)	(25)	(12)	
Amortisation of operating intangible assets	(3)		(1)	(5)	(1)	
Trading profit/(loss) subsidiaries	73	(4)	(2)	106	40	213
Trading profit/(loss) joint ventures	15	6		(1)		20
Management trading profit/(loss)	88	2	(2)	105	40	233
Corporate costs						(12)
Management trading profit including corporate costs						221
Less: joint venture trading profit						(20)
Income statement Trading profit						201

No income statement items between trading profit and profit before tax are allocated to management trading profit, which is the Group's segmental measure of profit or loss.

Trading profit in 2009 includes a £5 million surplus on realisation of Aerospace fixed assets. As a result of changed customer contract requirements trading profit included a £3 million credit (2008 £5 million credit) from the release of unutilised provisions established on acquisition in an Aerospace business. Credits included within trading profit in respect of changes to US retiree benefit arrangements, net of expenses, arose as follows: Driveline £3 million (2008 £8 million); Powder Metallurgy £1 million (2008 £3 million); Aerospace £5 million (2008 nil); and Corporate £1 million (2008 nil). In 2008 trading profit included a £3 million charge in respect of abortive acquisition costs in Driveline.

EBITDA is subsidiary trading profit before depreciation, impairment and amortisation charges included in trading profit.

Restructuring and impairment disclosures, including segmental analysis, are included in note 3(b).

2 Segmental analysis *continued*

(c) Goodwill, fixed assets and working capital subsidiaries only

	Automotive					Total £m
	Driveline £m	Other Automotive £m	Powder Metallurgy £m	Aerospace £m	OffHighway £m	
2009						
Property, plant and equipment and operating intangible fixed assets	876	27	313	374	110	1,700
Working capital	82	5	65	80	31	263
Net operating assets	958	32	378	454	141	1,963
Goodwill and non-operating intangible fixed assets	78		28	294	56	456
Net investment	1,036	32	406	748	197	2,419
2008						
Property, plant and equipment and operating intangible fixed assets	994	30	366	357	131	1,878
Working capital	133	4	73	116	46	372
Net operating assets	1,127	34	439	473	177	2,250
Goodwill and non-operating intangible fixed assets	79		32	250	72	433
Net investment	1,206	34	471	723	249	2,683

(d) Fixed asset additions, joint venture investments and other non-cash items

	Automotive					Corporate £m	Total £m
	Driveline £m	Other Automotive £m	Powder Metallurgy £m	Aerospace £m	OffHighway £m		
2009							
Fixed asset additions and capitalised borrowing costs							
property, plant and equipment	62		9	45	6		122
intangible assets	1			14			15
Joint ventures	86	24			2		112
Other non-cash items share-based payment	1					1	2
2008							
Fixed asset additions							
property, plant and equipment	108	1	33	31	18	1	192
intangible assets	3			9	1		13
Joint ventures	90	27			2		119
Other non-cash items share-based payment	1					1	2

Notes to the Financial Statements

For the year ended 31 December 2009

2 Segmental analysis *continued*

(e) Country analysis

	United Kingdom £m	USA £m	Germany £m	Other countries £m	Total Non-UK £m	Total £m
2009						
Management sales by origin	794	1,327	729	1,618	3,674	4,468
Goodwill, other intangible assets, property, plant and equipment and investments in joint ventures	318	677	330	948	1,955	2,273
2008						
Management sales by origin	546	1,338	880	1,853	4,071	4,617
Goodwill, other intangible assets, property, plant and equipment and investments in joint ventures	185	799	394	1,058	2,251	2,436

(f) Other sales information

Subsidiary segmental sales gross of inter segment sales are: Driveline £1,829 million (2008 £2,143 million); Other Automotive £52 million (2008 £84 million); Powder Metallurgy £515 million (2008 £621 million); Aerospace £1,486 million (2008 £1,002 million); and OffHighway £366 million (2008 £558 million).

In 2009 and 2008, no customer accounted for 10% or more of subsidiary sales or management sales.

Management sales by product are: Driveline drivshafts 75% (2008 73%), propshafts 6% (2008 7%), torque management products 11% (2008 13%) and other goods 8% (2008 7%). Other Automotive structural components and chassis 49% (2008 53%), engine cylinder liners 12% (2008 10%) and substrates for catalytic converters 39% (2008 37%). Powder Metallurgy sintered components 85% (2008 85%) and metal powders 15% (2008 15%). Aerospace aerostructures 65% (2008 52%), engine components and sub-systems 27% (2008 36%) and special products 8% (2008 12%). OffHighway driveline products 38% (2008 34%), wheels 35% (2008 43%) and aftermarket 27% (2008 23%).

(g) Reconciliation of segmental property, plant and equipment and operating intangible fixed assets to the Balance Sheet

	2009 £m	2008 £m
Segmental analysis Property, plant and equipment and operating intangible fixed assets	1,700	1,878
Segmental analysis Goodwill and non-operating intangible fixed assets	456	433
Goodwill	(338)	(367)
Corporate assets	5	6
Balance Sheet Property, plant and equipment and other intangible fixed assets	1,823	1,950

(h) Reconciliation of segmental working capital to the Balance Sheet

	2009 £m	2008 £m
Segmental analysis Working capital	263	372
Joint venture loan facility	1	
Accrued interest (net)	(24)	(28)
Restructuring provisions	(59)	(30)
Deferred and contingent consideration	(32)	
Government refundable advances	(28)	
Other investments and loan to GKN Aerospace Services Structures Corp.	12	
Proceeds receivable from sale of joint venture	1	
Corporate items	(44)	(41)
Balance Sheet Inventories, Trade and other receivables, Trade and other payables and Provisions	90	273

3 Operating profit

The analysis of the components of operating profit is shown below:

(a) Trading profit

	2009 £m	2008 £m
Sales by subsidiaries	4,223	4,376
Operating costs and other income		
Change in stocks of finished goods and work in progress	(82)	18
Raw materials and consumables	(1,756)	(1,737)
Staff costs (note 10)	(1,224)	(1,232)
Reorganisation costs (i):		
Redundancy and other amounts	(3)	(5)
Impairment of plant and equipment		(1)
Depreciation of property, plant and equipment (ii)	(193)	(165)
Impairment of plant and equipment	(2)	
Amortisation of intangible assets	(11)	(10)
Operating lease rentals payable:		
Plant and equipment	(13)	(12)
Property	(29)	(23)
Impairment of trade receivables	(4)	(6)
Amortisation of government grants	1	2
Net exchange differences on foreign currency transactions	7	3
Other costs	(785)	(1,007)
	(4,094)	(4,175)
Trading profit	129	201

- (i) Reorganisation costs shown above reflect ongoing actions in the ordinary course of business to reduce costs, improve productivity and rationalise facilities in continuing operations.
- (ii) Including depreciation charged on assets held under finance leases of £1 million (2008 £1 million).
- (iii) Research and development expenditure in subsidiaries was £83 million (2008 £90 million).

Notes to the Financial Statements

For the year ended 31 December 2009

3 Operating profit *continued*

(iv) Auditors remuneration

The analysis of auditors remuneration is as follows:

	2009 £m	2008 £m
Fees payable to PricewaterhouseCoopers LLP for the Company's annual financial statements	(0.7)	(0.7)
Fees payable to PricewaterhouseCoopers LLP and their associates for other services to the Group		
Audit of the Company's subsidiaries pursuant to legislation	(3.2)	(3.1)
<i>Total audit fees</i>	(3.9)	(3.8)
Other services pursuant to legislation		
rights issue	(1.1)	
other	(0.1)	(0.1)
Tax services	(0.6)	(0.6)
Corporate finance transaction services		
Other services	(0.1)	(0.1)
<i>Total non-audit fees</i>	(1.9)	(0.8)
Fees payable to PricewaterhouseCoopers LLP and their associates in respect of associated pension schemes		
Audit		
Other services		
Total fees payable to PricewaterhouseCoopers LLP and their associates	(5.8)	(4.6)

All fees payable to PricewaterhouseCoopers LLP, the Company's auditors, include amounts in respect of expenses. All fees payable to PricewaterhouseCoopers LLP have been charged to the income statement except for those in relation to associated pension schemes, which are borne by the respective schemes, those in respect of the rights issue, which were charged to share premium, and fees which relate to directly attributable expenses on business combinations which have been capitalised.

(b) Restructuring and impairment charges

	2009			2008		
	Subsidiaries £m	Joint ventures £m	Total £m	Subsidiaries £m	Joint ventures £m	Total £m
Restructuring programmes						
2008 programme	(144)	3	(141)	(149)	(10)	(159)
2004 programme				(4)		(4)
	(144)	3	(141)	(153)	(10)	(163)

The Group's 2004 restructuring programme concluded in the first half of 2008. The 2004 programme charges in 2008 related to Driveline. In response to the severe economic downturn in our automotive markets and in anticipation of activity reductions in both off-highway and aerospace markets, the Group commenced further restructuring in the final quarter of 2008.

The 2008 programme restructuring actions comprise facility and operation closures, permanent headcount reductions achieved through redundancy programmes and the structured use of short-time working arrangements, available through national or state legislation, by European, Japanese and North American subsidiaries. Where short-time working is utilised as the restructuring response to the severe economic and activity downturn it is the most cost-effective option available at that time. Employees subject to short-time working arrangements are not engaged in any activity (productive or non-productive) for or on behalf of the Group. Short-time working charges represent the labour and associated costs borne by the Group in respect of these employees for the period of short-time work.

3 Operating profit *continued*

2008 Restructuring programme

	2009 £m	2008 £m
Goodwill impairment	(7)	
Tangible fixed asset impairments/reversals	(2)	(125)
Other asset write-downs	(3)	(4)
Impairments	(12)	(129)
Short-time working costs	(24)	(2)
Redundancy and post-employment costs	(86)	(14)
Other reorganisation costs	(22)	(4)
Redundancy and other costs	(132)	(20)
Subsidiaries	(144)	(149)
Impairment reversal/impairment of joint ventures	3	(10)
Subsidiaries and joint ventures	(141)	(159)

2008 Restructuring programme analysis by segment

	2009				2008			
	Impairments £m	Short-time working £m	Redundancy and other costs £m	Total £m	Impairments £m	Short-time working £m	Redundancy and other costs £m	Total £m
Driveline	1	(19)	(63)	(81)	(25)	(1)	(7)	(33)
Other Automotive			(4)	(4)	(11)		(2)	(13)
Powder Metallurgy		(4)	(16)	(20)	(100)	(1)	(5)	(106)
Aerospace	(1)		(9)	(10)	(3)			(3)
OffHighway	(9)	(1)	(16)	(26)			(3)	(3)
Corporate							(1)	(1)
	(9)	(24)	(108)	(141)	(139)	(2)	(18)	(159)
Subsidiaries	(12)	(24)	(108)	(144)	(129)	(2)	(18)	(149)
Joint ventures	3			3	(10)			(10)

In Driveline, the closures of two facilities were announced in 2009 as part of the UK rationalisation programme with associated redundancy, pension and reorganisation charges of £6 million being made. Fixed asset impairments relating to this programme were charged in 2008 with subsequent utilisation of some of these assets resulting in partial reversal in 2009. In Japan, one facility closure was announced in 2009 as part of a facility rationalisation review, with activity transferred to another Japanese operation. Impairments and reorganisation costs of £5 million were charged. Elsewhere, headcount reductions have been progressing mainly in Germany, Spain, France and Australia. Short-time working costs relate mainly to European and Japanese operations. Closure of one joint venture facility was concluded in the year with another joint venture sold. The Group's investments in these joint ventures were written off in 2008. The sale of the latter joint venture enabled a partial reversal of the prior year impairment charge to its net realisable value.

In Other Automotive, actions continue relating to the ongoing rationalisation of a UK facility with charges incurred relating to redundancy and pension costs.

In Powder Metallurgy, the closures of two facilities were announced in the year which, combined with the completion of the closure previously announced in 2008, resulted in a £6 million redundancy and reorganisation charge. Redundancy costs of £8 million were also charged in relation to ongoing fixed cost reduction programmes across North American and European operations. Short-time working costs relate mainly to European operations.

In OffHighway, actions have been initiated in the period to concentrate/exit production for certain product categories in certain regions and concentrate activities on one area of operation. As a consequence the closures of five facilities and rationalisation of a sixth have been commenced with an associated cost of £5 million and impairments of £9 million. Redundancy charges of £11 million were also made in respect of capacity and fixed cost reductions.

Notes to the Financial Statements

For the year ended 31 December 2009

3 Operating profit *continued*

In Aerospace, the closures of two facilities were announced, one in the UK and one in North America, with a £2 million charge made in respect of redundancies, product transfer costs and asset impairments. A further £8 million redundancy charge was made for rationalisation actions at other facilities.

Restructuring cash outflow in respect of 2008, 2004 and earlier periods restructuring plans amounted to £99 million (2008 £28 million).

(c) Amortisation of non-operating intangible assets arising on business combinations

	2009 £m	2008 £m
Marketing related	(1)	
Customer related	(20)	(7)
Technology based	(3)	(3)
	(24)	(10)

(d) Profits and losses on sale or closures of businesses

	2009 £m	2008 £m
Profit on sale of joint venture	2	

On 10 October 2009 the sale of the Group's 50% share in Jilin GKN Norinco Drive Shaft Company Ltd to the Group's joint venture partner was completed. The Group's equity interest in Jilin was fully provided against in 2008 as a joint venture restructuring charge. This provision was partially reversed in 2009 to reflect the realisable value. The 2009 impairment reversal is shown as a restructuring credit. The profit above represents the recycling of cumulative translation adjustments.

(e) Change in value of derivative and other financial instruments

	2009 £m	2008 £m
Forward currency contracts (not hedge accounted)	106	(175)
Embedded derivatives	(29)	43
Commodity contracts (not hedge accounted)	2	(1)
	79	(133)
Net gains and losses on intra-group funding		
Arising in year	5	9
Reclassified in year	(8)	
	(3)	9
	76	(124)

IAS 39 requires derivative financial instruments to be valued at the balance sheet date and any difference between that value and the intrinsic value of the instrument to be reflected in the balance sheet as an asset or liability. Any subsequent change in value is reflected in the income statement unless hedge accounting is achieved. Such movements do not affect cash flow or the economic substance of the underlying transaction. In 2009 and 2008 the Group used transactional hedge accounting in a limited number of instances.

4 Net financing costs

	2009 £m	2008 £m
Interest payable and fee expense		
Short term bank, other borrowings and government refundable advances	(13)	(11)
Loans repayable within five years	(24)	(29)
Loans repayable after five years	(24)	(26)
Bond buy-back premium	(7)	
Borrowing costs capitalised	1	
Finance leases		
	(67)	(66)
Interest receivable		
Short term investments, loans and deposits	3	7
Net investment hedges		9
AgustaWestland escrow receipt (note 6)		3
	3	19
Net interest payable and receivable	(64)	(47)
Other net financing charges		
Expected return on scheme assets	121	163
Interest on post-employment obligations	(170)	(166)
Post-employment finance charges	(49)	(3)
Unwind of discounts	(1)	
	(50)	(3)
	(114)	(50)

The capitalisation rate on specific funding was 6.4% and on general borrowings was 6.1%.

Notes to the Financial Statements

For the year ended 31 December 2009

5 Taxation

(a) Tax expense

	2009 £m	2008 £m
Analysis of charge in year		
Current tax (charge)/credit		
Current year charge	(31)	(33)
Utilisation of previously unrecognised tax losses and other assets	1	44
Adjustments in respect of prior years	5	(1)
Net movement on provisions for uncertain tax positions	25	
		10
Deferred tax (charge)/credit		
Origination and reversal of temporary differences (excluding post-employment obligations)	54	69
Tax in respect of post-employment obligations	1	5
Current year tax on change in value of derivative financial instruments	(3)	2
Other changes in unrecognised deferred tax assets	(42)	(80)
Changes in tax rates	2	2
Adjustments in respect of prior years	3	2
	15	
Total tax credit for the year	15	10
Tax in respect of restructuring, impairments, derivative and other financial instruments and other net financing charges		
Current tax credit		6
Deferred tax credit	26	5
	26	11
Current tax on foreign currency gains and losses on intra-group funding		
Current tax (charge)/credit	(6)	29

The Group is required to estimate the income tax due in each of the jurisdictions in which it operates. This requires an estimation of the current tax liability together with an assessment of the temporary differences which arise as a consequence of differing accounting and tax treatments. These temporary differences result in deferred tax assets or liabilities which are measured using substantively enacted tax rates expected to apply when the temporary differences reverse. Recognition of deferred tax assets, and hence credits to the income statement, is based on forecast future taxable income and therefore involves judgement regarding the future financial performance of particular legal entities or tax groups in which the deferred tax assets are recognised.

The Group is subject to many different tax jurisdictions and tax rules as a consequence of its geographic spread. It is therefore subject to tax audits which, by their nature, are often complex and can require several years to conclude. The total accrual for income tax in any period is therefore based on management judgement, interpretation of country specific tax law and the likelihood of challenge of uncertain tax positions and subsequent settlement. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. As amounts set aside in any period could differ from actual tax liabilities, adjustments may be required in subsequent periods which may have a material impact on the Group's income statement and/or cash tax payments. Payments in respect of tax liabilities for an accounting period comprise payments on account and payments on the final resolution of open items with tax authorities and, as a result, there can be substantial differences between the charge in the income statement and cash tax payments. Interest on provisions for uncertain tax positions is, where relevant, provided for in the tax charge.

Details of the effective tax rate for the Group and the underlying events and transactions affecting this are given on page 24.

5 Taxation continued

Tax reconciliation	2009		2008	
	£m	%	£m	%
Profit/(loss) before tax	(54)		(130)	
Less share of post-tax earnings of joint ventures	(21)		(6)	
Profit/(loss) before tax excluding joint ventures	(75)		(136)	
Tax (charge)/credit calculated at 28% (2008 28.5%) standard UK corporate tax rate	21	28	39	29
Differences between UK and overseas corporate tax rates	2	3	10	7
Non-deductible and non-taxable items	(3)	(4)	(11)	(8)
Utilisation of previously unrecognised tax losses and other assets	1	1	44	32
Other changes in unrecognised deferred tax assets	(42)	(56)	(80)	(59)
Changes in tax rates	2	3	2	1
Deferred tax credit/(charge) in respect of post-employment obligations	1	1	5	4
Current year tax (charge)/credit on ordinary activities	(18)	(24)	9	6
Net movement on provision for uncertain tax positions	25	33		
Other adjustments in respect of prior years	8	11	1	1
Total tax (charge)/credit for the year	15	20	10	7

(b) Tax in equity

Tax on items included in equity credit/(charge)	2009 £m	2008 £m
Deferred tax on post-employment obligations	14	
Deferred tax on non-qualifying assets	(1)	3
Deferred tax on foreign currency gains and losses on intra-group funding	(2)	3
Current tax on foreign currency gains and losses on intra-group funding	6	(29)
	17	(23)

(c) Current tax

	2009 £m	2008 £m
Assets	13	17
Liabilities	(79)	(115)
	(66)	(98)

(d) Recognised deferred tax

Deferred tax is calculated in full on temporary differences under the liability method.

	2009 £m	2008 £m
Deferred tax assets	71	52
Deferred tax liabilities	(57)	(63)
	14	(11)

Notes to the Financial Statements

For the year ended 31 December 2009

5 Taxation continued

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below:

	Assets			Liabilities		Total £m
	Pensions £m	Tax losses £m	Other £m	Fixed assets £m	Other £m	
At 1 January 2009	44	27	87	(166)	(3)	(11)
Other movements	32		(32)			
Included in the income statement	(9)	19	(5)	10		15
Included in equity	14			(1)	(2)	11
Subsidiaries acquired	1					1
Currency variations	(8)	(1)	(4)	12	(1)	(2)
At 31 December 2009	74	45	46	(145)	(6)	14
At 1 January 2008	21	47	69	(140)	(16)	(19)
Included in the income statement	5	(29)	(19)	34	9	
Included in equity				3	3	6
Other movements	11	(11)				
Currency variations	7	20	37	(63)	1	2
At 31 December 2008	44	27	87	(166)	(3)	(11)

Deferred tax assets totalling £41 million (2008 £14 million) have been recognised relating to territories where tax losses have been incurred in the year. It is anticipated that future profitability arising from restructuring and other actions will result in their realisation.

(e) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in relation to certain taxable losses and other temporary differences on the basis that their future economic benefit is uncertain. The gross and tax values of these unrecognised assets together with any expiry dates where relevant are shown below. The tax value of the assets has been calculated using tax rates enacted or substantively enacted at the balance sheet date.

	2009			2008		
	Tax value £m	Gross £m	Expiry period	Tax value £m	Gross £m	Expiry period
Tax losses with expiry: national	293	846	2010 2029	300	867	2009 2028
Tax losses with expiry: local	41	491	2010 2029	44	532	2009 2028
Tax losses without expiry	105	349		66	202	
Other temporary differences	192	660		71	215	
Unrecognised deferred tax assets	631	2,346		481	1,816	

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries except where the distribution of such profits is planned. If the earnings were remitted in full tax of £19 million (2008 £28 million) would be payable.

5 Taxation *continued*

(f) Franked Investment Income Litigation

In September 2003 GKN filed a claim in the High Court of England and Wales (the High Court) in respect of various Advance Corporation Tax payments made and Corporate Tax paid on certain foreign dividend receipts which, in its view, were levied by HMRC in breach of GKN's EU community law rights. GKN joined a Group Litigation Order (GLO) with several other claimants and a test case was selected from the members of the GLO to proceed to trial on a representative basis.

At the commencement of that trial in June 2004 the High Court referred the test case to the European Court of Justice (ECJ) for guidance on the issues raised. In December 2006 the ECJ issued its guidance to the High Court and the test case returned to the High Court for the full trial in July 2008. The High Court issued its judgment on 27 November 2008.

Both parties appealed to the Court of Appeal which heard their pleadings in October 2009 and issued its judgment on 23 February 2010. The Court's judgment has referred many issues back to the ECJ for clarification but more importantly has held that claims are restricted to six years from the date the disputed tax was paid. The effect of this, if ultimately upheld, is to deny the vast majority of claims in the GLO. Given the importance of the matters at issue, it is expected that appeals will ultimately be taken to the new Supreme Court and that this process may take several more years to conclude. GKN had successfully claimed and received in June 2009 an interim payment on account in the High Court of £4 million which is primarily interest attributable to the claim. This interim payment is potentially refundable to HMRC as a result of the Court of Appeal judgment and has not, therefore, been recognised in the income statement in the year.

The complexity of the case and uncertainty over the issues raised mean that it is not possible to predict with any reasonable degree of certainty what the final outcome could be. The range of possible outcomes is so wide that it is potentially misleading to quote any estimates of the possible recoveries at this stage. As a result no contingent asset has been recognised and disclosed in these financial statements.

6 Discontinued operations

In August 2008, the Group reached agreement with Finmeccanica regarding the £35 million deferred consideration placed into escrow in November 2004, the date of disposal of the Group's 50% share of AgustaWestland. Under the agreement the £35 million, together with accrued interest, was shared equally. As a result, £21 million was received, of which £3 million was recognised as interest and £18 million recognised as profit on sale of discontinued operations. Tax of £5 million was charged against the profit on sale. In 2009, the prior year tax charge was reversed following agreement of the non-taxable nature of the item with the fiscal authority.

Notes to the Financial Statements

For the year ended 31 December 2009

7 Earnings per share

	2009			2008		
	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares (restated) m	Earnings per share (restated) pence
Continuing operations						
Basic eps	(41)	1,271.7	(3.2)	(122)	1,044.2	(11.7)
Dilutive securities					1.7	
Diluted eps	(41)	1,271.7	(3.2)	(122)	1,045.9	(11.7)

Total basic and total diluted eps are (2.8)p (2008 restated total basic and total diluted (10.4)p). Discontinued basic and discontinued diluted eps are 0.4p (2008 restated discontinued basic and discontinued diluted 1.3p).

The weighted average number of shares, and resulting earnings per share, for the year ended 31 December 2008 has been restated for the bonus issue inherent in the rights issue that was approved on 6 July 2009.

8 Adjusted performance measures

(a) Management profit before taxation

	2009 £m	2008 £m
Management profit before taxation	83	170
Other net financing charges	(50)	(3)
Restructuring and impairment charges	(144)	(153)
Amortisation of non-operating intangible assets arising on business combinations	(24)	(10)
Profits and losses on sale or closures of businesses	2	
Change in value of derivative and other financial instruments	76	(124)
Impairment/reversal in respect of joint ventures	3	(10)
Income statement Profit/(loss) before taxation	(54)	(130)

(b) Management earnings per share

	2009 £m	2008 £m
Management profit before taxation	83	170
Tax on management profit before taxation	(11)	(1)
Non-controlling interests	(2)	(2)
Management earnings	70	167
Management basic eps pence	5.5	16.0

From 2009 onwards, management reporting measures exclude the impact of other net financing charges. Accordingly, prior year information has been re-presented.

The Directors consider management earnings per share, as calculated above, gives a useful additional indicator of underlying performance.

9 Dividends

	Paid or proposed in respect of		Recognised	
	2009 pence	2008 pence	2009 £m	2008 £m
2007 final year dividend paid (9.2 pence per share, restated to 6.2 pence per share)				65
2008 interim dividend paid (restated 3.0 pence per share)		4.5		32
2008 final year dividend paid				
2009 interim dividend paid				
2009 final year dividend		4.5		97

The Directors have decided not to pay a final dividend in respect of the financial year ended 31 December 2009.

The restated dividend per share represents the theoretical dividend per share that would have been paid had the bonus shares inherent in the rights issue, that was approved on 6 July 2009, been in existence at the relevant dividend dates.

10 Employees including Directors

	2009 £m	2008 £m
Employee benefit expense		
Wages and salaries	(1,021)	(1,031)
Social security costs	(166)	(161)
Post-employment costs	(35)	(38)
Equity-settled share-based payments	(2)	(2)
	(1,224)	(1,232)

Short-time working expense of £24 million included in restructuring charges comprises wages and salaries £17 million and social security costs £7 million (2008 £2 million, wages and salaries).

Average monthly number of employees (including Executive Directors)	2009 Number	2008 Number
By business		
Driveline	16,207	17,967
Other Automotive	1,125	1,392
Powder Metallurgy	5,552	6,585
Aerospace	8,958	7,887
OffHighway	3,291	4,108
Corporate	182	208
Total	35,315	38,147

Notes to the Financial Statements

For the year ended 31 December 2009

10 Employees including Directors *continued*

Key management

The key management of the Group comprises GKN plc Board Directors and the members of the Group's Executive Committee during the year and their aggregate compensation is shown below. Details of Directors' remuneration are contained in the Directors' remuneration report on pages 52 to 62.

Key management compensation	2009 £m	2008 £m
Salaries and short term employee benefits	5.6	5.5
Post-employment benefits	0.7	1.2
Termination benefits	0.5	
Share-based and medium term incentives and benefits	1.0	0.8
	7.8	7.5

Salaries and short term employee benefits comprises annual salary, benefits in kind and amounts accrued in respect of short term variable remuneration schemes. Details of the Directors' short term variable remuneration schemes are set out in the Directors' remuneration report. Similarly the other members of key management participate in schemes based on the achievement of profit, cash and covenant achievement targets and which are payable in cash. The amount outstanding at 31 December 2009 in respect of annual short term variable remuneration was £1.4 million (2008 £1.0 million). Post-employment benefits represent the charge to trading profit under IAS 19 attributable to key management arising in the year and the attributable cost of post-employment medical benefits. Termination benefits include redundancy, pension augmentations and ex gratia payments arising in connection with loss of office and termination of employment with the Group. Share-based payments represents the annual charge attributable to key management in respect of their participation in the Group's share-based remuneration arrangements; details of the nature of these arrangements are set out in note 11 and in the Directors' remuneration report. Total awards made or shares granted in the year to key management under these arrangements, including adjustments made as a result of the rights issue, were as follows:

	2009		2008	
	Number of instruments 000s	Weighted average exercise price pence	Number of instruments 000s	Weighted average exercise price pence
Executive Options	5,089	117.46		
Long Term Incentive Plan	1,511			
Bonus Co-Investment Plan	11			
Profit Growth Incentive Plan	40			

154,474 options were exercised by key management during the year (2008 7,141), whilst 1,788,592 options and awards lapsed (2008 1,287,264). No dividends were received in 2009 by key management (2008 £0.1 million).

11 Share-based payments

The Group has granted options over shares to employees for a number of years under different schemes. Where grants were made after 7 November 2002 they have been accounted for as required by IFRS 2 Share-based Payment. Awards made before that date have not been so accounted. All options have been valued at the date of grant by an independent third party using a Monte Carlo model which uses the same principle as a binomial model.

Details of awards made in 2009 are set out below. No new awards were made in 2008. Details of awards made since 7 November 2002 that impact the 2009 accounting charge are:

(a) Executive Share Option Schemes (ESOS)

Awards were made to Directors and certain senior employees in March 2003 under the 2001 scheme and in September 2004, April 2005, April 2006 and August 2009 under the 2004 scheme. In April 2007 awards were made to Directors under the 2004 scheme. Under both schemes options were granted with a fixed exercise price equal to the market price at the date of grant and subject to meeting performance conditions over a three year period. In the case of the 2001 scheme, the performance condition was based on earnings per share (eps) growth whilst under the 2004 scheme the condition is based on Total Shareholder Return (TSR) compared with that of comparator companies. Under the 2001 scheme only, where the performance condition is not satisfied in full after the first three years, retesting is carried out each year up to six years from the date of grant. Inputs to the valuation model for prior period awards were: option price 163p to 380.3p, volatility 31% to 38%, expected dividend yield 3.3% to 6.2%, risk-free interest rate 4.28% to 5.40% and expected terms of 6.4 years to 6.7 years.

In respect of the 2009 awards, which were made post the Group's rights issue, the inputs to the valuation model were: option price 110.08p to 113.24p, volatility in the performance period 52.4% to 52.6%, expected dividend yield 4.5%, risk-free interest rates of 2.9% to 3.1% and terms of 6 to 6.5 years.

(b) Long Term Incentive Plans (LTIP)

Awards were made to Directors and certain senior employees in March 2003 under the 2001 scheme and in September 2004, April 2006, April 2007 and August 2009 under the 2004 scheme. In April 2005 awards were made to Directors under the 2004 scheme. Under both schemes, options were granted subject to TSR performance over a three year period compared with a comparator group. There is no retest facility under either scheme. Inputs to the valuation model for prior period awards were: option price nil, volatility 23% to 39%, expected dividend yield 3.3% to 6.2%, risk-free interest rate 4.05% to 5.40% and a term of 3 years to 4 years 9.5 months.

In respect of the 2009 awards, which were made post the Group's rights issue, the inputs to the valuation model were: option price nil, volatility nil, expected dividend yield 4.5%, and a term of 4 years. These awards were only made to main Board Directors.

(c) Profit Growth Incentive Plan (PGIP)

Awards were made in April 2007 under the PGIP to certain senior employees (excluding Directors). Any benefit under the PGIP will be deliverable dependent upon the extent to which profit growth targets are satisfied by the Group over a three year performance period; the Group's reported profit for the year prior to the year of award forms the baseline for this performance measure. The PGIP is a cash-based incentive plan; however, for certain very senior employees the benefit is deliverable in shares; the number of shares given below will be released following the performance period if the minimum targeted profit growth is achieved. A maximum of twice the amount of shares listed below will be released on achievement of the maximum profit target, with one and a half times the number being released for interim performance. No shares will be released and the awards will lapse if the minimum profit target is not achieved. Release is also conditional upon the satisfaction of a personal shareholding requirement. Any awards deliverable under the PGIP will be satisfied from GKN ordinary shares already in issue.

The 2009 PGIP award is a two year award that is entirely cash based and therefore not subject to the IFRS 2 requirements. Similar to 2007, any benefit under this scheme will be delivered dependent upon the extent to which profit growth targets are satisfied by the Group over a two year performance period.

The expected volatility is based on historical volatility over a period commensurate with the term of the awards. The risk-free interest rate is the rate obtainable from government securities over the expected life of the equity incentive.

Notes to the Financial Statements

For the year ended 31 December 2009

11 Share-based payments *continued*

Following the capital reorganisation and rights issue completed in July 2009, adjustments were made to outstanding share-based options and awards granted under the Group's incentive arrangements to reflect the dilutive effect of both transactions. The adjustments were based on the theoretical ex-rights price (TERP) formula and were designed to ensure that the value of outstanding options and awards remained the same as the value of the options and awards when originally granted. The outstanding options and awards were multiplied by a TERP factor of 1.4816 and, where applicable, the exercise price of options was multiplied by a factor of 0.6749. The adjustments were made in accordance with the rules of the relevant schemes and, where necessary, were approved by HM Revenue & Customs.

Further details of the ESOS, LTIP and PGIP schemes are given in the Directors' remuneration report on pages 52 to 62.

A reconciliation of option movements over the year to 31 December 2009 is shown below:

	2009		2008	
	Number 000s	Weighted average exercise price pence	Number 000s	Weighted average exercise price pence
Outstanding at 1 January	7,381	247.34	12,113	251.53
Granted				
Forfeited	(3,548)	279.33	(4,252)	265.35
Exercised			(480)	193.37
Outstanding at 21 July	3,833	217.73		
Post rights issue				
Adjustment for rights issue	1,839	146.97		
Granted	12,257	110.16		
Forfeited	(648)	138.04		
Exercised	(185)	110.04		
Outstanding at 31 December	17,096	121.32	7,381	247.34
Exercisable at 31 December	4,590	135.25	3,334	189.22

For options outstanding at 31 December the range of exercise prices and weighted average contractual life is shown in the following table:

Range of exercise price	2009		2008	
	Number of shares 000s	Contractual weighted average remaining life years	Number of shares 000s	Contractual weighted average remaining life years
110p - 180p	15,492	8.160	3,488	4.208
205p - 230p	1,088	2.210	413	0.867
240p - 260p	516	7.250		
300p - 385p			3,480	6.297

The weighted average share price during the period for options exercised over the year was 110.04p (2008 221.5p). The total charge for the year relating to share-based payment plans was £2 million (2008 £2 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £2 million (2008 £2 million).

Liabilities in respect of share-based payments were not material at either 31 December 2009 or 31 December 2008. There were no vested rights to cash or other assets at either 31 December 2009 or 31 December 2008.

12 Goodwill and other intangible assets

Goodwill	2009 £m	2008 £m
Cost		
At 1 January	549	407
Subsidiary acquired	8	
Currency variations	(50)	142
At 31 December	507	549
Accumulated impairment		
At 1 January	182	127
Impairment losses	7	
Currency variations	(20)	55
At 31 December	169	182
Net book amount at 31 December	338	367

The carrying value of goodwill at 31 December comprised:

Reportable segment	Business	Geographical location	2009 £m	2008 £m
Driveline	Driveline	Americas	55	54
	Driveline	Europe	19	20
Powder Metallurgy	Hoeganaes	North America	21	24
Aerospace	Aerostructures	North America	31	35
	Propulsion Systems	North America	83	93
	Propulsion Systems	North America	37	42
OffHighway	Wheels	Italy	21	23
			267	291
Other businesses not individually significant to the carrying value of goodwill			71	76
			338	367

An impairment test is a comparison of the carrying value of the assets of a business or cash generating unit (CGU) to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment results. During the year, all goodwill was tested for impairment.

For the purposes of carrying out impairment tests, the Group's total goodwill has been allocated to a number of CGUs and each of these CGUs has been separately assessed and tested. The size of a CGU varies but is never larger than a primary or secondary reportable segment. In some cases, the CGU is an individual subsidiary or operation.

All of the recoverable amounts were measured based on value in use. Detailed forecasts for the next five years have been used which are based on approved annual budgets and strategic projections representing the best estimate of future performance. In the case of an individual CGU within the Group's Aerospace (Propulsion Systems) business, value in use at 31 December 2009 was measured using operating cash flow projections covering the next ten years which incorporate the anticipated timing of volumes on current programmes. Management consider forecasting over this period to more appropriately reflect the length of business cycle of that CGU's programmes, in particular the growth of certain military programmes.

Goodwill impairment losses

During 2009 goodwill impairment losses of £7 million (2008: nil) were recorded in relation to a business within the Group's OffHighway segment. These impairments, which arose as a result of the cessation of production at a European production facility and the strategic decision to exit a specific product market in North America, were determined on a value in use basis using pre-tax discount rates of 12% in Europe (2008: 13%) and 13% in North America (2008: 10%).

Notes to the Financial Statements

For the year ended 31 December 2009

12 Goodwill and other intangible assets *continued*

Key assumptions

In determining the recoverable amount of all CGUs it is necessary to make a series of assumptions to estimate the present value of future cash flows. In each case, these key assumptions have been made by management reflecting past experience and are consistent with relevant external sources of information.

Operating cash flows

The main assumptions within forecast operating cash flow include the achievement of future sales prices and volumes (including reference to specific customer relationships, product lines and the use of industry relevant external forecasts of global vehicle production within Driveline businesses and consideration of specific volumes on certain US military and civil programmes within Aerospace), raw material input costs, the cost structure of each CGU and the ability to realise benefits from annual productivity improvements, the impact of foreign currency rates upon selling price and cost relationships and the levels of ongoing capital expenditure required to support forecast production.

Pre-tax risk adjusted discount rates

Pre-tax risk adjusted discount rates are derived from risk-free rates based upon long term government bonds in the territory, or territories, within which each CGU operates. A relative risk adjustment (or beta) has been applied to risk-free rates to reflect the risk inherent in each CGU relative to all other sectors on average, determined using an average of the betas of comparable listed companies.

The range of pre-tax risk adjusted discount rates set out below has been used for impairment testing. The range of rates reflects the mix of geographical territories within CGUs within the reportable segments.

Driveline: North and South America 13%–24% (2008 10%–24%), Europe 12%–13% (2008 12%–15%) and Japan and Asia Pacific region countries 10%–17% (2008 10%–15%).

Powder Metallurgy: Europe 12% (2008 12%) and North America 13% (2008 10%).

Aerospace: Europe 11% (2008 11%) and North America 12% (2008 10%).

OffHighway: Europe 12% (2008 13%) and North America 13% (2008 10%).

Long term growth rates

To forecast beyond the five years covered by detailed forecasts into perpetuity, a long term average growth rate has been used. In each case, this is not greater than the published Oxford Economic Forecast average growth rate in gross domestic product for the next five year period in the territory or territories where the CGU is primarily based. This results in a range of nominal growth rates from 1% to 9% (2008 1% to 7%) with most countries between 2% and 4% in both years.

Goodwill sensitivity analysis

The results of the Group's impairment tests are dependent upon estimates and judgements made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to likely and potential changes in key assumptions has therefore been reviewed.

At 31 December 2009, the date of the Group's annual impairment test, the estimated recoverable amount of two individual CGUs within the Group's Aerospace (Propulsion Systems) and Driveline (Americas operations) showed limited headroom with value in use exceeding the carrying values by £5 million and £23 million respectively. The table below shows the discount rate, long term growth rate and forecast operating cash flow assumptions used in the calculation of value in use and the amount by which each assumption must change in isolation in order for the estimated recoverable amount to exceed the carrying value.

	Assumptions used in calculation of value in use		Change required for the carrying value to exceed the recoverable amount	
	Aerospace	Driveline	Aerospace	Driveline
Pre-tax risk adjusted discount rate	12%	13%–24%	0.3% points	0.7% points
Long term growth rate	3%	3%–6%	0.6% points	1.1% points
Total pre-discounted forecast operating cash flows	£319 million	£828 million	4%	6%

At 31 December 2009, the estimated recoverable amount of two individual CGUs within the Group's Powder Metallurgy (Hoeganaes) and OffHighway (Wheels) reportable segments exceeded their carrying value by £30 million and £18 million respectively. The table below shows the discount rate, long term growth rate and forecast operating cash flow assumptions used in the calculation of value in use and the amount by which each assumption must change in isolation in order for the estimated recoverable amount to equal the carrying value.

12 Goodwill and other intangible assets *continued*

	Assumptions used in calculation of value in use		Change required for the carrying value to exceed the recoverable amount	
	Powder Metallurgy	OffHighway	Powder Metallurgy	OffHighway
	Pre-tax risk adjusted discount rate	13%	13%	2.5% points
Long term growth rate	3%	3%	3.8% points	5.6% points
Total pre-discounted forecast operating cash flows	£217 million	£100 million	24%	32%

Other than as disclosed above, it is not considered that a reasonably possible change in any of the key assumptions would generate a different impairment test outcome to the one included in this annual report.

	2009				2008			
	Development costs £m	Computer software £m	Assets arising on business combinations £m	Total £m	Development costs £m	Computer software £m	Assets arising on business combinations £m	Total £m
Other intangible assets								
Cost								
At 1 January	109	104	97	310	102	78	68	248
Subsidiaries acquired			84	84				
Additions	12	3		15	7	6		13
Disposals	(19)	(1)		(20)	(2)			(2)
Currency variations	(1)	(7)	(11)	(19)	2	20	29	51
At 31 December	101	99	170	370	109	104	97	310
Accumulated amortisation								
At 1 January	44	82	31	157	39	61	12	112
Charge for the year	4	7	24	35	4	6	10	20
Disposals		(1)		(1)				
Currency variations		(5)	(3)	(8)	1	15	9	25
At 31 December	48	83	52	183	44	82	31	157
Net book amount at 31 December	53	16	118	187	65	22	66	153

Other intangible assets include development costs of £15 million (2008 £16 million) in respect of one aerospace programme with a remaining amortisation period of up to 10 years (2008 11 years) and £70 million (2008 nil) in respect of a customer relationship asset arising from one business combination with a remaining amortisation period of 8 years.

The net book amount of assets arising on business combinations includes marketing related assets of £4 million (2008 £6 million), customer related assets of £103 million (2008 £45 million) and technology based assets of £11 million (2008 £15 million). Computer software under finance leases amounts to nil (2008 £1 million).

Notes to the Financial Statements

For the year ended 31 December 2009

13 Property, plant and equipment

	2009				2008			
	Land and buildings £m	Other tangible assets £m	Capital work in progress £m	Total £m	Land and buildings £m	Other tangible assets £m	Capital work in progress £m	Total £m
Cost								
At 1 January	696	3,743	123	4,562	521	2,773	105	3,399
Subsidiaries acquired		57		57				
Additions	15	90	16	121	6	117	69	192
Capitalised borrowing costs		1		1				
Disposals	(2)	(84)		(86)	(1)	(100)		(101)
Transfers	4	43	(47)		5	77	(82)	
Currency variations	(53)	(286)	(10)	(349)	165	876	31	1,072
At 31 December	660	3,564	82	4,306	696	3,743	123	4,562
Accumulated depreciation and impairment								
At 1 January	184	2,581		2,765	115	1,822		1,937
Charge for the year:								
Charged to trading profit								
Depreciation	16	177		193	11	154		165
Impairments		2		2		1		1
Restructuring and impairment/reversals		2		2	14	113		127
Disposals	(1)	(75)		(76)	(1)	(96)		(97)
Currency variations	(14)	(202)		(216)	45	587		632
At 31 December	185	2,485		2,670	184	2,581		2,765
Net book amount at 31 December	475	1,079	82	1,636	512	1,162	123	1,797

Included within Other tangible assets at net book amount are plant and equipment £1,055 million (2008 £1,134 million), fixtures and fittings £22 million (2008 £26 million) and motor vehicles £2 million (2008 £2 million). The net book amount of assets under finance leases is land and buildings £2 million (2008 £3 million) and plant and equipment £1 million (2008 £1 million).

14 Investments in joint ventures

	2009 £m	2008 £m
Group share of results		
Sales	245	241
Operating costs	(222)	(221)
Trading profit	23	20
Net financing costs	(1)	
Profit before taxation	22	20
Taxation	(4)	(4)
Share of post-tax earnings before impairments	18	16
Impairment reversal/(charge), including tax on impairment of nil	3	(10)
Share of post-tax earnings	21	6

	2009			2008		
	Group share of equity £m	Provisions for impairment £m	Net book amount £m	Group share of equity £m	Provisions for impairment £m	Net book amount £m
Group share of net book amount						
At 1 January	129	(10)	119	100		100
Share of post-tax earnings of joint ventures	18	3	21	16	(10)	6
Utilisation of provision	(1)	1				
Actuarial gains on post-employment obligations, including deferred tax						
Dividends paid	(15)		(15)	(24)		(24)
Additions	2		2	1		1
Disposals	(7)	4	(3)			
Currency	(13)	1	(12)	36		36
At 31 December	113	(1)	112	129	(10)	119

	2009 £m	2008 £m
Non-current assets	86	97
Current assets	99	89
Current liabilities	(61)	(54)
Non-current liabilities	(12)	(13)
	112	119

The joint ventures have no significant contingent liabilities to which the Group is exposed and nor has the Group any significant contingent liabilities in relation to its interest in the joint ventures. The share of capital commitments of the joint ventures is shown in note 29.

Notes to the Financial Statements

For the year ended 31 December 2009

15 Other receivables and investments

	2009 £m	2008 £m
Other investments	1	
Indirect taxes and amounts recoverable under employee benefit plans	19	19
Other receivables	4	4
	24	23

Other investments mainly comprise the Group's investment in GKN Aerospace Services Structures Corp. (GASS) which is an entity in which the Group has, since 2003, had a 100% share in the equity. During 2009 the £1 million provision against the investment was reversed. The investment is stated at cost. GASS operates under a Proxy Agreement with the United States Department of Defense developing high technology, classified products for the United States Airforce. The Proxy Agreement currently places significant restrictions on the Group's management and control of the business so that, in accordance with IAS 27, it has been excluded from the consolidation and treated as an investment. In January 2010 clearance was obtained to commence the process to remove the significant restrictions on the Group's management and control of GASS. At the conclusion of this process GASS will be consolidated. At 31 December 2009, under the accounting policies of GASS, the excluded net liabilities were £7 million (2008 £8 million) and the operating profit for the year then ended was £1 million (2008 operating loss of £1 million).

The Group provided services to GASS during 2009 amounting to less than £1 million (2008 nil). GASS supplied goods to the Group during 2009 amounting to less than £1 million (2008 £1 million). Transactions between the Group and GASS are priced on an arm's length basis. At 31 December 2009 a Group subsidiary had £11 million receivable (2008 nil) from GASS in respect of a loan bearing interest at US Prime Rate minus 2%.

16 Inventories

	2009 £m	2008 £m
Raw materials	266	315
Work in progress	188	242
Finished goods	109	161
	563	718

Inventories of £59 million (2008 £64 million) are carried at net realisable value. The amount of any write down of inventory recognised as an expense in the period was £1 million (2008 £4 million).

17 Trade and other receivables

	2009 £m	2008 £m
Trade receivables	547	550
Amounts owed by joint ventures	15	11
Loan to GKN Aerospace Services Structures Corp.	11	
Other receivables	29	39
Prepayments	15	16
Indirect taxes recoverable	27	29
	644	645
Provisions for doubtful debts against trade receivables		
At 1 January	(9)	(6)
Charge for the year:		
Additions	(4)	(6)
Unused amounts reversed	2	1
Amounts used	2	4
Currency variations	1	(2)
At 31 December	(8)	(9)
Trade receivables subject to provisions for doubtful debts	13	15
Ageing analysis of trade receivables and amounts owed by joint ventures past due but not impaired		
Up to 30 days overdue	40	47
31 - 60 days overdue	8	13
61 - 90 days overdue	3	6
More than 90 days overdue	8	11

18 Trade and other payables

	2009		2008	
	Current £m	Non- current £m	Current £m	Non- current £m
Amounts owed to suppliers and customers	(600)	(2)	(685)	(1)
Amounts owed to joint ventures			(3)	
Accrued interest	(26)		(28)	
Government refundable advances		(28)		
Deferred and contingent consideration	(5)	(27)		
Payroll taxes, indirect taxes and audit fees	(43)	(1)	(43)	(1)
Amounts due to employees and employee benefit plans	(118)	(33)	(122)	(31)
Government grants	(1)	(5)	(1)	(5)
Customer advances and deferred income	(80)	(1)	(90)	
	(873)	(97)	(972)	(38)

Government refundable advances fall due for repayment between 2014 and 2031. Non-current deferred and contingent consideration falls due as follows: one two years £5 million and two five years £22 million. Non-current amounts owed to suppliers and customers fall due within two years.

Notes to the Financial Statements

For the year ended 31 December 2009

19 Net borrowings

(a) Analysis of net borrowings

	Notes	Current	Non-current			Total	
		Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m	£m
2009							
Other borrowings							
£350 million 6¾% 2019 unsecured bond	i				(347)	(347)	(347)
£201 million 7% 2012 unsecured bond	i			(201)		(201)	(201)
Other secured US\$ denominated loan		(2)	(2)	(5)		(7)	(9)
Other long term borrowings		(6)	(6)			(6)	(12)
Finance lease obligations	iv	(1)	(1)	(1)	(1)	(3)	(4)
Bank overdrafts		(28)					(28)
Other short term bank borrowings		(35)					(35)
Borrowings		(72)	(9)	(207)	(348)	(564)	(636)
Bank balances and cash		132					132
Short term bank deposits	ii	184					184
Cash and cash equivalents	v	316					316
Other financial assets bank deposits	iii	20					20
Net borrowings		264	(9)	(207)	(348)	(564)	(300)
2008							
Other borrowings							
£350 million 6¾% 2019 unsecured bond	i				(346)	(346)	(346)
£325 million 7% 2012 unsecured bond	i			(325)		(325)	(325)
Other secured US\$ denominated loan		(2)	(1)	(4)	(5)	(10)	(12)
Other long term borrowings		(7)	(37)	(3)		(40)	(47)
Finance lease obligations	iv	(1)	(1)	(2)	(1)	(4)	(5)
Bank overdrafts		(20)					(20)
Other short term bank borrowings		(67)					(67)
Borrowings		(97)	(39)	(334)	(352)	(725)	(822)
Bank balances and cash		102					102
Short term bank deposits	ii	12					12
Cash and cash equivalents	v	114					114
Net borrowings		17	(39)	(334)	(352)	(725)	(708)

Other borrowings include: unsecured £350 million (2008 £350 million) 6¾% bond maturing in 2019 less unamortised issue costs of £3 million (2008 £4 million); unsecured £201 million (2008 £325 million) 7% bond maturing in 2012 less unamortised issue costs of nil (2008 nil); and a secured term loan of £9 million (2008 £12 million) secured by way of a fixed and floating charge on certain Aerospace fixed assets.

Notes

- (i) Denotes borrowings at fixed rates of interest until maturity. All other borrowings and cash and cash equivalents are at variable interest rates.
- (ii) The average interest rate on short term bank deposits was 0.5% (2008 2.2%). Deposits at 31 December 2009 had no fixed maturity date (2008 no fixed maturity date).
- (iii) The interest rate on bank deposits was 0.85%; deposits mature on 1 April 2010.
- (iv) Finance lease obligations gross of finance charges fall due as follows: £1 million within one year (2008 £1 million), £3 million in one to five years (2008 £4 million) and £1 million in more than five years (2008 £2 million).
- (v) £9 million (2008 £10 million) of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain solvency requirements and as collateral for Letters of Credit issued to the Group's principal external insurance providers. These funds, therefore, are not circulated within the Group on demand.

19 Net borrowings *continued*

(b) Fair values

	2009		2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings, other financial assets and cash and cash equivalents				
Other borrowings	(569)	(570)	(730)	(520)
Finance lease obligations	(4)	(4)	(5)	(5)
Bank overdrafts and other short term bank borrowings	(63)	(63)	(87)	(87)
Bank balances and cash	132	132	102	102
Short term bank deposits and other bank deposits	204	204	12	12
	(300)	(301)	(708)	(498)
Trade and other payables				
Government refundable advances	(28)	(28)		
Deferred and contingent consideration	(32)	(32)		
	(60)	(60)		

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

Unsecured bank overdrafts, other short term bank borrowings, bank balances and cash and short term bank deposits approximate to book value due to their short maturities. For other amounts, the repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at 31 December 2009. Bonds included within other borrowings have been valued using quoted closing market values.

20 Financial risk management

The Group's activities give rise to a number of financial risks: market risk, credit risk and liquidity risk. Market risk includes foreign currency risk, cash flow and fair value interest rate risk and commodity price risk. The Group has in place risk management policies that seek to limit the adverse effects on the financial performance. Derivative financial instruments, mainly forward foreign currency contracts, are used to hedge risk exposures that arise in the ordinary course of business.

Risk management policies have been set by the Board and are implemented by the central Treasury Department that receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The Treasury Department has a policy and procedures manual that sets out specific guidelines to manage foreign currency risks, interest rate risk, financial credit risk and liquidity risk and the use of financial instruments to manage these.

(a) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases by operating subsidiaries in currencies other than the subsidiaries' functional currency. These exposures are forecast on a monthly basis by operating companies and are reported to the central Treasury Department. Under the Group's foreign currency policy, such exposures are hedged on a reducing percentage basis over a number of forecast time horizons.

The main impact of foreign currency risk on the Group's results arises from the translation into sterling of the results of operations outside of the UK. The Group's largest exposures are the euro and the US dollar where a 1% movement in the average rate impacts trading profit of subsidiaries and joint ventures by £0.2 million and £0.7 million respectively.

Notes to the Financial Statements

For the year ended 31 December 2009

20 Financial risk management *continued*

Regarding financial instruments a 1% strengthening of sterling against the currency rates indicated below would have the following impact on operating profit:

	Trading profit:		
	Payables and receivables £m	Derivative financial instruments £m	Intra-group funding £m
Euro	0.2	(0.3)	3.5
US dollar	(0.2)	5.3	0.5

The derivative sensitivity analysis has been prepared by reperforming the calculations used to determine the balance sheet values adjusted for the changes in the individual currency rates indicated with all other cross currency rates remaining constant. The sensitivity is a fair value change relating to derivatives for which the underlying transaction has not occurred at 31 December. The Group intends to hold all such derivatives to maturity. The analysis of other items has been prepared based on an analysis of a currency balance sheet.

Analysis of net borrowings by currency:

	2009				2008		
	Borrowings £m	Cash and cash equivalents £m	Other financial assets £m	Total £m	Borrowings £m	Cash and cash equivalents £m	Total £m
Sterling	(548)	187	20	(341)	(726)	24	(702)
US dollar	(24)	18		(6)	(27)	15	(12)
Euro	(17)	36		19	(10)	35	25
Others	(47)	75		28	(59)	40	(19)
	(636)	316	20	(300)	(822)	114	(708)

(b) Interest rate risk

The Group is exposed to fair value interest rate risk on fixed rate borrowings and cash flow interest rate risk on variable rate net borrowings/funds. The Group's policy is to optimise interest cost in reported earnings and reduce volatility in the debt related element of the Group's cost of capital. This policy is achieved by maintaining a target range of fixed and floating rate debt for discrete annual periods, over a defined time horizon. The Group's normal policy is to require interest rates to be fixed for 30% to 70% of the level of underlying borrowings forecast to arise over a 12 month horizon. This policy remains suspended following a Board decision in December 2004 after receipt of the original sale proceeds on the sale of the GKN share in AgustaWestland given the absence of floating rate bank debt. At 31 December 2009 86% (2008 83%) of the Group's gross borrowings were subject to fixed interest rates.

As at 31 December 2009 £204 million (2008 £12 million) was in bank deposits, of which £186 million (2008 £12 million) was on deposit with banks in the UK.

A 1% change in interest rates would have a £2.5 million impact on net interest. This sensitivity flexes the interest rate of variable rate borrowings, assuming the level and currency mix at 31 December 2009 remains in place for 12 months.

20 Financial risk management *continued*

(c) Credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. In terms of substance, and consistent with the related balance sheet presentation, the Group considers it has two types of credit risk; operational and financial. Operational credit risk relates to non-performance by customers in respect of trade receivables and by suppliers in respect of other receivables. Financial credit risk relates to non-performance by banks and similar institutions in respect of cash and deposits, facilities and financial contracts, including forward foreign currency contracts.

Operational

As tier-one suppliers to automotive, off-highway and aerospace original equipment manufacturers, the Group may have substantial amounts outstanding with a single customer at any one time. The credit profiles of such original equipment manufacturers are available from credit rating agencies. The failure of any such customer to honour its debts could materially impact the Group's results. However, there are many advantages in these relationships. In certain parts of the Group, mainly Industrial Distribution Services within Driveline and OffHighway, there are a greater proportion of amounts receivable from small and medium sized customers.

Credit risk and customer relationships are managed at a number of levels within the Group. At a subsidiary level documented credit control reviews are required to be held at least every month. The scope of these reviews includes amounts overdue and credit limits. At a divisional level debtor ratios, overdue accounts and overall performance are reviewed regularly. Provisions for doubtful debts are determined at these levels based upon the customer's ability to pay and other factors in the Group's relationship with the customer.

At 31 December the largest five trade receivables as a proportion of total trade receivables analysed by major reportable segment is as follows:

	2009 %	2008 %
Driveline	46	48
Powder Metallurgy	20	20
OffHighway	35	32
Aerospace	64	54

The amount of trade receivables outstanding at the year end does not represent the maximum exposure to operational credit risk due to the normal patterns of supply and payment over the course of a year. Based on management information collected as at month ends the maximum level of trade receivables at any one point during the year was £642 million (2008 £714 million).

Financial

Credit risk is mitigated by the Group's policy of only selecting counterparties with a strong investment graded long term credit rating, normally at least AA- or equivalent, and assigning financial limits to individual counterparties.

The maximum exposure with a single bank for deposits is £61 million (2008 £12 million), whilst the maximum mark to market exposure for forward foreign currency contracts at 31 December 2009 to a single bank was nil (2008 nil). The amounts on deposit at year end represent the Group's maximum exposure to financial credit risk with Group indebtedness varying over the course of a year in line with normal financing and trading patterns.

Notes to the Financial Statements

For the year ended 31 December 2009

20 Financial risk management *continued*

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure which optimises the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce borrowings.

The Group monitors capital on the basis of the ratio of gross borrowings to EBITDA.

The Group seeks to operate at an EBITDA of subsidiaries to gross debt ratio of 2.5 times or less and the ratios at 31 December 2009 and 2008 were as follows:

	2009 £m	2008 £m
Gross borrowings	636	822
EBITDA	335	377
Gross borrowings to EBITDA ratio	1.9 times	2.2 times

The Group's only external banking covenant requires an EBITDA of subsidiaries to net interest payable and receivable ratio of 3.5 times or more. The ratios at 31 December 2009 and 2008 were as follows:

	2009 £m	2008 £m
EBITDA	335	377
Net interest payable and receivable	(64)	(47)
EBITDA to net interest payable and receivable ratio	5.2 times	8.0 times

(e) Liquidity risk

The Group is exposed to liquidity risk as part of its normal financing and trading cycles at times when peak borrowings are required.

Borrowings normally peak in May and September following dividend and bond coupon payments. The Group's policies are to ensure that sufficient liquidity is available to meet obligations when they fall due and to maintain sufficient flexibility in order to fund investment and acquisition objectives. Liquidity needs are assessed through short and long term forecasts. Committed bank facilities total £709 million, of which £350 million expire in July 2010. There were no drawings on these facilities at 31 December 2009 although £13 million was utilised for Letters of Credit. Committed facilities are provided through 12 banks.

20 Financial risk management *continued*

Maturity analysis of borrowings, derivatives and other financial liabilities

	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
2009					
Borrowings (note 19)	(72)	(9)	(207)	(348)	(636)
Contractual interest payments and finance lease charges	(39)	(39)	(78)	(114)	(270)
Government refundable advances			(3)	(53)	(56)
Deferred and contingent consideration	(6)	(6)	(24)		(36)
Derivative financial instruments liabilities receipts	182	91	211	145	629
Derivative financial instruments liabilities payments	(196)	(98)	(232)	(160)	(686)
2008					
Borrowings (note 19)	(97)	(39)	(334)	(352)	(822)
Contractual interest payments and finance lease charges	(50)	(49)	(107)	(144)	(350)
Derivative financial instruments liabilities receipts	319	111	220	211	861
Derivative financial instruments liabilities payments	(373)	(133)	(269)	(260)	(1,035)

There is no significant difference in the contractual undiscounted value of other financial liabilities from the amounts stated in the balance sheet and balance sheet notes.

(f) Commodity price risk

The Group is exposed to changes in commodity prices, particularly of metals, which has a significant impact on input costs and the overall financial results. The Group seeks to mitigate this exposure in a variety of ways including medium term price agreements, surcharges and advance purchasing. In rare circumstances and only in respect of certain specified risks the Group uses derivative commodity hedging instruments. The impact of such financial instruments in respect of the overall commodity price risk is not material. No amounts were outstanding under commodity contracts at 31 December 2009.

(g) Categories of financial assets and financial liabilities

	Loans and receivables £m	Amortised cost £m	Held for trading		Derivatives used for hedging £m	Total £m
			Financial assets £m	Financial liabilities £m		
2009						
Other receivables and investments	4					4
Trade and other receivables	602					602
Derivative financial instruments			21	(64)		(43)
Other financial assets	20					20
Cash and cash equivalents	316					316
Borrowings		(636)				(636)
Trade and other payables		(688)				(688)
Provisions		(35)				(35)
	942	(1,359)	21	(64)		(460)
2008						
Other receivables and investments	4					4
Trade and other receivables	600					600
Derivative financial instruments			62	(184)	(8)	(130)
Cash and cash equivalents	114					114
Borrowings		(822)				(822)
Trade and other payables		(717)				(717)
Provisions		(5)				(5)
	718	(1,544)	62	(184)	(8)	(956)

Derivative financial instruments are the only category of financial asset and financial liability held at fair value. For the purposes of IFRS 7 these are categorised as a Level 2 fair value measurement.

Notes to the Financial Statements

For the year ended 31 December 2009

21 Derivative financial instruments

	2009				2008			
	Assets		Liabilities		Assets		Liabilities	
	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m	Current £m
Forward currency contracts								
not hedge accounted	2	5	(46)	(13)	3	10	(123)	(48)
hedge accounted		1		(1)			(2)	(6)
Commodity contracts								
not hedge accounted								(2)
Embedded derivatives	14		(5)		39	10	(11)	
	16	6	(51)	(14)	42	20	(136)	(56)

Forward foreign currency contracts, commodity contracts and embedded derivatives are marked to market using published prices, with forward foreign currency contracts and commodity contracts being settled on a net basis. The amounts in respect of embedded derivatives represent commercial contracts between European Aerospace subsidiaries and customers and suppliers outside the USA which are denominated in US dollars.

Hedge accounting

Cash flow hedges

The Group manages exposure to foreign currency fluctuations on outstanding purchase and sale agreements using forward foreign currency contracts. The Group has adopted transactional foreign currency hedge accounting in a limited number of contracts. The net value of forward foreign currency contracts subject to hedge accounting was nil (2008 £8 million liability). The cash flows and profit impact will occur in 2010 to 2012 (2008 2009 to 2012). A £2 million gain was recognised in equity during the year (2008 £7 million loss) in respect of contracts outstanding at 31 December. An accumulated loss of £5 million (2008 £1 million accumulated gain) was removed from equity during the year and included in the income statement as a £5 million loss in cost of sales. Cash flow hedging was 100% effective during 2009 and 2008.

Net investment hedging

For the purposes of hedge accounting, net investment hedging was 100% effective during 2008. The net investment hedging policy was suspended in December 2008.

22 Provisions

	Restructuring £m	Warranty £m	Legal and environmental £m	Other £m	Total £m
At 1 January 2009	(30)	(18)	(27)	(28)	(103)
Charge for the year:					
Additions	(107)	(21)	(2)	(7)	(137)
Unused amounts reversed		2	1	3	6
Subsidiaries acquired				(34)	(34)
Amounts used	74	5	2	8	89
Currency variations	4	2	2		8
At 31 December 2009	(59)	(30)	(24)	(58)	(171)
Due within one year	(37)	(19)	(17)	(11)	(84)
Due in more than one year	(22)	(11)	(7)	(47)	(87)
	(59)	(30)	(24)	(58)	(171)

Restructuring

Restructuring provisions outstanding at 31 December 2009 relate primarily to the estimated future cash outflows in respect of redundancies and onerous contracts (predominantly leases) arising from Group strategic restructuring programmes, details of the charges in respect of which are included in note 3. Amounts are only set aside when irrevocable commitments exist at the balance sheet date and these invariably reflect actual or constructive contractual arrangements which indicate the amount and most likely timing of flows. Utilisation of the provision due in more than one year is expected as follows: £17 million in 2011; £2 million in 2012; and £3 million from 2013.

Warranty

Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations attaching to the supply of goods or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. In the event of a claim, settlement will be negotiated with the customer based on supply of replacement products and compensation for the customer's associated costs. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer. Utilisation of the provision due in more than one year is estimated as £6 million in 2011 and £5 million in 2012.

Legal and environmental

Legal provisions amounting to £8 million (2008 £9 million) relate to management estimates of amounts required to settle or remove litigation actions that have arisen in the normal course of business. Further details are not provided to avoid the potential of seriously prejudicing the Group's stance in law. Amounts unused and reversed only arise when the matter is formally settled or when a material change in the litigation action occurs where legal advice confirms lower amounts need to be retained to cover the exposure.

As a consequence of primarily legacy activities a small number of sites in the Group are subject to environmental remediation actions, which in all cases are either agreed formally with relevant local and national authorities and agencies or represent management's view of the likely outcome having taken appropriate expert advice and following consultation with appropriate authorities and agencies. Amounts charged and carried reflect the current best estimates of the likely cost of remediation and inherent timings.

Utilisation of the provision due in more than one year is estimated as £5 million in 2011 and £2 million from 2012.

Other

Other provisions include claims provisions held within the Group's captive insurance company £12 million (2008 £10 million), provisions held in respect of onerous contracts and leases £2 million (2008 £6 million), non-beneficial lease rentals £32 million (2008 nil) and long service non-pension and other employee related obligations arising primarily in the Group's continental European subsidiaries £12 million (2008 £12 million). Claims provisions and charges are established in accordance with external insurance and actuarial advice. Utilisation of other provisions due in more than one year is expected as follows: £8 million in 2011; £7 million in 2012; £4 million in 2013; £3 million in 2014; and £25 million from 2015.

Vacant leasehold property provisions and non-beneficial lease rentals included in Restructuring and Other provisions above amount to £35 million (2008 £5 million).

Notes to the Financial Statements

For the year ended 31 December 2009

23 Share capital

	Authorised		Issued	
	2009 £m	2008 £m	2009 £m	2008 £m
Ordinary shares of 50p each		450		372
Ordinary shares of 10p each	310		159	
Deferred shares of 40p each	298		298	
Total nominal value of shares	608	450	457	372

	Notes	Authorised		Issued	
		2009 Number 000s	2008 Number 000s	2009 Number 000s	2008 Number 000s
Ordinary shares of 50p each					
At 1 January		900,000	900,000	743,904	743,699
Increase in authorised share capital	i	316,000			
Capital reorganisation	ii	(1,216,000)		(743,904)	
Shares issued under share option schemes					205
At 31 December			900,000		743,904
Ordinary shares of 10p each					
At 1 January					
Capital reorganisation	ii	3,104,384		743,904	
Rights issue	iii			846,624	
Shares issued under share option schemes					
At 31 December		3,104,384		1,590,528	
Deferred shares of 40p each					
At 1 January					
Capital reorganisation	ii	743,904		743,904	
At 31 December		743,904		743,904	
At 31 December (ordinary and deferred)		3,848,288	900,000	2,334,432	743,904

Notes

- (i) An ordinary resolution was passed at the Annual General Meeting held on 7 May 2009 to increase the authorised share capital of the Company from £450,000,000 to £608,000,000 by the creation of 316,000,000 ordinary shares of 50p each.
- (ii) A special resolution was passed at a General Meeting held on 6 July 2009 to sub-divide each issued ordinary share of 50p into one ordinary share of 10p and one deferred share of 40p, and each unissued ordinary share of 50p into five ordinary shares of 10p. The deferred shares are not listed, have no voting or dividend rights, and only very limited rights on a return of capital. A resolution to approve the purchase and subsequent cancellation of the deferred shares will be put to shareholders at the 2010 Annual General Meeting.
- (iii) On 22 July 2009 the Company issued 846,623,629 ordinary shares of 10p each by way of a 6 for 5 rights issue at a price of 50p per share. The rights issue generated net proceeds of £403 million after costs of £20 million.

23 Share capital *continued*

At the 2009 Annual General Meeting, a special resolution was passed enabling the Company to purchase up to a maximum of 70.5 million of its own ordinary shares (representing 10% of the issued share capital of the Company as at 31 December 2008 excluding shares held in treasury) for a period ending on the earlier of the next Annual General Meeting or 1 July 2010, provided that certain conditions relating to purchase price are met. A special resolution passed at a General Meeting held on 6 July 2009 increased the maximum amount which can be purchased to 155.2 million ordinary shares to reflect the capital reorganisation and rights issue. The notice of the 2010 Annual General Meeting proposes that shareholders approve a resolution updating and renewing this authority. Shares in the Company may also be purchased by the GKN Employees Share Ownership Plan Trust.

At 31 December 2009 there were 38,199,579 ordinary shares of 10p each and 38,384,253 deferred shares of 40p each (total nominal value £19.2 million (2008 £19.2 million)) held as treasury shares. No shares were purchased in the open market during 2009 or 2008. A total of 184,674 ordinary shares of 10p each were transferred out of treasury during 2009 to satisfy the exercise of options by former employees under share option schemes. The remaining treasury shares, which represented 4.2% (2008 5.2%) of the called up share capital at the end of the year, have not been cancelled but are held as treasury shares and represent a deduction from shareholders equity.

During the year shares issued under the share option schemes generated less than £1 million (2008 less than £1 million).

24 Acquisitions

On 5 January 2009, the Group acquired the trade and assets of the wing component manufacturing and assembly operation of Airbus UK which is located on the Airbus Filton site in the UK (Filton).

	IFRS carrying values at acquisition £m	Fair value adjustments £m	Fair values £m
Intangible assets			
order book		5	5
customer relationships		79	79
Property, plant and equipment	48	9	57
Inventories	38	(2)	36
Trade and other receivables			
Trade and other payables			
Provisions			
post-employment obligations		(20)	(20)
other		(34)	(34)
Deferred tax		1	1
Cash and cash equivalents			
	86	38	124
Goodwill			8
Total fair value of consideration			132
Consideration satisfied by:			
Cash			94
Deferred and contingent consideration			32
Directly attributable costs			6
			132

Goodwill is attributable to the value of the assembled workforce, expectation of winning future contracts with Airbus, gaining customer relationships with other customers and synergies. No technological rights or marketing related assets were acquired.

Notes to the Financial Statements

For the year ended 31 December 2009

24 Acquisitions *continued*

Fair value adjustments to Provisions other relate to non-beneficial lease rentals. The Group was apportioned floor area for the wing component manufacturing and assembly operation out of the larger Airbus headlease. The freeholder is a third party and the full above market rental cost of the apportioned Airbus headlease rental is required by covenant with the freeholder to be passed from Airbus to the Group. The Group is committed to the lease for the remaining seventeen year term of the headlease. The provision has been discounted.

The fair value of deferred and contingent consideration recognised upon acquisition includes £8 million (£9 million undiscounted) of consideration contingent upon Filton achieving certain levels of sales in 2013, 2014 and 2015. The undiscounted contingent consideration payable ranges from nil to £9 million.

The acquisition date coincided with the first day of operations in 2009. During the year Filton contributed sales of £330 million and trading profit of £40 million.

25 Cash flow reconciliations

	2009 £m	2008 £m
Cash generated from operations		
Operating profit/(loss)	39	(86)
Adjustments for:		
Depreciation, impairment and amortisation of fixed assets		
Charged to trading profit		
Depreciation	193	165
Impairment	2	1
Amortisation	11	10
Amortisation of non-operating intangible assets arising on business combinations	24	10
Restructuring and impairment charges	9	127
Changes in fair value of derivative and other financial instruments	(71)	133
Amortisation of capital grants	(1)	(2)
Net profits on sale of fixed assets	(6)	(1)
Profits and losses on sale or closures of businesses	(2)	
Charge for share-based payments	2	2
Movement in post-employment obligations	(45)	(26)
Change in inventories	133	7
Change in receivables	(36)	93
Change in payables and provisions	36	(105)
	288	328
Movement in net debt		
Net movement in cash and cash equivalents	194	(156)
Net movement in other borrowings	93	(79)
Bond buy-back	124	
Finance leases	1	9
Currency variations	(4)	24
Subsidiaries acquired and sold		
Movement in year	408	(202)
Net debt at beginning of year	(708)	(506)
Net debt at end of year	(300)	(708)
Reconciliation of cash and cash equivalents		
Cash and cash equivalents per balance sheet	316	114
Bank overdrafts included within current liabilities borrowings	(28)	(20)
Cash and cash equivalents per cash flow	288	94

26 Post-employment obligations

Post-employment obligations as at the year end comprise:		2009 £m	2008 £m
Pensions	funded	(597)	(417)
	unfunded	(345)	(348)
Medical	funded	(13)	(18)
	unfunded	(41)	(51)
		(996)	(834)

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world. The main externally funded defined benefit pension schemes operate in the UK, US and Japan. In Europe, funds are retained within certain businesses to provide defined benefit pension benefits. In addition, in the US and UK a number of retirement plans are operated which provide certain employees with post-employment medical benefits.

(a) Defined benefit schemes measurement and assumptions

Independent actuarial valuations of all major defined benefit scheme assets and liabilities were carried out at 31 December 2009. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

Key assumptions were:

	UK %	Americas %	Europe %	ROW %
2009				
Rate of increase in pensionable salaries	4.25	3.5	2.50	3.5
Rate of increase in payment and deferred pensions	3.40	2.0	1.75	n/a
Discount rate	5.70	6.0	5.40	2.0
Inflation assumption	3.25	2.5	1.75	1.0
Rate of increases in medical costs: initial/long term	7.0/4.5	9.0/5.0	n/a	n/a
2008				
Rate of increase in pensionable salaries	3.9	3.5	2.50	3.5
Rate of increase in payment and deferred pensions	3.0	2.0	1.75	n/a
Discount rate	6.5	5.8	6.00	2.0
Inflation assumption	2.9	2.5	1.75	1.0
Rate of increases in medical costs: initial/long term	6.6/4.5	9.0/5.0	n/a	n/a

The discount rates in the table above for the UK and Europe were referenced against specific iBoxx indices, whilst the Citigroup liability index was the reference point for the USA discount rate. The reference for the UK discount rate was the yield as at 31 December on the iBoxx GBP Corporate rated AA bonds with a maturity of 15 years plus. The reference for the European discount rate was the yield as at 31 December on the iBoxx Euro Corporate rated AA bonds with a maturity of 10 years plus of 5.1%, adjusted to reflect the duration of liabilities. For the USA, the discount rate matched the Citigroup liability index as at 31 December 2009 of 6.0%.

The underlying mortality assumptions for the major schemes are as follows:

United Kingdom

Such is the size and profile of the UK scheme that data on the scheme's mortality experience is collected and reviewed annually. The key current year mortality assumptions for the scheme use PA92 (Year of Birth) tables with a plus 2.5 year age adjustment to reflect actual mortality experience for the scheme together with medium cohort projected improvement in longevity. Using these assumptions a male aged 65 lives for a further 19.8 years, whilst a male aged 40 is expected to live a further 21 years after retiring at 65. The prior period valuations used the same mortality assumptions.

Notes to the Financial Statements

For the year ended 31 December 2009

26 Post-employment obligations *continued*

Overseas

In the USA, CL2009 tables have been used whilst in Germany the RT2005-G tables have again been used. In the USA the longevity assumption for a male aged 65 is that he lives a further 19 years whilst in Germany for a further 18.1 years. The longevity assumption for a US male currently aged 40 is that he also lives for a further 19 years once attaining 65 years, with the German equivalent assumption being 18.2 years. These assumptions are based solely on the prescribed tables not on actual GKN experience.

Assumption sensitivity analysis

The impact of a one percentage point movement in the primary assumptions on the defined benefit net obligations as at 31 December 2009 is set out below:

	UK		Americas		Europe		ROW	
	Liabilities £m	Income statement £m	Liabilities £m	Income statement £m	Liabilities £m	Income statement £m	Liabilities £m	Income statement £m
Discount rate +1%	341	4.2	40	(0.1)	43	0.2	4	0.2
Discount rate -1%	(406)	(1.7)	(49)	0.4	(54)	(0.1)	(4)	(0.2)
Rate of inflation +1%	(324)	(24.8)			(32)	(2.5)		
Rate of inflation -1%	292	21.7			29	2.1		
Rate of increase in medical costs +1%	(1)		(1)					
Rate of increase in medical costs -1%	1		1					

A 1% underpin to Medium Cohort annual improvements in mortality for the UK scheme increases liabilities by £63 million.

(b) Defined benefit schemes reporting

The amounts included in operating profit are:

	Trading profit			Total £m
	Employee benefit expense £m	Redundancy and other employment amounts £m	Restructuring and impairment charges £m	
2009				
Current service cost	(34)			(34)
Past service cost	5		(1)	4
Settlement/curtailments	7			7
	(22)		(1)	(23)
2008				
Current service cost	(35)			(35)
Past service cost	(1)	(1)	(1)	(3)
Settlement/curtailments	12			12
	(24)	(1)	(1)	(26)

The 2009 past service credit of £5 million largely relates to changes to life insurance arrangements in the USA, whilst the charge of £1 million relates to augmentations arising in the UK on redundancy programmes. The 2008 past service cost charge relates to augmentations arising in the UK on redundancy programmes and additional charges in respect of a continental European subsidiary.

The 2009 settlement/curtailment credit arises from the closure of two pension schemes to future accrual in the USA together with the impact of redundancy programmes in Japan. The 2008 credit in settlements/curtailments was in respect of changes to freeze pension benefit entitlements in Driveline and Powder Metallurgy businesses in the USA.

26 Post-employment obligations *continued*

The amounts recognised in the balance sheet are:

	2009					2008 £m
	UK £m	Americas £m	Europe £m	ROW £m	Total £m	
Present value of funded obligations	(2,429)	(318)	(20)	(33)	(2,800)	(2,444)
Fair value of plan assets	1,930	215	27	18	2,190	2,009
Net obligations recognised in the balance sheet	(499)	(103)	7	(15)	(610)	(435)

The contributions expected to be paid by the Group during 2010 to the UK schemes is £60 million and to overseas schemes £33 million.

Cumulative actuarial gains and losses recognised in equity are as follows:

	2009 £m	2008 £m
At 1 January	(144)	242
Net actuarial gains/(losses) in year	(190)	(386)
At 31 December	(334)	(144)

Post-employment obligations

Movement in schemes obligations (funded and unfunded) during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2009	(2,043)	(401)	(353)	(46)	(2,843)
Subsidiaries acquired	(20)				(20)
Current service cost	(20)	(5)	(6)	(3)	(34)
Interest	(129)	(21)	(19)	(1)	(170)
Contributions by participants	(4)				(4)
Actuarial gains and losses	(346)	5	(22)	1	(362)
Benefits paid	123	15	17	3	158
Past service cost	(1)	6	(1)		4
Curtailments		6		1	7
Currency variations		40	32	6	78
At 31 December 2009	(2,440)	(355)	(352)	(39)	(3,186)
At 1 January 2008	(2,264)	(270)	(268)	(24)	(2,826)
Current service cost	(20)	(7)	(5)	(3)	(35)
Interest	(131)	(18)	(16)	(1)	(166)
Contributions by participants	(7)				(7)
Actuarial gains and losses	258	(22)	10	(2)	244
Benefits paid	123	12	15	2	152
Past service cost	(2)	1	(2)		(3)
Curtailments		12			12
Currency variations		(109)	(87)	(18)	(214)
At 31 December 2008	(2,043)	(401)	(353)	(46)	(2,843)

Notes to the Financial Statements

For the year ended 31 December 2009

26 Post-employment obligations *continued*

Movement in schemes assets during the year

	UK £m	Americas £m	Europe £m	ROW £m	Total £m
At 1 January 2009	1,759	202	29	19	2,009
Subsidiaries acquired					
Expected return on assets	106	13	2		121
Actuarial gains and losses	152	21	(1)		172
Contributions by Group	32	15	1	3	51
Contributions by participants	4				4
Benefits paid	(123)	(15)	(1)	(2)	(141)
Currency variations		(21)	(3)	(2)	(26)
At 31 December 2009	1,930	215	27	18	2,190
At 1 January 2008	2,248	212	21	14	2,495
Expected return on assets	144	17	1	1	163
Actuarial gains and losses	(539)	(87)		(4)	(630)
Contributions by Group	22	12	1	2	37
Contributions by participants	7				7
Benefits paid	(123)	(11)	(1)	(2)	(137)
Currency variations		59	7	8	74
At 31 December 2008	1,759	202	29	19	2,009

The defined benefit obligation is analysed between funded and unfunded schemes as follows:

	2009					2008 £m
	UK £m	Americas £m	Europe £m	ROW £m	Total £m	
Funded	(2,429)	(318)	(20)	(33)	(2,800)	(2,444)
Unfunded	(11)	(37)	(332)	(6)	(386)	(399)
	(2,440)	(355)	(352)	(39)	(3,186)	(2,843)

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

	UK		Americas		Europe		ROW	
	Long term rate of return expected %	Value £m	Long term rate of return expected %	Value £m	Long term rate of return expected %	Value £m	Long term rate of return expected %	Value £m
2009								
Equities (inc. Hedge Funds)	7.8	696	8.5	143			5.70	8
Bonds	5.3	1,054	4.2	67			1.35	7
Property	6.6	82						
Cash/short term mandate	0.5	67	3.2	5				2
Other assets	5.7	31			5.1	27	1.25	1
		1,930		215		27		18
2008								
Equities (inc. Hedge Funds)	8.0	667	8.5	125			5.6	7
Bonds	5.3	912	5.5	70			1.6	8
Property	6.8	80						
Cash/short term mandate	2.0	74	4.4	7			1.1	2
Other assets	6.5	26			5.6	29	0.9	2
		1,759		202		29		19

26 Post-employment obligations *continued*

The expected return on plan assets is a blended average of projected long term returns for the various asset classes. Equity returns are developed based on the selection of the equity risk premium above the risk-free rate which is measured in accordance with the yield on government bonds. Bond returns are selected by reference to the yields on government and corporate debt, as appropriate to the plan's holdings of these instruments, all other asset classes returns are determined by reference to current experience.

The actual return on plan assets was £293 million (2008 £467 million negative).

History of experience gains and losses

	UK	Americas	Europe	ROW
2009				
Experience adjustments arising on scheme assets:				
Amount £m	152	21	(1)	
Percentage of scheme assets	7.9%	9.8%	(3.7%)	
Experience gains/(losses) on scheme liabilities:				
Amount £m		1	6	
Percentage of the present value of scheme liabilities		0.3%	1.7%	
Present value of scheme liabilities £m	(2,440)	(355)	(352)	(39)
Fair value of scheme assets £m	1,930	215	27	18
Deficit £m	(510)	(140)	(325)	(21)
2008				
Experience adjustments arising on scheme assets:				
Amount £m	(539)	(86)		(4)
Percentage of scheme assets	(30.6%)	(43.1%)		(21.0%)
Experience gains/(losses) on scheme liabilities:				
Amount £m	7	2	(5)	
Percentage of the present value of scheme liabilities	0.3%	0.5%	(1.4%)	
Present value of scheme liabilities £m	(2,043)	(401)	(353)	(46)
Fair value of scheme assets £m	1,759	202	29	19
Deficit £m	(284)	(199)	(324)	(27)
2007				
Experience adjustments arising on scheme assets:				
Amount £m	21		(1)	(1)
Percentage of scheme assets	0.9%		(4.8%)	(7.1%)
Experience gains/(losses) on scheme liabilities:				
Amount £m	(7)	4	(3)	
Percentage of the present value of scheme liabilities	(0.3%)	1.6%	(1.4%)	
Present value of scheme liabilities £m	(2,264)	(270)	(268)	(24)
Fair value of scheme assets £m	2,248	212	21	14
Deficit £m	(16)	(58)	(247)	(10)
2006				
Experience adjustments arising on scheme assets:				
Amount £m	35	15	(1)	
Percentage of scheme assets	1.6%	7.6%	(4.5%)	
Experience gains/(losses) on scheme liabilities:				
Amount £m	15			(1)
Percentage of the present value of scheme liabilities	0.6%			(6.7%)
Present value of scheme liabilities £m	(2,375)	(301)	(277)	(23)
Fair value of scheme assets £m	2,187	196	19	13
Deficit £m	(188)	(105)	(258)	(10)

Notes to the Financial Statements

For the year ended 31 December 2009

26 Post-employment obligations *continued*

History of experience gains and losses continued

	UK	Americas	Europe	ROW
2005				
Experience adjustments arising on scheme assets:				
Amount £m	187	(1)	1	2
Percentage of scheme assets	9.7%	(0.7%)	5.0%	14.7%
Experience gains/(losses) on scheme liabilities:				
Amount £m	(22)	3	(5)	(1)
Percentage of the present value of scheme liabilities	(0.9%)	0.9%	(1.8%)	(3.0%)
Present value of scheme liabilities £m	(2,381)	(316)	(284)	(23)
Fair value of scheme assets £m	1,915	170	20	14
Deficit £m	(466)	(146)	(264)	(9)

(c) Defined contribution schemes

The Group operates a number of defined contribution schemes outside the United Kingdom. The charge to the income statement in the year was £13 million (2008 £14 million).

27 Contingent assets and liabilities

Aside from the unrecognised contingent asset referred to in note 5 in respect of Franked Investment Income, there were no other material contingent assets at 31 December 2009.

At 31 December 2009 the Group had no contingent liabilities in respect of bank and other guarantees (2008 £13 million). In the case of certain businesses performance bonds and customer finance obligations have been entered into in the normal course of business.

28 Operating lease commitments minimum lease payments

The minimum lease payments which the Group is committed to make at 31 December are:

	2009		2008	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Payments under non-cancellable operating leases				
Within one year	30	10	27	12
Later than one year and less than five years	82	18	69	23
After five years	118	2	55	3
	230	30	151	38

29 Capital expenditure

Contracts placed against capital expenditure sanctioned at 31 December 2009 so far as not provided by subsidiaries amounted to £84 million (2008 £84 million) and the Group's share not provided by joint ventures amounted to £1 million (2008 £1 million).

30 Related party transactions

In the ordinary course of business, sales and purchases of goods take place between subsidiaries and joint venture companies priced on an arm's length basis. Sales by subsidiaries to joint ventures in 2009 totalled £62 million (2008 £74 million). The amount due at the year end in respect of such sales was £14 million (2008 £11 million). Purchases by subsidiaries from joint ventures in 2009 totalled £4 million (2008 £11 million). The amount due at the year end in respect of such purchases was nil (2008 £3 million).

At 31 December 2009 a Group subsidiary had £1 million receivable (2008 nil) from a joint venture in respect of a loan facility bearing interest at six month LIBOR plus 1%.

31 Post-balance sheet event

In February 2010 the Group announced its intention to exit its OffHighway axles operations. In 2009 the axles operations reported a trading loss of £4 million, over 30% of the OffHighway trading loss for the year. All exit options are being explored. The results of this business will be reported and disclosed separately in 2010.