CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets – goodwill	10	340	470
Tangible assets	11	1,329	1,374
		1,669	1,844
Investments			
Joint ventures:			
Share of gross assets		1,201	1,198
Share of gross liabilities		(944)	(972)
		257	226
Associates		29	39
Other investments		6	17
	12	292	282
Total fixed assets		1,961	2,126
Current assets			
Stocks	13	487	488
Debtors	14	630	561
Cash at bank and in hand	15	131	105
		1,248	1,154
Creditors: amounts falling due within one year			
Short-term borrowings	16	(36)	(43)
Creditors	17	(760)	(772)
Taxation payable	18	(166)	(182)
Dividend payable		(57)	(56)
		(1,019)	(1,053)
Net current assets		229	101
Total assets less current liabilities		2,190	2,227
Creditors: amounts falling due beyond one year			
Term loans and obligations under finance leases	19	(887)	(894)
Provisions for liabilities and charges	22	(361)	(373)
Net assets		942	960
Capital and reserves			
Called up share capital	23	367	366
Share premium account	24	14	13
Revaluation reserve	24	40	45
Other reserves	24	(96)	(81)
Profit and loss account	24	601	607
Equity interest		926	950
Minority interest – equity		16	10
		942	960

The accounts were approved by the Board of Directors on 27 February 2004 and were signed by:
Sir David Lees, Kevin Smith, Nigel Stein, Directors

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2003

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

Earnings of the year on an historical cost basis are not materially different from those reported above.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003

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

MOVEMENT IN NET DEBT
FOR THE YEAR ENDED 31 DECEMBER 2003

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

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

NOTES ON THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

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

	Purchases		Sales	
	2003 £m	2002 £m	2003 £m	2002 £m
b) Purchase and sale of subsidiaries				
Tangible fixed assets	(17)	(17)	3	6
Working capital and provisions	(10)	(9)	3	4
Taxation payable	1	–	–	(1)
Cash	–	(2)	–	5
Loans and finance leases	7	10	–	–
Minority interests	–	(8)	–	(5)
	(19)	(26)	6	9
Change from joint venture status	–	5	–	–
(Loss)/profit on sales	–	–	(4)	5
Goodwill	(24)	(29)	1	–
Total consideration	(43)	(50)	3	14
Deferred consideration	(2)	1	(1)	–
Consideration (paid)/received	(45)	(49)	2	14
Less: cash	–	2	–	(5)
Net cash (outflow)/inflow	(45)	(47)	2	9

	Net borrowings at end of year		Change in 2003		
	2003 £m	2002 £m	Cash (note ii) £m	Liquid resources (note iii) £m	Financing £m
c) Analysis of movements in net debt					
Bank balances and cash	91	69	22	–	–
Short-term loans and deposits	40	36	–	4	–
Bank overdrafts	(22)	(26)	4	–	–
Other short-term borrowings	(14)	(17)	–	–	3
Term loans	(872)	(877)	–	–	5
Finance leases:					
Due within one year	(1)	(2)	–	–	1
Due in more than one year	(15)	(17)	–	–	2
	(793)	(834)	26	4	11
Net proceeds of Ordinary Share issues			–	–	(2)
Subsidiaries acquired and sold			–	–	7
New finance leases			–	–	1
Currency variations			2	–	(15)
Net cash inflow			28	4	2

Notes
i Included in cash inflow from operating activities is expenditure of £13 million (2002 – £52 million) in respect of operating exceptional items.
ii Cash consists of cash in hand and bank balances and overdrafts repayable on demand as defined by FRS 1 (revised).
iii Liquid resources consist of short-term investments, loans and deposits excluding cash.

NOTES ON THE ACCOUNTS

1 ACCOUNTING POLICIES

Basis of accounting

These accounts are prepared under the historical cost convention, as modified by the revaluation of land and buildings, in accordance with the Companies Act 1985 and applicable accounting standards. The Directors have conducted a review of the Group's accounting policies and have confirmed that they are the most appropriate for the purposes of giving a true and fair view of the Group's results and that there have been no changes from last year.

Basis of consolidation

The group accounts consolidate the accounts for the year to 31 December 2003 of the Company and its subsidiaries unless those subsidiaries are subject to severe long-term restrictions on the ability of the Group to control them.

The results of subsidiaries acquired or sold during the year are included in the consolidated profit and loss account from the date of acquisition or to the date of disposal. In the case of acquisitions during the year the acquisition method of accounting is used.

Where material, profits or losses are analysed as discontinued operations where businesses are sold or closed by the date on which the accounts are approved. Where businesses are treated as sold or closed in the current year, the prior year's analyses are restated to reflect those businesses as discontinued.

Foreign currencies

The results and cash flows of overseas subsidiaries, joint ventures and associates are translated to sterling at average exchange rates. Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities in foreign currencies are translated at the appropriate forward contract rate or, if not covered, at the exchange rate ruling at the balance sheet date. Differences on revenue transactions are dealt with through the profit and loss account.

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

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

Financial instruments

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

The Group uses forward foreign exchange contracts to manage its exposure to foreign exchange risks and hedge a proportion of its investment in overseas subsidiaries and investments denominated in foreign currencies, where such hedging can be carried out on an economically acceptable basis. Such financial instruments are treated as hedges against the underlying assets or liabilities, with matching accounting treatments and cash flows. All gains or losses are taken to the statement of total recognised gains and losses until the instrument and the underlying hedged investment are sold, when the profit or loss arising is recognised in the profit and loss account. Interest differentials resulting from the use of financial instruments to hedge these exposures are dealt with in the group profit and loss account.

Any instruments no longer designated as hedges are restated at market value and any gains or losses are taken directly to the profit and loss account.

The book values of short-term debtors and creditors are the same as their fair values and have been excluded from the financial instrument disclosures other than those on currency exposures.

Sales

Sales shown in the profit and loss account exclude value added taxes and, except in the case of long-term contracts in the AgustaWestland joint venture, represent the invoiced value of goods and services charged to external customers. Invoices are raised when goods are despatched to the customer unless other terms have been specifically agreed. On long-term contracts in AgustaWestland, sales are based on the estimated sales value of work done at the achievement of predetermined milestones.

NOTES ON THE ACCOUNTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Research and development costs

Except as noted below, revenue expenditure on research and development is written off as incurred.

On major aerospace contracts that demonstrably have a life of more than ten years, net non-recurring initial costs (consisting of design, development and tooling) are categorised as stocks and are amortised over a maximum period of ten years from the start of serial production. On other contracts, design and development costs are written off as incurred and tooling over three years.

Reorganisation costs

Costs of reorganisation and redundancy, which are not part of a fundamental restructuring, are charged against operating profit in the period when the announcement is made.

Intangible assets – goodwill

Goodwill arising on consolidation consists of the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill arising on acquisitions completed prior to 31 December 1997 has been eliminated against reserves. Goodwill arising on acquisitions after that date is capitalised as a fixed asset and amortised on a straight line basis over its estimated useful life up to a maximum of 20 years. To the extent that the carrying value exceeds the value in use, determined from estimated discounted future net cash flows, goodwill is written down to the value in use and an impairment charge is recognised in the profit and loss account. Where an acquired business is sold and goodwill has been previously deducted from reserves, the goodwill is taken into account in calculating the profit or loss on sale.

Tangible fixed assets

Cost

Tangible fixed assets are valued at cost or valuation less accumulated depreciation. Cost comprises the purchase price plus costs directly incurred in bringing the asset into use but excludes interest.

Where freehold and long leasehold properties were carried at a valuation at 23 March 2000, the date of implementation of FRS 15, these values have been retained as book values in accordance with the transitional arrangements of that standard.

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 assets in the course of construction. In the case of buildings, computers and contract specific plant, depreciation is provided on valuation or original cost. For all other categories of asset, depreciation is provided on the written down value at the beginning of the financial year. Depreciation is applied to specific classes of asset so as to reduce them to their residual values over their estimated useful lives.

The range of main rates of depreciation used are:

	Straight line %	Reducing balance %
Freehold buildings	2	–
General plant, machinery, fixtures, fittings and equipment	10 to 20	10 to 35
Computers and major software	20 to 33⅓	–
Commercial vehicles and cars	–	40 to 45

Leasehold properties are amortised by equal annual instalments over the period of the lease or 50 years, whichever is the shorter.

Leased assets

Where fixed assets are financed by leasing arrangements which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitment is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital which reduces the outstanding obligation. Operating lease rentals are charged to the profit and loss account as incurred over the lease term.

Joint ventures and associated companies

Joint ventures, although not subsidiaries, are those businesses in which the Group has a long-term interest and is able to share control with its partners under a contractual arrangement. Associates are those businesses in which the Group has a long-term interest and is able to exercise significant influence through its representation on the board of directors.

Joint ventures and associates are accounted for in accordance with FRS 9 whereby the profit and loss account includes, at the appropriate line, the Group's share of their sales, operating profit, exceptional items, interest and tax. They are stated in the balance sheet at the Group's share of their equity. Where the size criteria of FRS 9 are met additional information is given by way of note to the accounts.

Stocks

Stocks are valued at the lower of cost and estimated net realisable value, due allowance being made for obsolete or slow-moving items. Cost includes the relevant proportion of works overheads assuming normal levels of activity.

Taxation

Provision is made for deferred tax in so far as a liability or asset arises as a result of transactions that have occurred by the balance sheet date and give rise to an obligation to pay more tax in future, or a right to pay less tax in future. A deferred tax asset is only recognised to the extent that it may be regarded as recoverable. Deferred tax assets and liabilities recognised are not discounted.

No provision is made for any additional tax which might arise on remittance of retained profits of overseas subsidiaries, joint ventures and associates except where distribution of such profits is planned.

Pensions and post-retirement 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 amount charged to the profit and loss account is calculated, in accordance with SSAP 24, by independent actuaries as being the expected cost of providing pensions on a systematic and rational basis over the period during which the Group expects to derive benefit from the employees' services. Additionally, certain amounts are charged in accordance with the rules of defined contribution pension plans.

The impact on the balance sheet, profit and loss account and statement of total recognised gains and losses of the adoption of FRS 17, together with the assumptions made in computing that impact, are shown by way of note.

2 SALES

The geographical markets supplied by subsidiaries, joint ventures and associates are as follows:

	Geographical markets supplied				
	United Kingdom £m	Continental Europe £m	Americas £m	Rest of the World £m	Total £m
Sales by subsidiaries					
By business:					
Automotive	292	1,172	946	365	2,775
Aerospace	76	86	391	6	559
Total 2003	**368**	**1,258**	**1,337**	**371**	**3,334**
By region of origin:					
United Kingdom	290	154	62	8	514
Continental Europe	69	1,091	54	73	1,287
Americas	9	12	1,213	10	1,244
Rest of the World	–	1	8	280	289
Total 2003	**368**	**1,258**	**1,337**	**371**	**3,334**
Total 2002	395	1,180	1,398	332	3,305
Group share of sales by joint ventures and associates					
Total 2003	**495**	**400**	**92**	**264**	**1,251**
Total 2002	556	292	115	184	1,147

Analyses of sales, operating profit and net operating assets of subsidiaries, joint ventures and associates by business and by region of origin are shown on page 70.

NOTES ON THE ACCOUNTS CONTINUED

3 OPERATING PROFIT

	Continuing operations	
	2003 £m	2002 £m
Sales by subsidiaries	**3,334**	3,305
Change in stocks of finished goods and work in progress	**(7)**	7
Raw materials and consumables	**(1,045)**	(1,023)
Staff costs (note 9)	**(1,108)**	(1,065)
Redundancy and reorganisation costs:		
Exceptional (note 4)	**–**	(23)
Other	**(12)**	(5)
Depreciation written off tangible fixed assets (including £2 million in respect of assets under finance leases, 2002 – £3 million)	**(182)**	(177)
Impairment of tangible fixed assets	**(2)**	–
Amortisation of goodwill	**(31)**	(31)
Impairment of goodwill	**(91)**	(11)
Exceptional charge for asset impairments (note 4)	**–**	(14)
Other external charges	**(810)**	(846)
	(3,288)	(3,188)
Operating profit of subsidiaries	**46**	117

Details of companies acquired are given in the Operating and Financial Review on pages 18 to 31 and note 25. There were no discontinued activities in either 2003 or 2002.

Other external charges include rental for hire of equipment £19 million (2002 – £17 million) and rental for leased property £16 million (2002 – £15 million). Auditors' remuneration, including expenses, was £2.9 million (2002 – £2.9 million). Non-audit fees payable to PricewaterhouseCoopers are subject to review by the Audit Committee and the policy for using auditors for non-audit work is set out in the Corporate Governance Report on page 77. The total payable to PricewaterhouseCoopers worldwide in respect of such fees is analysed below:

	2003 £m	2002 £m
Tax compliance	**0.4**	0.4
Tax advice	**0.6**	0.5
Other	**0.1**	0.5
	1.1	1.4

In accordance with the provisions of UITF 17 (revised 2000), no charge to profit has been made in respect of employee share options issued under Inland Revenue approved share save schemes.

Research and development costs in subsidiaries totalled £84 million (2002 – £85 million) including £3 million of expenditure refunded by customers and other parties for development work carried out on their behalf and capital expenditure of £4 million. In addition, GKN's share of research and development in AgustaWestland in the year totalled £154 million (2002 – £149 million) including £148 million (2002 – £141 million) of expenditure refunded by customers and other parties for development work carried out on their behalf.

4 EXCEPTIONAL ITEMS

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

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

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

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

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

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

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

5 NET INTEREST PAYABLE

	2003 £m	2002 £m
Subsidiaries		
Loans to joint ventures and associates	1	2
Short-term investments, loans and deposits	16	20
	17	22
Loans from joint ventures	(2)	(5)
Short-term borrowings (including bank interest £13 million, 2002 – £21 million)	(16)	(23)
Loans repayable within five years (including bank interest nil, 2002 – nil)	(5)	(1)
Loans repayable after five years	(48)	(37)
Finance leases	(2)	(3)
	(56)	(47)
Share of joint ventures and associates		
Interest receivable	8	8
Interest payable	(8)	(9)
	–	(1)

NOTES ON THE ACCOUNTS CONTINUED

6 TAXATION

Tax charge for the year

	2003 £m	2002 £m
United Kingdom		
Corporation tax at 30%	89	41
Deferred tax	(2)	(8)
Adjustments in respect of prior years	(1)	(12)
	86	21
Double tax relief	(87)	(40)
	(1)	(19)
Overseas		
Corporation taxes	53	51
Deferred tax	(8)	11
Adjustments in respect of prior years	(5)	(4)
	40	58
Share of joint ventures and associates	31	38
Total tax charge for the year	70	77

Tax on exceptional items, included in the above, is: UK – £2 million (2002 – nil), Overseas – nil (2002 – £3 million credit).

Tax reconciliation

	2003 £m	2002 £m
Profit before tax	173	180
Goodwill amortisation and impairment and exceptional items	73	87
Profit before tax (pre-goodwill amortisation and impairment and exceptional items)	246	267
Tax calculated at 30% standard UK Corporation Tax rate	74	80
Differences between UK and non-UK corporate tax rates	17	20
Non-deductible and non-taxable items	(10)	(10)
Deferred tax – origination and reversal of timing differences	12	–
Differences attributable to joint ventures and associates	–	2
Current year corporate tax charge on ordinary activities	93	92
Deferred tax on ordinary activities	(10)	4
Adjustments in respect of prior years	(6)	(16)
Deferred tax credit in respect of goodwill impairment	(9)	–
Tax in respect of exceptional items	2	(3)
Total tax charge for the year	70	77

7 DIVIDENDS

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

8 EARNINGS PER SHARE

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

Earnings per share before goodwill amortisation and impairment and exceptional items, which the Directors consider gives a useful additional indication of underlying performance, is calculated on the earnings of the year adjusted as follows:

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

NOTES ON THE ACCOUNTS CONTINUED

9 STAFF COSTS AND DIRECTORS' REMUNERATION

	2003 £m	2002 £m
Wages and salaries	**886**	880
Social security costs	**148**	133
Other pension costs	**74**	52
	1,108	1,065

The average numbers employed by subsidiaries during the year were:

	2003	2002
United Kingdom	**6,001**	6,805
Continental Europe	**15,155**	14,927
Americas	**11,603**	11,775
Rest of the World	**2,725**	2,541
	35,484	36,048

Full details of the Directors' remuneration, which form part of these accounts, are contained in the auditable part of the Report on Directors' Remuneration on pages 86 to 88.

10 GOODWILL

	Subsidiaries £m	Joint ventures £m	Associated company £m	Total £m
Cost				
At 1 January 2003	586	117	9	712
Subsidiaries sold	(2)	–	–	(2)
Additions in year	24	–	–	24
Currency variations	(52)	7	–	(45)
At 31 December 2003	**556**	**124**	**9**	**689**
Accumulated amortisation				
At 1 January 2003	116	12	–	128
Subsidiaries sold	(1)	–	–	(1)
Charge for year	31	6	–	37
Impairment	91	–	–	91
Currency variations	(21)	1	–	(20)
At 31 December 2003	**216**	**19**	**–**	**235**
Net book value at 31 December 2003	**340**	**105**	**9**	**454**
Net book value at 31 December 2002	470	105	9	584

The impairment charge has been calculated based on a value in use assessment in accordance with FRS 11. The discount rate applied to pre-tax cash flows was 11%.

Joint venture and associated company goodwill in the above table is included in the Group's share of net assets of joint ventures and associates shown in note 12.

11 TANGIBLE ASSETS

	Land and buildings £m	Other tangible fixed assets £m	Capital work in progress £m	Total £m
Cost or valuation				
At 1 January 2003	463	2,144	86	2,693
Subsidiaries acquired and sold	18	23	1	42
Capital expenditure	5	73	82	160
Disposals	(17)	(70)	–	(87)
Transfers	18	82	(100)	–
Currency variations	(5)	(10)	(3)	(18)
At 31 December 2003	**482**	**2,242**	**66**	**2,790**
Accumulated depreciation				
At 1 January 2003	66	1,253	–	1,319
Subsidiaries acquired and sold	8	20	–	28
Charge for the year	13	169	–	182
Disposals	(7)	(65)	–	(72)
Impairment	1	2	–	3
Currency variations	(2)	3	–	1
At 31 December 2003	**79**	**1,382**	**–**	**1,461**
Net book value at 31 December 2003	**403**	**860**	**66**	**1,329**
Owned assets	384	851	66	1,301
Assets under finance leases	19	9	–	28
	403	**860**	**66**	**1,329**
Net book value at 31 December 2002	397	891	86	1,374

	Cost or valuation £m	Accumulated depreciation £m	Net book value 2003 £m	Net book value 2002 £m
Analysis of land and buildings:				
Freehold land	81	–	**81**	91
Freehold buildings	353	(66)	**287**	284
Long leases	3	(2)	**1**	–
Short leases (expiring on or before 31 December 2053)	45	(11)	**34**	22
	482	(79)	**403**	397

	£m
Cost or valuation of land and buildings at 31 December 2003 includes:	
1996 valuation	**166**
Earlier years' valuations	**9**
At cost or fair value on acquisition	**307**
	482

Major freehold and long leasehold properties in the UK, US, Germany and France were valued at 31 December 1996 by DTZ Debenham Thorpe and King Sturge & Co, chartered surveyors. Properties were valued, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of open market value and existing use value except for specialised properties which were valued on a depreciated replacement cost basis. In accordance with the transitional arrangements of FRS 15 these values have been retained as book values.

The original cost of land and buildings at 31 December 2003 was £450 million; the notional net book value on the original cost basis would have been £345 million.

NOTES ON THE ACCOUNTS CONTINUED

12 INVESTMENTS

	2003 £m	2002 £m
Joint ventures:		
Goodwill (note 10)	105	105
Other fixed assets	157	159
Current assets	939	934
Liabilities due within one year	(543)	(655)
Liabilities due beyond one year	(401)	(317)
Group's share of net assets	257	226
Associates	29	39
Loans to joint ventures and associates	6	17
Other investments	–	–
	292	282

The movement in book value of investments is as follows:

	2003 £m	2002 £m
At 1 January	282	226
Formation of AgustaWestland	–	(2)
Profit retained by joint ventures and associates	28	29
Additions	6	39
Disposals and changes in status	(14)	(8)
Loan to Alvis plc reclassified as long-term debtor	(15)	–
Currency variations	5	(2)
At 31 December	292	282

The Group's share of net assets of joint ventures includes net funds of £28 million (2002 – £66 million). Further details of the contribution to Group results by AgustaWestland are shown at note 29.

Other investments include:

› 289,238 shares of 5p each in Brambles Industries plc which were originally issued to the GKN Employee Benefit Trust, now owned directly by the Group, and 397,456 shares of 5p each in Brambles Industries plc issued to the GKN Qualifying Employee Share Ownership Trust (QUEST) as a consequence of the demerger of the Industrial Services businesses in August 2001. At 31 December 2003 these shares had a market value of £1.4 million;

› 1,219,238 50p Ordinary Shares acquired by the GKN Employees' Share Ownership Plan Trust in connection with the GKN long-term incentive plan. At 31 December 2003 the shares, which have been written down to nil, had a market value of £3.3 million.

The market value at 31 December 2003 of the Group's 33% shareholding in its associated company Tochigi Fuji Sangyo (TFS) was £18 million (2002 – £14 million). Because TFS is a listed company, the Group's share of equity and results is determined from their most recently published financial statements dated 30 September 2003.

In 2003 a new wholly-owned subsidiary, GKN Aerospace Services Structures Corp., was formed. This US corporation operates under a proxy agreement with the United States Department of Defense developing high technology, classified products for the Joint Strike Fighter. The agreement places significant restrictions on the Group's management of the business for the life of the contract so that, in accordance with FRS 2, it has been excluded from the consolidation and treated as an investment. The amount of the investment has been fully provided so that the carrying value is nil. At 31 December 2003, the excluded net liabilities were £1 million and the operating loss was £2 million. During the year, the Group provided engineering and design services to GKN Aerospace Services Structures Corp. amounting to £1 million.

13 STOCKS

	2003 £m	2002 £m
Raw materials and consumables	**193**	201
Work in progress	**190**	191
Finished goods and goods for resale	**104**	96
	487	488

Work in progress includes £56 million (2002 – £45 million) in respect of non-recurring costs (consisting of design, development and tooling) on major aerospace contracts.

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

14 DEBTORS

	2003 £m	2002 £m
Due within one year:		
Trade debtors	**424**	394
Amounts owed by joint ventures and associates	**19**	13
Advance corporation tax recoverable	**1**	1
Other debtors	**40**	32
Prepayments and accrued income	**26**	28
	510	468
Due in more than one year:		
SSAP 24 prepayment (note 26)	**93**	72
Deferred tax asset (note 22)	**6**	9
Other debtors	**21**	12
	630	561

15 CASH AT BANK AND IN HAND

	2003 £m	2002 £m
Bank balances and cash	**91**	69
Short-term loans and deposits	**40**	36
	131	105

16 SHORT-TERM BORROWINGS

	2003 £m	2002 £m
Bank overdrafts (note 20)	**22**	26
Short-term loans (note 20):		
AgustaWestland	**6**	7
Other	**8**	10
	36	43

17 CREDITORS

	2003 £m	2002 £m
Trade creditors	**334**	334
Bills payable	**8**	10
Customer advances	**48**	42
Amounts owed to joint ventures and associates	**14**	8
Indirect and payroll taxes	**29**	30
Obligations under finance leases (note 20)	**1**	2
Other creditors	**120**	130
Accruals and deferred income	**206**	216
	760	772

NOTES ON THE ACCOUNTS CONTINUED

18 TAXATION PAYABLE

	2003 £m	2002 £m
United Kingdom tax	46	44
Overseas tax	120	138
	166	182

19 CREDITORS: AMOUNTS FALLING DUE BEYOND ONE YEAR

	2003 £m	2002 £m
Term loans (note 20)	872	877
Obligations under finance leases (note 20)	15	17
	887	894

Term loans include:

› Bank borrowings.

› Unsecured £350 million (2002 – £350 million) 6.75% bonds maturing in 2019 less issue costs of £5 million and £325 million (2002 – £325 million) 7% bonds maturing in 2012 less net issue costs of £1 million.

› Secured term loans of £46 million (2002 – £48 million). These include £30 million (2002 – £30 million) debenture stocks of Westland Group plc, which are secured by a floating charge on the undertaking and assets of that company and certain of its subsidiaries and guaranteed by GKN Holdings plc, and £14 million (2002 – £16 million) secured by way of a fixed and floating charge on certain Aerospace assets.

20 ANALYSIS OF FINANCIAL LIABILITIES

The disclosures made in notes 20 and 21 should be read in conjunction with the discussion of the Group's objectives, policies and strategies with regard to financial instruments in the Operating and Financial Review on pages 29 and 30. Short-term debtors and creditors arising directly from the Group's operations are excluded from the following disclosures other than those on currency exposures.

After taking into account the various interest rate and forward foreign exchange contracts entered into by the Group, the effective currency and interest rate exposure of the Group's borrowings were as follows:

				Fixed rate borrowings	
	Floating rate borrowings £m	Fixed rate borrowings £m	Total borrowings £m	Weighted average interest rate %	Weighted average time for which rate is fixed Years
At 31 December 2003					
Sterling	9	702	711	7.0	11.9
US dollar	28	–	28	4.3	10.5
Euro	90	1	91	0.3	6.7
Other	92	2	94	–	4.5
	219	705	924	6.9	11.9
At 31 December 2002					
Sterling	22	702	724	7.0	12.9
US dollar	43	1	44	5.1	9.4
Euro	68	1	69	0.3	7.7
Other	101	1	102	–	3.5
	234	705	939	6.9	12.9

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

The maturity of the Group's borrowings at 31 December 2003 was as follows:

	2003 £m	2002 £m
Bank loans, overdrafts and other borrowings repayable as follows:		
Within one year	**36**	43
One to two years	**12**	10
Two to five years	**175**	149
After five years	**685**	718
	908	920
Finance leases repayable as follows:		
Within one year	**1**	2
One to two years	**2**	1
Two to five years	**1**	3
After five years	**12**	13
	16	19
Total borrowings	**924**	939

At 31 December 2003 the Group had the following undrawn committed borrowing facilities:

	2003 £m	2002 £m
Expiring within one year	**32**	57
Expiring in more than one year but not more than two years	**–**	–
Expiring in more than two years	**614**	560
	646	617

21 FINANCIAL INSTRUMENTS

a) Financial assets

	Bank and cash balances		Short-term loans and deposits	
	2003 £m	2002 £m	2003 £m	2002 £m
Sterling	**30**	–	**21**	20
US dollar	**8**	30	**–**	–
Euro	**19**	16	**2**	3
Other	**34**	23	**17**	13
	91	69	**40**	36

The bank and cash balances comprise £20 million (2002 – £26 million) in respect of short-term balances earning interest and £71 million (2002 – £43 million) in respect of balances which are non-interest earning. The weighted average interest rate at year-end on the interest earning cash balances, which was all floating and set by reference to relevant LIBORs, was 2.6% (2002 – 3.5%). Surplus cash is deposited for short-term periods typically with a maturity of less than three months. The weighted average interest rate on the deposit account balances is 3.2% (2002 – 3.2%).

b) Currency exposures

As explained in the Operating and Financial Review on page 30, the Group's objective in managing the translational currency exposures arising from its overseas investments is to ensure that changes in the sterling equivalent of assets and liabilities caused by currency movements do not have a material impact on the sterling value of shareholders' equity. At 31 December 2003, there were £597 million of indirect borrowings created through the use of forward foreign exchange contracts to hedge such exposures denominated in euro (36%) and US dollars (64%) mirrored by indirectly created sterling deposits. Net gains and losses arising from these translational currency exposures are recognised in the statement of total recognised gains and losses. Interest differentials resulting from the use of financial instruments to hedge those exposures are dealt with through the profit and loss account.

After taking into account the effects of forward foreign exchange contracts, at 31 December 2003 there were no material currency exposures that give rise to gains or losses recognised in the profit and loss account.

NOTES ON THE ACCOUNTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

c) Fair values of financial assets and liabilities

The comparison of book and fair values of all the Group's financial assets and liabilities at 31 December 2003 is set out below:

	2003		2002	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial instruments held or issued to finance the Group's operations				
Bank and cash balances	**91**	**91**	69	69
Short-term loans and deposits	**40**	**40**	36	36
Short-term borrowings and current portion of long-term borrowings	**(36)**	**(36)**	(43)	(43)
Long-term borrowings	**(872)**	**(933)**	(877)	(901)
Finance leases	**(16)**	**(16)**	(19)	(19)
Financial instruments held to manage interest rate and currency exposures				
Interest rate swaps and similar instruments	**–**	**1**	–	2
Forward foreign exchange contracts	**8**	**8**	–	5
Financial instruments held to hedge currency exposures on expected future trading transactions				
Forward foreign exchange contracts	**–**	**6**	–	–
At 31 December	**(785)**	**(839)**	(834)	(851)

In addition to the above, the Group has a loan to another company, shown within long-term debtors, with a book value of £15 million and fair value of £16 million. The following methods and assumptions were used in estimating fair values for financial instruments:

› Short-term borrowings, cash and deposits approximate to book value due to their short maturities.

› Long-term borrowings: Bank and other loans carrying fixed rates of interest – the repayments which the Group is committed to make have been discounted at the relevant interest rates applicable at 31 December 2003. Bonds – quoted closing market value.

› Interest rate instruments – discounted cash flow analysis based on interest rates derived from market yield curves.

› Forward exchange contracts and currency swaps – marked-to-market.

d) Hedges

As explained in the Operating and Financial Review on pages 29 and 30, the Group's policy is to hedge the exposures summarised below. Translational currency exposures are hedged where the costs and results of such hedging are economically acceptable.

› Interest rate risk – using interest rate swaps, swaptions and forward rate agreements.

› Transactional and translational currency exposures – using forward foreign exchange contracts and currency swaps.

Gains or losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains or losses on instruments used for hedging both transactional and translational currency exposures and the movements therein, are as follows:

	Gains £m	Losses £m	Net gains/(losses) £m
Unrecognised gains and losses on hedges at 31 December 2002	39	(32)	7
Gains and losses from previous years recognised in 2003	(32)	20	(12)
Gains and losses arising before 1 January 2003 that were not recognised in 2003	7	(12)	(5)
Gains and losses arising in 2003 that were not recognised in that year	36	(24)	12
Unrecognised gains and losses on hedges at 31 December 2003	**43**	**(36)**	**7**
Expected to be recognised in 2004	27	(20)	7
Expected to be recognised after 2004	16	(16)	–
	43	**(36)**	**7**

In 2003 net translational gains and losses arising on forward foreign exchange contracts have been recognised through reserves and matched with offsetting movements on translational foreign exchange variances. Gains of £5 million arising in prior years have been recognised in the profit and loss account in the year and have offset currency losses on underlying transactions.

22 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £m	Post-retirement £m	Other £m	Total £m
At 1 January 2003	64	230	79	373
(Credit)/charge for the year	(13)	34	4	25
Paid or accrued during the year	–	(39)	(2)	(41)
Currency variations	(1)	8	(3)	4
At 31 December 2003	**50**	**233**	**78**	**361**

Deferred taxation

	2003 £m	2002 £m
Accelerated tax allowances on fixed assets	**120**	139
Other timing differences	**(38)**	(50)
Tax losses	**(38)**	(34)
Net deferred tax liability	**44**	55
Deferred tax liability	**50**	64
Deferred tax asset	**(6)**	(9)
Net deferred tax liability	**44**	55

The movements in the net deferred tax liability were:

	2003 £m	2002 £m
At 1 January	**55**	52
(Credit)/charge for the year	**(10)**	3
Currency variations	**(1)**	–
At 31 December	**44**	55

There are other deferred tax assets in relation to tax losses totalling £73 million (2002 – £63 million) that have not been recognised on the basis that their future economic benefit is uncertain.

No provision has been made for deferred tax in relation to gains recognised on revaluing assets to their market value or on the sale of assets where potentially taxable gains have been rolled over into the cost of replacement assets. Such tax would only become payable if assets were sold without it being possible to roll over any resultant gains. The total amount unprovided for is £15 million (2002 – £9 million). It is not anticipated that any such tax will become payable in the foreseeable future.

No provision has been made for deferred tax which might arise on the remittance of retained profits of overseas subsidiaries, joint ventures and associates except where the distribution of such profits is planned.

Post-retirement

Post-retirement includes provisions relating to pension benefits of £176 million (2002 – £175 million) and provisions for other post-retirement benefits of £57 million (2002 – £55 million).

Other

Other provisions comprise mainly legal and other claims, environmental and warranty provisions, the timing of which is inherently uncertain. They are established based on historical information or professional assessment.

NOTES ON THE ACCOUNTS CONTINUED

23 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Ordinary Shares of 50p each	**450**	450	**367**	366

	Number ('000)	Number ('000)	**Number ('000)**	Number ('000)
Ordinary Shares of 50p each	**900,000**	900,000	**734,113**	732,894

The authorised and issued share capital of GKN plc included one Special Share of 50p until 15 May 2003 when the Special Share was purchased by the Company at its nominal value. The Special Share carried a fixed dividend of 2p per annum and no voting rights. Following the purchase of the Special Share, the authorised but then unissued Special Share in the capital of the Company was reclassified as one Ordinary Share of 50p.

The options held by Group employees over GKN plc shares were as follows:

	SAYE scheme Number ('000)	UK and overseas executive schemes Number ('000)
At 1 January 2003	24,793	9,081
Granted	1,880	7,554
Exercised	(944)	(275)
Lapsed	(5,970)	(484)
At 31 December 2003	**19,759**	**15,876**
Option price per share	164.58p–330.83p	120p–320p
Exercisable at dates extending to	2010	2013

All options granted in 2003 were over GKN plc Ordinary Shares (under the GKN SAYE Share Option Scheme 2001 at 229p per share exercisable between 2006 and 2007, and under the GKN Executive Share Option Scheme 2001 at 163.05p and 174.25p per share exercisable between 2006 and 2013).

The consideration received by GKN plc in 2003, all from employees, in connection with the exercise of options was £2 million.

24 RESERVES

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Group					
At 1 January 2003	13	45	(81)	607	584
Arising from Ordinary Share issues	1	–	–	–	1
Transfer from profit and loss account	–	–	–	16	16
Reversal of revaluation	–	(1)	–	–	(1)
Currency variations:					
Overseas net assets	–	1	3	(58)	(54)
Foreign currency borrowings	–	–	–	13	13
Transfers between reserves	–	(5)	(18)	23	–
At 31 December 2003	**14**	**40**	**(96)**	**601**	**559**
Parent company and subsidiaries	14	40	(103)	529	480
Joint ventures and associated company	–	–	7	72	79
	14	**40**	**(96)**	**601**	**559**
Company					
At 1 January 2003	13	–	–	757	770
Arising from Ordinary Share issues	1	–	–	–	1
Transfer to profit and loss account	–	–	–	(85)	(85)
At 31 December 2003	**14**	**–**	**–**	**672**	**686**

Cumulative goodwill eliminated directly against Group reserves amounted to £639 million (2002 – £665 million).

25 ACQUISITIONS

	Date	Additional direct shareholding %	Group shareholding at 31 December 2003 %
Subsidiaries			
Ecasol SA (Uruguay)	July	100	100
Pilkington Aerospace Ltd (UK)	October	100	100
Pilkington Aerospace Inc (USA)	October	100	100
Pilkington Aerospace do Brasil Ltda (Brazil)	October	100	100
Pilkington Aerospace (Thailand) Ltd (Thailand)	October	100	100
Ductil Iron Powder SA (Romania)	November	100	100

NOTES ON THE ACCOUNTS CONTINUED

25 ACQUISITIONS CONTINUED

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

	Book value prior to acquisition £m	Revaluations £m	Accounting policy alignment £m	Fair value to the Group £m
Tangible fixed assets	18	1	(2)	17
Stocks	9	–	–	9
Debtors	11	–	–	11
Creditors	(10)	(1)	–	(11)
Loans and finance leases	(7)	–	–	(7)
Net assets acquired	21	–	(2)	19
Goodwill				24
Consideration including costs				43

Acquisitions during the year contributed sales of £14 million and operating profit of £1 million. The contribution to group cash flow was a net cash inflow of £3 million from operating activities, payments of nil in respect of interest, payments of nil in respect of tax and payments of £1 million in respect of capital expenditure and financial investment.

26 POST-RETIREMENT BENEFITS

The Group's pension arrangements comprise various defined benefit and defined contribution schemes throughout the world.

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

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

In certain overseas companies funds are retained within the business to provide for retirement obligations. The annual charge to provide for these obligations, which is determined in accordance with actuarial advice or local statutory requirements, amounted to £35 million (2002 – £31 million).

The Group operates a number of retirement plans which provide certain employees with post-retirement healthcare benefits. The liability for providing these benefits is recognised on an actuarial basis and included in post-retirement and other provisions disclosed in note 22. The principal actuarial assumptions for the main UK plan as at December 2000, the date of the last review, were that the discount rate would be 7% per annum and that medical costs would initially increase by 8% per annum for three years falling to 4.5% over the next five years.

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

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

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

The major assumptions used were:

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

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

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

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

The overall position in respect of funded defined benefit pension schemes, unfunded pension obligations and other post-retirement provisions disclosed in note 22 is:

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

NOTES ON THE ACCOUNTS CONTINUED

26 POST-RETIREMENT BENEFITS CONTINUED

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

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

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

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

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

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

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

2003

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

2002

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

Movement in scheme gross deficits during year

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

27 COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities

At 31 December 2003 the Group had contingent liabilities in respect of bank and other guarantees amounting to £6 million (2002 – nil). In the case of certain joint ventures engaged in long-term contracts, performance bonds and customer finance obligations have been entered into in the normal course of business.

Capital expenditure

Contracts placed against capital expenditure sanctioned at 31 December 2003 so far as not provided for by subsidiaries amounted to £40 million (2002 – £31 million) and the Group's share not provided for by joint ventures and associates amounted to £7 million (2002 – £4 million).

Operating leases

The minimum payments which the Group is committed to make in 2004 under operating leases are as follows:

	2003		2002	
	Land and buildings £m	Equipment £m	Land and buildings £m	Equipment £m
Leases which expire:				
Within one year	1	5	1	2
Two to five years	10	5	7	8
After five years	7	1	3	–
	18	11	11	10

28 RELATED PARTY TRANSACTIONS

In the ordinary course of business, sales and purchases of goods and services take place between subsidiaries, joint ventures and associates priced on an 'arm's length' basis. These transactions are not significant except for amounts charged to AgustaWestland totalling £5 million (2002 – £5 million) in respect of property rentals and £35 million (2002 – £32 million) for production materials supplied.

In addition, interest of £2 million (2002 – £5 million), accruing at a daily rate of base rate less 0.5 percentage points, was charged to the Group in respect of a current account with AgustaWestland.

There are no other related party transactions requiring disclosure under FRS 8 'Related Party Disclosures'.

NOTES ON THE ACCOUNTS CONTINUED

29 AGUSTAWESTLAND

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

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

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

BALANCE SHEET OF GKN PLC
AT 31 DECEMBER 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Investments in subsidiaries at cost		**3,550**	3,550
Creditors: amounts falling due within one year			
Amounts owed to subsidiaries		**(2,440)**	(2,358)
Dividend payable		**(57)**	(56)
		(2,497)	(2,414)
Total assets less current liabilities		**1,053**	1,136
Net assets		**1,053**	1,136
Capital and reserves			
Called up share capital	23	**367**	366
Share premium account	24	**14**	13
Profit and loss account	24	**672**	757
Equity interest		**1,053**	1,136

The accounts were approved by the Board of Directors on 27 February 2004 and were signed by:
Sir David Lees, Kevin Smith, Nigel Stein, Directors

As permitted by the Companies Act 1985 a separate profit and loss account for the parent company has not been presented.

Information on the principal divisions, subsidiaries, joint ventures and associates is shown on pages 90 and 91.

SEGMENTAL ANALYSIS

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

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

Notes:

1 The analyses of operating profit by business and by region of origin include an allocation of costs incurred in the United Kingdom other than the pension deficit noted above.

2 Intra-group sales between businesses and regions are not significant.

3 Operating profit/(loss) after charging goodwill amortisation and impairment and exceptional items is analysed by business as follows: Automotive £89 million (2002 – £143 million), Aerospace £108 million (2002 – £93 million) and UK pension deficit £(23) million (2002 – £(6) million) and by region of origin as follows: Europe £212 million (2002 – £192 million), Americas £(66) million (2002 – £19 million) and Rest of the World £28 million (2002 – £25 million).

4 Net operating assets are analysed as follows:

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

GROUP FIVE YEAR FINANCIAL RECORD

	Continuing businesses				As reported (including Industrial Services)		
	2003 £m	2002 £m	Pro forma 2001 £m	Pro forma 2000 £m	2001 £m	2000 £m	1999 £m
Consolidated profit and loss accounts							
Sales							
Subsidiaries	**3,334**	3,305	3,317	3,892	3,432	4,124	3,708
Share of joint ventures and associates	**1,251**	1,147	1,020	242	1,520	972	935
	4,585	4,452	4,337	4,134	4,952	5,096	4,643
Operating profit before goodwill amortisation and impairment and exceptional items							
Subsidiaries	**168**	196	193	389	203	421	396
Share of joint ventures and associates	**134**	119	113	35	183	172	162
	302	315	306	424	386	593	558
Net interest payable:							
Subsidiaries	**(56)**	(47)	(59)	(34)	(59)	(31)	(21)
Share of joint ventures and associates	**–**	(1)	(2)	(4)	(21)	(34)	(24)
Profit before tax, goodwill amortisation and impairment and exceptional items	**246**	267	245	386	306	528	513
Goodwill amortisation	**(37)**	(37)	(43)	(28)	(49)	(35)	(21)
Goodwill impairment	**(91)**	(11)	–	–	–	–	–
Exceptional profits/(losses):							
Subsidiaries	**55**	(39)	(100)	(18)	(127)	(18)	11
Share of joint ventures and associates	**–**	–	5	6	5	6	(2)
Profit on ordinary activities before taxation	**173**	180	107	346	135	481	501
Taxation	**(70)**	(77)	(64)	(125)	(110)	(157)	(139)
Minority interests	**(2)**	(3)	(5)	(5)	(5)	(5)	(4)
Earnings of the year	**101**	100	38	216	20	319	358
Earnings per share – p	**13.8**	13.7	5.3	30.2	2.8	44.6	50.4
Earnings per share before goodwill amortisation and exceptional items – p	**22.8**	25.2	24.0	39.1	28.9	54.5	52.4
Dividend per share – p	**11.6**	11.3	11.0	n/a	14.9	19.8	18.0
Consolidated balance sheets							
Tangible fixed assets	**1,329**	1,374	1,399	1,341	1,399	1,391	1,214
Stocks	**487**	488	503	595	503	602	527
Creditors less debtors	**(136)**	(219)	(182)	(341)	(182)	(346)	(433)
Net operating assets	**1,680**	1,643	1,720	1,595	1,720	1,647	1,308
Net borrowings	**(793)**	(834)	(885)	(601)	(885)	(601)	(281)
Intangible assets – goodwill	**340**	470	525	535	525	579	402
Fixed asset investments	**292**	282	226	128	236	437	345
Taxation and dividend payable	**(222)**	(237)	(242)	(295)	(242)	(295)	(135)
Provisions for liabilities and charges	**(355)**	(364)	(352)	(291)	(352)	(291)	(272)
Net assets	**942**	960	992	1,071	1,002	1,476	1,367