REGISTRATION NUMBER - 3207774

Lucas Varity

(formerly Lucas Varity Limited)

Annual Report and Financial Statements 2002

Contents

Lucas Varity
Report of the Directors

The directors present their report and accounts for the year ended 31 December 2002.

Principal activities and review of business

On 29 October 2002 the company became an unlimited company, and consequently changed its name from Lucas Varity Limited to Lucas Varity.

The company is an intermediate holding company and is the immediate parent undertaking of Lucas Industries Limited.

The group's principal activities during the year continued to be the supply of components to the automotive and aerospace industries. On 30 October 2002 the immediate parent undertaking Richmond TAUK Limited (formerly TRW Automotive UK limited) sold its investments in Lucas Varity, to TRW Automotive UK Inc.. At this date Lucas Varity as the ultimate parent undertaking within the European Union was no longer exempt under section 228 of the Companies Act 1985 from preparing group accounts. These accounts, therefore, present information about the company and its group.

On 21 February 2002 Northrop Grumman (a US corporation) announced a takeover offer for the whole of TRW Inc. the ultimate parent company. The Northrop Grumman offer was $47 of its own common stock for each share of TRW common stock. On 3 March 2002 the TRW Inc. board unanimously rejected the offer.

On 15 April 2002 Northrop Grumman announced a revised offer of $53 of its own common stock for each share of TRW common stock subject to a due diligence review. On 3 May 2002 the shareholders rejected the Northrop Grumman takeover proposal.

On 18 June 2002 TRW Inc. announced that it had reached a definitive agreement under which Goodrich Corporation would acquire TRW's Aeronautical Systems business (formerly Lucas Aerospace) for $1.5 billion in cash. The impact of this sale on Lucas Varity is detailed in the financial statements within note 22.

On 1 July 2002 Northrop Grumman and TRW Inc. jointly announced that they had entered a definitive merger agreement, where Northrop Grumman would acquire the TRW group, including its subsidiary Lucas Varity, for $60 per share in common stock.

The sale of TRW Aeronautical Systems to Goodrich Corporation was completed on 2 October 2002.

On 29 October 2002 Lucas Varity Limited became an unlimited company. Subsequent to this the company redeemed share capital of £2,199.6 million. This capital reduction was settled by a combination of cash and the transfer of group receivables.

On 19 November 2002 Northrop Grumman announced it had signed a definitive agreement to sell the TRW automotive business, including Lucas Industries Limited, to The Blackstone Group, a US private investment company, in a deal valuing the business at $4.7 billion.

On 11 December 2002 the merger of a wholly-owned subsidiary of Northrop Grumman with and into TRW Inc. was completed following the approval of the shareholders of Northrop Grumman and TRW Inc. at a shareholders' meeting. Based on the exchange ratio for the merger, TRW shareholders received 0.5357 shares of Northrop Grumman common stock for each share of TRW Inc. common stock.

Future developments

New vehicle demand is heavily influenced by macro-economic and other factors such as interest-rates, manufacturer and dealer sales incentives, fuel prices, consumer confidence and employment and income growth trends. The company is positioned to take advantage of favourable economic conditions as well as continuing to deliver good performance for its customers.

Lucas Varity
Report of the Directors (continued)

Post balance sheet events
On 26 February 2003 a subsidiary undertaking of the company, Lucas Investments Limited, sold its investment in TRW France Holdings SAS to another TRW Automotive Inc. group undertaking for US $541.5 million. The profit on disposal is estimated to be £68.0 million. The turnover and profit before tax for the year ended 31 December 2002 were £396.1 million and £96.6 million respectively.

On 28 February 2003 Lucas Industries Limited a subsidiary undertaking issued 252,866,843 ordinary shares of 25p each at a premium of 75p each to the company. The proceeds were used to repay an inter-company liability, so that the subsidiary undertaking, TRW Deutschland Holding GmbH, could repay external debt.

On 3 March 2003 Northrop Grumman announced that it had completed the sale of TRW Automotive to affiliates of The Blackstone Group. This has no impact on the financial results of the Lucas Industries group.

As part of the Blackstone acquisition the existing uncommitted borrowings facilities were replaced by a $250.0 million US Dollar facility and a Sterling facility for the equivalent of $22.0 million dollars with Barclays Bank PLC.

On 6 February 2004 TRW Automotive Holdings Corp. completed an initial public offering of 24.4% of its common stock.

Results and dividends
The profit for the year, after taxation and minority interest, amounted to £270.9 million (December 2001 – £151.6 million). A dividend of £1,202,686,650 was paid on the ordinary shares to the immediate parent undertaking Richmond TAUK Limited (formerly TRW Automotive UK Limited) on 20 October 2002 (December 2001 - £ nil).

Research and development
The group commits substantial funds to research and development of new products for both the automotive and aerospace industries. The total for the year was £105.6 million (December 2001 - £63.9 million).

Directors and Directors' interests
The directors of Lucas Varity during the year and subsequently were as follows:

AR Neogy	(appointed 3 September 2002)
R Fulton	(resigned 1 October 2002)
R Lechner	
PM Almond	
GT Plumley	(appointed 6 January 2003)

Directors' share options in subsidiary undertakings are as follows:

DIRECTOR	OPTIONS ON ORDINARY SHARES AT 1 JANUARY 2002	GRANTED	EXERCISED	OPTIONS ON ORDINARY SHARES AT 31 DECEMBER 2002	DATE OF GRANT/ EXERCISE
AR Neogy	9,750(a)	-	(9,750)	-	05.05.95 – 01.07.02

(a) seven year options scheme granted under the Lucas Industries Employees' 1995 Savings-Related Share Option Scheme at £1.60 maturing 1 July 2002.

All the shares exercised in the year were subsequently sold during the year, for a profit of £12,480.

None of the directors had any interest in the listed debt of the group. During the year there have been no contracts or arrangements existing in which a director of the group has been materially interested.

Tangible fixed assets
In the directors' opinion the valuation of land and buildings is not significantly different to that stated in the balance sheet.

Employment policies
Applications for employment from disabled people are given full and fair consideration bearing in mind the aptitudes and abilities of each person in relation to the requirements of the job. Employees who become disabled during service and are unable to carry out the work for which they were employed receive individual attention. Wherever possible, arrangements are made for their continued employment and they may be eligible for special training if there is a particular individual need. Disabled people have the same training, career development and promotion opportunities as all other employees.

Lucas Varity
Report of the Directors (continued)

Employee involvement
It is the policy of the group to maintain and develop employee involvement. Local managers provide information on a regular basis on matters of concern to employees, using various means such as business review meetings, briefing meetings, video presentations, company newspapers and training sessions. A wide range of procedures exists for consultation with employees and their representatives, including joint committees on pension matters, on suggestion schemes, on health and safety at work and joint working parties concerned with introducing change.

Employees participate directly in the success of the business through the group's profit sharing schemes and are encouraged to invest in the group through participation in share option schemes.

It is the policy to create a common awareness amongst employees of the financial and economic factors affecting the performance of the company.

Health, safety and environmental policy
The group is convinced of the importance of health, safety and the environment to the success of its business and intends to be an industry leader in its commitment to safety and environmental responsibility.

The group will, on a continuing basis: develop a culture which recognises the importance of health, safety and the environment to its success and exercise its responsibilities in a manner that reflects this; provide a healthy and safe place of work for all its employees; develop products and operate facilities in a manner that strives to eliminate risk to employees, customers, the environment and the community at large; and improve its performance in health, safety and environmental matters by encouraging the participation, commitment and support of all its employees.

Payment of suppliers
The group follows a strategy of having mutually beneficial long-term relationships with suppliers. The policy is to agree terms of trading (including payment) and to abide by them. At the year end there were nil days purchases in the company trade creditors.

Charitable and political contributions
During the period donations to universities, other educational establishments and charities amounted to £24,000 (December 2001 - £25,000). No payment was made to any political party.

Going concern
The directors have made enquires and were satisfied that the group had adequate resources to continue in operational existence and accordingly considered it appropriate to adopt the going concern basis in preparing the accounts.

Auditors
A resolution to re-appoint Ernst & Young LLP as the company's auditors will be put to the forthcoming Annual General meeting.

On behalf of the Board

AR Neogy
Director
27 May 2004

Lucas Varity
Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Lucas Varity

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Consolidated Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Group Balance Sheet, Parent Company Balance Sheet, and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company and group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

27 May 2004

Lucas Varity

Consolidated Profit and Loss Account

For the year ended 31 December 2002

	NOTES	2002 BEFORE EXCEPTIONAL ITEMS £m	2002 EXCEPTIONAL ITEMS £m	2002 TOTAL £m	2001 BEFORE EXCEPTIONAL ITEMS £m	2001 EXCEPTIONAL ITEMS £m	2001 TOTAL £m
Turnover							
Group and share of associate and joint venture – continuing operations		**2,365.3**	-	**2,365.3**	2,235.5	-	2,235.5
Less share of associate and joint venture		**(38.3)**	-	**(38.3)**	(36.9)	-	(36.9)
		2,327.0	-	**2,327.0**	2,198.6		2,198.6
Group and share of associate undertaking – discontinued operations		**379.7**	-	**379.7**	562.5		562.5
Less share of associate and joint venture		-	-	-	(0.9)	-	(0.9)
Group turnover	1,2	**2,706.7**	-	**2,706.7**	2,760.2	-	2,760.2
Operating expenses	3,5	**(2,625.8)**	**(24.8)**	**(2,650.6)**	(2,624.3)	(89.9)	(2,714.2)
Operating profit		**80.9**	**(24.8)**	**56.1**	135.9	(89.9)	46.0
Share of losses of joint venture		**(0.8)**	-	**(0.8)**	(0.9)	-	(0.9)
Share of profits less losses of associated undertaking		**2.6**	-	**2.6**	2.7	-	2.7
Total operating profit							
Continuing operations		**72.9**	**(24.8)**	**48.1**	100.0	(47.5)	52.5
Discontinued operations		**9.8**	-	**9.8**	37.7	(42.4)	(4.7)
	2	**82.7**	**(24.8)**	**57.9**	137.7	(89.9)	47.8
Continuing operations:							
Losses less profits on disposal of fixed assets	5	-	-	-	-	14.3	14.3
Discontinued operations:							
Gain on sale of businesses	5,22	-	**121.0**	**121.0**	-	11.1	11.1
Profit on ordinary activities before interest		**82.7**	**96.2**	**178.9**	137.7	(64.5)	73.2
Interest receivable less payable	6	**158.1**	-	**158.1**	103.9	-	103.9
Profit on ordinary activities before taxation		**240.8**	**96.2**	**337.0**	241.6	(64.5)	177.1
Taxation	7	**(60.5)**	-	**(60.5)**	(14.6)	(5.3)	(19.9)
Profit on ordinary activities after taxation		**180.3**	**96.2**	**276.5**	227.0	(69.8)	157.2
Equity minority interests		**(5.6)**	-	**(5.6)**	(5.6)	-	(5.6)
Profit in the financial year attributable to the Shareholders of the parent company		**174.7**	**96.2**	**270.9**	221.4	(69.8)	151.6
Ordinary dividend on equity shares	8			**(1,202.7)**			-
Retained (loss)/profit	20			**(931.8)**			151.6

Lucas Varity

Note of Historical Cost Profit and Loss

For the year ended 31 December 2002

	YEAR TO 31 DECEMBER 2002 £m	YEAR TO 31 DECEMBER 2001 £m
Reported profit on ordinary activities before taxation	**337.0**	177.1
Realisation of property revaluation gains of previous years	**48.9**	10.3
Difference between a historical cost depreciation charge and the actual charge calculated on a revalued amount	**2.1**	2.2
Historical cost profit on ordinary activities before taxation	**388.0**	189.6
Historical cost (loss)/profit for the year retained after taxation, minority interest, and dividends	**(880.8)**	164.1

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2002

	2002 £m	2001 £m
(Loss)/profit for the financial year	**(931.8)**	151.6
Exchange difference on retranslation of net assets of subsidiary undertakings	**(4.4)**	14.2
Total recognised gains and losses relating to the year	**(936.2)**	165.8

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2002

	2002 £m	2001 £m
Total recognised gains & losses	**(936.2)**	165.8
New shares issued	**0.7**	4.3
Goodwill reinstated on sale and closure of business	**48.4**	-
Capital restructure (note 19)	**(2,199.5)**	-
Total movements during the year	**(3,086.6)**	170.1
Opening shareholders' funds	**3,461.7**	3,291.6
Closing shareholders' funds	**375.1**	3,461.7

Lucas Varity
Balance Sheets

At 31 December 2002

	NOTES	GROUP 2002 £m	GROUP 2001 £m	PARENT COMPANY 2002 £m	PARENT COMPANY 2001 £m
Fixed assets:					
Intangible assets	9	**311.1**	420.3	-	-
Tangible assets	10	**630.6**	770.5	-	-
Investments	11	**15.7**	15.9	**1,347.2**	1,346.5
		957.4	1,206.7	**1,347.2**	1,346.5
Current assets:					
Stocks	12	**174.5**	250.0	-	-
Debtors: amounts falling due within one year	13	**675.4**	2,734.9	-	1,923.2
Debtors: amounts falling due after one year	13	-	1,378.1	-	-
Cash	14	**41.8**	35.3	-	-
		891.7	4,398.3	-	1,923.2
Creditors:					
amounts falling due within one year					
Borrowings	16	**(158.7)**	(87.2)	-	-
Creditors other than borrowings	15	**(942.5)**	(894.3)	**(861.3)**	(101.5)
		(1,101.2)	(981.5)	**(861.3)**	(101.5)
Net current (liabilities)/assets		**(209.5)**	3,416.8	**(861.3)**	1,821.7
Total assets less current liabilities		**747.9**	4,623.5	**485.9**	3,168.2
Creditors:					
amounts falling due after one year					
Borrowings	16	**(110.8)**	(129.3)	-	-
Creditors other than borrowings	15	-	(761.8)	-	-
Provisions for liabilities and charges	17	**(226.4)**	(241.7)	-	-
Net assets		**410.7**	3,490.7	**485.9**	3,168.2
Capital and reserves:					
Called up share capital	19	**185.3**	382.7	**185.3**	382.7
Share premium account	20	-	280.4	-	280.4
Capital redemption reserve	20	-	14.4	-	14.4
Capital reserve	20	-	290.1	-	290.1
Merger reserve – (deficit)	20	-	1,637.3	-	1,722.7
Revaluation reserve	20	-	73.0	-	-
Other reserve	20	**189.8**	-	**300.6**	-
Profit and loss account	20	-	783.8	-	477.9
Total shareholders' funds		**375.1**	3,461.7	**485.9**	3,168.2
Equity minority interests	21	**35.6**	29.0	-	-
		410.7	3,490.7	**485.9**	3,168.2

Approved by the Board of Directors on 27 May 2004 and signed on its behalf by:

A Neogy

AR Neogy

Director

Lucas Varity
Notes to the Financial Statements
At 31 December 2002

1 Accounting policies

Company status
During the year the company converted from being a limited liability company as defined by the Companies Act 1985 to being an unlimited liability company.

Basis of consolidation
The consolidated accounts include the accounts of Lucas Varity and all its subsidiary undertakings, together with the group's share of post-acquisition earnings and reserves of joint ventures and associated undertakings. The accounting date of all principal subsidiary undertakings is the same as that of Lucas Varity. The results of the aerospace business are included up to the effective date of disposal. No profit and loss account is presented for Lucas Varity as permitted by section 230 of the Companies Act 1985.

Accounting convention
The accounts are prepared under the historical cost convention as modified by the revaluation of property and in accordance with applicable United Kingdom accounting standards.

Change in accounting policy

In preparing the financial statements for the current year, the group has adopted FRS 19 'Deferred Tax'. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement. There is no impact in this or the prior year's results as a consequence of the change in accounting policy.

Turnover
Turnover represents sales excluding sales-related taxes and is generated worldwide.

Segmental reporting
The group identifies significant segments in accordance with the provisions of Statement of Standard Accounting Practice No. 25. Segmental turnover comprises sales to third parties, excluding sales-related taxes.

Segmental operating profit represents profit before interest, taxation and minority interests. Segmental net operating assets comprise tangible fixed assets, stock, debtors and creditors, but not non-operating assets and liabilities such as capitalised goodwill, all current and deferred tax balances, cash and borrowings.

Exchange rates
The profit and loss accounts of overseas subsidiary undertakings and associated undertakings are translated into sterling at the rates of exchange prevailing at the end of the financial period. The balance sheets of overseas undertakings and assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the end of the financial period. The exchange difference arising on the re-translation of opening net assets is taken directly to reserves.

Exchange gains and losses arising in the normal course of trading are dealt with in the profit and loss account.

The group uses forward foreign currency contracts to eliminate currency exposures for the next twelve months. Forward currency contracts were also used in the Aerospace business to eliminate currency exposures for up to seven years.

1 Accounting policies (continued)

Intangible fixed assets - entry fees

In certain circumstances in the aerospace industry, the group invested in new customer products by way of a lump sum payment (entry fee) in return for a proportion of future revenues derived from eventual sales of the customers' product. Such sums were included in intangible fixed assets and amortised over the prudently estimated revenue pattern of the product or over ten years following flight certification, if shorter. The technical and commercial viability of the related product programmes was regularly reviewed in appraising the carrying value of entry fees.

Intangible fixed assets - goodwill

Positive goodwill arising on acquisitions is capitalised and amortised by equal annual instalments over its estimated useful economic life, not exceeding 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible fixed assets – other

The group acquires various licences and patents which are capitalised in intangible fixed assets and amortised over their useful economic life. They are reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Fixed asset investments

Investments are treated as associated undertakings where the group has a participating interest, the investment is held for the long term, and the group exercises significant influence. Investments are treated as joint ventures where the group holds a long term interest and exercises joint control under a contractual arrangement.

In the company's own balance sheet, investments in subsidiary, associated and joint venture undertakings are stated at cost, less provision for any impairment in the value of those investments.

Depreciation

Depreciation is based on the estimated useful lives of assets and is charged on a straight line basis at the following rates:

Land	nil
Buildings	2%-10% per annum
Long and short-term leasehold properties	over period of the lease
Plant and equipment	4%-33% per annum

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Research and development

Expenditure on research and development, other than that which is specifically recoverable under contracts, is written off as incurred. Amounts carried forward are included in other debtors.

1 Accounting policies (continued)

Leasing
Assets acquired under finance leases are treated as tangible fixed assets and depreciation is provided accordingly. The deemed capital element of future rentals is included under borrowings. Deemed interest, calculated on a reducing balance basis, is charged as interest payable over the period of the lease. Rental costs of operating leases are charged against trading profits on a straight line basis over the lease term.

Stocks
Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items. In the case of work in progress and finished goods, cost comprises direct materials, direct labour and an appropriate proportion of production overheads.

Provisions
Provisions for liabilities and charges include pension liabilities in certain overseas subsidiaries, post-retirement benefits other than pensions, provisions for restructuring, deferred taxation and other items not classified elsewhere, including warranty and other claims.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;

- and deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1 Accounting policies (continued)

Pensions
The company operates a number of defined benefit and defined contribution pension schemes under which contributions by employees and the companies are held in trust separate from the companies' finances.

For the defined benefit schemes pension costs are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the group. An independent valuation is conducted at regular intervals and the assessed regular pension cost is adjusted to reflect the amortisation of any surplus or deficit established by the valuation over the remaining service lives of current employees.

For the defined contribution schemes contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

Post-retirement benefits other than pensions
The estimated cost of providing post-retirement healthcare benefits for employees is charged in the profit and loss account on a systematic basis over the working lives of the employees within the group.

Related party transactions
As the company is a wholly owned subsidiary of Northrop Grumman it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with other subsidiary undertakings that form part of the Northrop Grumman group, and associated undertakings of the Northrop Grumman group.

Cash flow
Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Derivative instruments

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The group considers its derivative instruments qualify for hedge accounting when certain criteria are met.

Forward foreign currency contracts

Forward foreign currency contracts are recorded as a hedge where the following criteria are met:

- the instrument must be related to a firm foreign currency commitment;
- it must involve the same currency as the hedged item;
- and it must reduce the risk of foreign currency exchange movements on the group's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs.

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

2 Segmental analyses

Sales to third parties and operating profit by class of business were as follows:

	YEAR TO 31 DECEMBER 2002 SALES £m	YEAR TO 31 DECEMBER 2001 SALES £m	YEAR TO 31 DECEMBER 2002 TOTAL OPERATING PROFIT £m	YEAR TO 31 DECEMBER 2001 TOTAL OPERATING PROFIT £m
Automotive – continuing	**2,327.0**	2,198.6	**46.3**	50.5
Aerospace – discontinued	**379.7**	519.6	**9.8**	(8.9)
Automotive – discontinued	**-**	42.0	**-**	4.4
Total	**2,706.7**	2,760.2	**56.1**	46.0
Automotive associate undertaking – continuing	**35.6**	33.9	**2.6**	2.9
Automotive joint venture – continuing	**2.7**	3.0	**(0.8)**	(0.9)
Automotive associate undertaking – discontinued	**-**	0.9	**-**	(0.2)
Total associate and joint venture	**38.3**	37.8	**1.8**	1.8
Total	**2,745.0**	2,798.0	**57.9**	47.8

Sales to third parties and operating profit analysed by geographic origin were as follows:

	YEAR TO 31 DECEMBER 2002 SALES £m	YEAR TO 31 DECEMBER 2001 SALES £m	YEAR TO 31 DECEMBER 2002 TOTAL OPERATING PROFIT/(LOSS) £m	YEAR TO 31 DECEMBER 2001 TOTAL OPERATING PROFIT/(LOSS) £m
United Kingdom:				
Continuing	**317.0**	332.6	**(117.6)**	(88.8)
Discontinued	**405.0**	585.1	**7.6**	15.7
Inter-segment sales	**(189.0)**	(265.3)	**-**	-
	533.0	652.4	**(110.0)**	(73.1)
Continental Europe:				
Continuing	**2,241.1**	2,055.1	**155.9**	121.1
Discontinued	**117.7**	151.3	**(2.4)**	(28.7)
Joint venture – continuing	**2.7**	3.0	**(0.8)**	(0.9)
Associate undertaking - discontinued	**-**	0.9	**-**	(0.2)
Inter-segment sales	**(287.4)**	(245.8)	**-**	-
	2,074.1	1,964.5	**152.7**	91.3
Rest of World:				
Continuing	**83.9**	80.8	**8.0**	16.6
Discontinued	**29.5**	83.6	**4.6**	10.1
Associate undertaking – continuing	**35.6**	33.9	**2.6**	2.9
Inter-segment sales	**(11.1)**	(17.2)	**-**	-
	137.9	181.1	**15.2**	29.6
Total	**2,745.0**	2,798.0	**57.9**	47.8

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

2 Segmental analyses (continued)

Sales to third parties analysed by geographic destination were as follows:

	YEAR TO 31 DECEMBER 2002 £m	YEAR TO 31 DECEMBER 2001 £m
United Kingdom:		
Continuing	**231.2**	231.8
Discontinued	**100.8**	149.0
	332.0	380.8
Continental Europe:		
Continuing	**1,861.9**	1,775.2
Discontinued	**137.5**	234.9
Joint venture – continuing	**2.7**	3.0
Associate undertaking – discontinued	-	0.9
	2,002.1	2,014.0
Rest of World:		
Continuing	**233.9**	191.5
Discontinued	**141.4**	177.8
Associate undertaking – continuing	**35.6**	33.9
	410.9	403.2
Total	**2,745.0**	2,798.0

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

2 Segmental analyses (continued)

Net operating assets/(liabilities) analysed by class of business:

	DECEMBER 2002 £m	DECEMBER 2001 £m
Automotive – continuing	**570.2**	462.5
Associate undertaking – continuing	**10.0**	10.7
Joint venture – continuing	**(1.2)**	(0.5)
	579.0	472.7
Aerospace - discontinued	-	243.0
Total operating net assets	**579.0**	715.7
Unallocated net (liabilities)/assets	**(168.3)**	2,775.0
	410.7	3,490.7
Minority interests	**(35.6)**	(29.0)
Total shareholders' funds	**375.1**	3,461.7

Net operating assets/(liabilities) analysed by geographic region:

	DECEMBER 2002 £m	DECEMBER 2001 £m
United Kingdom:		
Continuing	**130.7**	121.5
Discontinued	-	210.5
	130.7	332.0
Continental Europe:		
Continuing	**414.3**	308.3
Discontinued	-	22.4
Joint venture – continuing	**(1.2)**	(0.5)
	413.1	330.2
Rest of World:		
Continuing	**25.2**	38.2
Discontinued	-	4.6
Associate undertaking - continuing	**10.0**	10.7
	35.2	53.5
Total operating net assets	**579.0**	715.7
Unallocated net (liabilities)/assets	**(168.3)**	2,775.0
	410.7	3,490.7
Minority interests	**(35.6)**	(29.0)
Total shareholders' funds	**375.1**	3,461.7

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

3 Operating expenses

Operating expenses are arrived at after charging/(crediting) the following items:

	YEAR TO 31 DECEMBER 2002			YEAR TO 31 DECEMBER 2001		
	CONTINUING	DISCONTINUED	TOTAL	CONTINUING	DISCONTINUED	TOTAL
	£m	£m	£m	£m	£m	£m
Change in stocks of finished goods and work in progress	**(11.8)**	**(69.4)**	**(81.2)**	(1.3)	(0.8)	(2.1)
Other operating income	**(30.4)**	**-**	**(30.4)**	(26.2)	(0.1)	(26.3)
Raw materials and consumables	**1,554.2**	**226.7**	**1,780.9**	1,439.2	257.0	1,696.2
Staff costs						
- wages and salaries	**409.1**	**72.8**	**481.9**	397.2	113.1	510.3
- social security costs	**49.1**	**12.2**	**61.3**	59.2	17.7	76.9
- other pension costs	**9.1**	**0.6**	**9.7**	11.8	0.8	12.6
Depreciation written off tangible and intangible fixed assets	**149.1**	**20.1**	**169.2**	128.9	26.2	182.1
Other operating expenses	**152.3**	**106.9**	**259.2**	139.1	125.4	264.5
	2,280.7	**369.9**	**2,650.6**	2,147.9	566.3	2,714.2

Included within operating expenses are the following:

	YEAR TO 31 DECEMBER 2002 £m	YEAR TO 31 DECEMBER 2001 £m
Operating lease rentals - plant and machinery	**11.4**	11.1
- land and buildings	**1.5**	3.8
Depreciation - owned assets	**125.3**	116.5
- assets under finance lease	**1.9**	5.5
Impairment of owned assets	**12.6**	-
Amortisation - intangible assets	**2.1**	3.1
- positive goodwill	**27.3**	30.0
Impairment of goodwill (note 5)	**-**	27.0
Restructuring costs (note 5)	**-**	62.9
Research and development expenditure	**105.6**	63.9
Auditors' remuneration - audit services	**1.2**	0.9
- non-audit services	**0.4**	0.6
Government grant income	**(2.7)**	(0.5)

Prior year 2001 research and development expenditure was net of recoveries, the gross amount at 31 December 2001 was £92.6 million.

4 Directors' emoluments

	YEAR TO 31 DECEMBER 2002 £m	YEAR TO 31 DECEMBER 2001 £m
Emoluments	**0.6**	0.5
	No.	No.
Members of a defined benefit scheme	**3**	4

The above table relates to the emoluments of the directors for the year ended 31 December 2002.

The amounts in respect of the highest paid director are as follows:

	YEAR TO 31 DECEMBER 2002 £000	YEAR TO 31 DECEMBER 2001 £000
Emoluments	**187.5**	141.1
Accrued annual pension	**47.0**	42.4

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

5 Exceptional items	YEAR TO 31 DECEMBER 2002 £m	YEAR TO 31 DECEMBER 2001 £m
Impairment of goodwill	-	(27.0)
Restructuring costs provided for in the year	-	(62.9)
Impairment of tangible fixed assets	**(12.6)**	-
Write-off of inter-company balances	**(12.2)**	-
Waiver of Automotive inter-company balances	**216.1**	-
Waiver of Aerospace inter-company balances	**(216.1)**	-
Total operating exceptional items	**(24.8)**	(89.9)
(Loss)/profit on sale of business (note 22)	**121.0**	11.1
Profits less losses on disposal of fixed assets	-	14.3
Exceptional profits/(losses) before taxation	**96.2**	(64.5)

As part of the restructuring of the group in October 2002, with regard to the sale of the Aerospace business and in readiness for the sale of the Automotive business to The Blackstone Group, various inter-company loans were waived.

Following a review of the carrying values of capitalised goodwill the directors are of the opinion that there is no impairment in their carrying value. For the year ended December 2001, £27.0 million was impaired and written-off relating to an Aerospace subsidiary undertaking in France.

Following a review of the carrying values of tangible fixed assets the directors have written off £12.6 million (December 2001 - £ nil) in respect of a subsidiary undertaking in the United Kingdom.

A minority interest attributable to exceptional items was immaterial. The loss on disposal of fixed assets was immaterial (December 2001 - profit of £14.3 million).

The tax effect of the exceptional items is shown in note 7.

6 Interest receivable less payable

	YEAR TO 31 DECEMBER 2002 £m	YEAR TO 31 DECEMBER 2001 £m
Interest on bank loans and overdrafts	**(18.2)**	(4.6)
Interest on other loans and inter-company borrowings	**(55.0)**	(77.4)
Interest on finance leases	**(2.0)**	(2.0)
Loss on translation of inter-company balances	-	(33.0)
	(75.2)	(117.0)
Interest on inter-company deposits	**171.5**	215.9
Other interest receivable	**2.4**	5.5
Gain on translation of inter-company balances	**59.9**	-
Group share of interest payable less receivable	**158.6**	104.4
Share of associate's interest payable	**(0.5)**	(0.5)
	158.1	103.9

The interest income of £59.9 million relates to translation gains (December 2001 losses - £33.0 million) on long-term inter-company balances between TRW Deutschland Holding GmbH, a wholly owned subsidiary of Lucas Industries and TRW Overseas Finance B.V., a wholly owned subsidiary of Northrop Grumman. As part of the restructuring of the group in October 2002 this long-term loan was settled.

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

7 Taxation on profit on ordinary activities

	YEAR TO 31 DECEMBER 2002			YEAR TO 31 DECEMBER 2001		
	BEFORE EXCEPTIONAL ITEMS	EXCEPTIONAL ITEMS	TOTAL	BEFORE EXCEPTIONAL ITEMS	EXCEPTIONAL ITEMS	TOTAL
	£m	£m	£m	£m	£m	£m
UK corporation tax:						
Adjustment in respect of prior periods	**(1.3)**	-	**(1.3)**	-	-	-
Overseas taxation - current	**49.8**	-	**49.8**	12.5	5.3	17.8
- deferred	**11.1**	-	**11.1**	1.5	-	1.5
Share of associated undertakings' taxation	**0.9**	-	**0.9**	0.6	-	0.6
	60.5	-	**60.5**	14.6	5.3	19.9

Tax reconciliation	31 DECEMBER 2002 GROUP £m	31 DECEMBER 2001 GROUP £m
Profit on ordinary activities before taxation	**240.8**	241.6
Normal tax charge at UK corporation tax rate 30% (December 2001 - 30%)	**72.2**	72.5
Net cost of different rates of taxation in overseas undertakings	**7.8**	(4.8)
Fixed asset timing differences	**(2.0)**	0.5
Other timing differences	**(5.3)**	(2.0)
Expenses not deductible for tax purposes	**1.8**	0.9
Losses utilised	**(29.1)**	(51.0)
Other	**4.4**	(3.6)
	49.8	12.5

8 Dividends

A dividend of £1,202,686,650 was paid on the ordinary shares to the immediate parent undertaking Richmond TAUK Limited on 20 October 2002 (December 2001 - £ nil).

9 Intangible fixed assets	POSITIVE GOODWILL £m	OTHER INTANGIBLES £m	ENTRY FEES £m	TOTAL £m
Cost				
At 1 January 2002	438.4	29.1	83.8	551.3
Additions	-	0.2	-	0.2
Disposals	-	(0.5)	-	(0.5)
Disposal on sale and closure of business	(48.2)	(0.6)	(83.8)	(132.6)
Exchange adjustments	11.1	-	-	11.1
At 31 December 2002	**401.3**	**28.2**	-	**429.5**
Amortisation:				
At 1 January 2002	92.2	27.7	11.1	131.0
Provided in the year	27.3	0.4	1.7	29.4
Disposal on sale and closure of business	(30.1)	(0.4)	(12.8)	(43.3)
Exchange adjustments	1.3	-	-	1.3
At 31 December 2002	**90.7**	**27.7**	-	**118.4**
Net book values:				
At 31 December 2002	**310.6**	**0.5**	-	**311.1**
At 31 December 2001	346.2	1.4	72.7	420.3

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

10 Tangible fixed assets	GROUP LAND AND BUILDINGS £m	GROUP PLANT AND EQUIPMENT £m	GROUP TOTAL £m
Cost or valuation:			
At 1 January 2002	281.4	824.0	1,105.4
Additions	35.1	103.8	138.9
Disposals	(28.0)	(50.6)	(78.6)
Disposal on sale and closure of business	(44.6)	(194.4)	(239.0)
Exchange adjustments	9.3	24.7	34.0
At 31 December 2002	**253.2**	**707.5**	**960.7**
Depreciation:			
At 1 January 2002	31.8	303.1	334.9
Provided in the year	14.0	113.2	127.2
Impairment write down	-	12.6	12.6
Disposals	(4.6)	(55.0)	(59.6)
Disposal on sale and closure of business	(6.3)	(69.6)	(75.9)
Exchange adjustments	(1.0)	(8.1)	(9.1)
At 31 December 2002	**33.9**	**296.2**	**330.1**
Net book values:			
At 31 December 2002	**219.3**	**411.3**	**630.6**
At 31 December 2001	249.6	520.9	770.5

The parent company has no tangible fixed assets.

The net book value of land and buildings comprises of:

	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m
Freehold	**216.9**	243.8
Long-term leasehold	**0.1**	0.1
Short-term leasehold	**2.3**	5.7
	219.3	249.6

Fixed assets of the group at 31 December 2002 include leased assets costing £35.3 million (December 2001 £72.5 million) on which accumulated depreciation of £24.3 million (December 2001 £46.0 million) has been charged. Included in the parent undertaking's land and buildings are leased assets costing £ nil (December 2001 £5.9 million) on which accumulated depreciation of £ nil (December 2001 £4.5 million) has been charged.

The figures for land and buildings after eliminating the effect of revaluations were as follows:

	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m	DECEMBER 2002 PARENT COMPANY £m	DECEMBER 2001 PARENT COMPANY £m
Original cost	**243.3**	239.9	**52.3**	61.4
Depreciation	**(38.0)**	(53.6)	**(5.1)**	(17.1)
	205.3	186.3	**47.2**	44.3

10 Tangible fixed assets (continued)

The figures for plant and equipment after eliminating the effect of revaluations were as follows:

	31 DECEMBER 2002 GROUP £m	31 DECEMBER 2001 GROUP £m
Original cost	**914.0**	1,030.5
Depreciation	**(510.8)**	(519.4)
	403.2	511.1

The group has adopted the transitional provisions of FRS15 – Tangible Fixed Assets in 2000 and has retained property assets at their book value. From the year 2000 onwards it is group policy not to revalue fixed assets.

11 Fixed asset investments

Group:	TRADE INVESTMENTS £m	JOINT VENTURES £m	ASSOCIATED UNDERTAKINGS £m	TOTAL £m
Cost:				
At 1 January 2002	5.2	-	13.2	18.4
Additions	0.5	-	-	0.5
Share of retained (loss)/profit	-	(0.8)	1.2	0.4
Dividend received	-	-	(0.6)	(0.6)
Exchange adjustments	-	-	(1.3)	(1.3)
Transfer to other creditors (note 15)	-	0.8	-	0.8
At 31 December 2002	**5.7**	**-**	**12.5**	**18.2**
Provisions:				
At 1 January 2002	-	-	(2.5)	(2.5)
At 31 December 2002	**-**	**-**	**(2.5)**	**(2.5)**
Net book values:				
At 31 December 2002	**5.7**	**-**	**10.0**	**15.7**
At 31 December 2001	5.2	-	10.7	15.9

A list of the principal associated undertakings is included in note 27. All the trade investments are unlisted investments.

Group's share of net assets of associated undertakings:	2002 £m	2001 £m
Fixed assets	**13.8**	13.0
Current assets	**10.7**	11.9
Liabilities due within one year	**(8.8)**	(7.2)
Liabilities due after more than one year	**(5.7)**	(7.0)
Net assets	**10.0**	10.7

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

11 Fixed asset investments (continued)

Parent Company:	SUBSIDIARY UNDERTAKINGS £m
Shares at cost:	
At 1 January 2002	1,346.5
Additions	0.7
At 31 December 2002	**1,347.2**
Net book values:	
At 31 December 2002	**1,347.2**
At 31 December 2001	1,346.5

On 30 July 2002 TRW Holding Limited was incorporated in Grand Cayman, Cayman Islands and became a wholly owned subsidiary undertaking of Lucas Investment Limited a subsidiary undertaking of Lucas Varity. TRW Holding Limited became the immediate holding company of TRW Limited a subsidiary undertaking.

12 Stocks	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m
Raw materials and consumables	**54.5**	69.9
Work in progress	**51.7**	68.2
Finished goods	**68.3**	111.9
	174.5	250.0

The difference between purchase price or production costs of stock and their replacement cost is not material.

The parent company has no stock.

13 Debtors	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m	DECEMBER 2002 PARENT COMPANY £m	DECEMBER 2001 PARENT COMPANY £m
Amounts falling due within one year:				
Trade debtors	**291.6**	401.6	-	-
Amounts owed by other group undertakings	**313.4**	2,241.1	-	1,923.3
Amounts owed by associated undertakings	-	3.1	-	-
Other debtors	**62.3**	76.0	-	-
Prepayments and accrued income	**8.1**	13.1	-	-
	675.4	2,734.9	-	1,923.3
Amounts falling due after more than one year:				
Amounts owed by other group undertakings	-	1,378.1	-	-
	-	1,378.1	-	-

As part of the restructuring of the group in October 2002 the long-term loan of £1,378.1million made by Lucas Industries Limited to Richmond TAUK Limited, a wholly owned subsidiary of Northrop Grumman, was settled.

The group has Government grants receivable of £1.6 million (December 2001: £0.5 million).

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

14 Cash	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m	DECEMBER 2002 PARENT COMPANY £m	DECEMBER 2001 PARENT COMPANY £m
Cash at bank and in hand	**28.7**	17.5	-	-
Short-term deposits	**13.1**	17.8	-	-
Total cash	**41.8**	35.3	-	-

The parent company has no cash or short-term deposits.

15 Creditors other than borrowings	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m	DECEMBER 2002 PARENT COMPANY £m	DECEMBER 2001 PARENT COMPANY £m
Amounts falling due within one year:				
Trade creditors	**280.8**	374.1	-	-
Amounts owed to ultimate parent undertaking	-	34.9	-	-
Amounts owed to other group undertakings	**418.1**	225.7	**861.3**	101.5
Amounts owed to associated undertakings	-	0.2	-	-
Corporate taxation	**93.0**	54.5	-	-
Social security and other taxes	**1.3**	3.4	-	-
Accruals and deferred income	**121.6**	172.5	-	-
Cumulative net liabilities of joint venture company transferred from investments (note 11)	**1.2**	0.4	-	-
Other creditors	**26.5**	28.6	-	-
	942.5	894.3	**861.3**	101.5
Amounts falling due after more than one year:				
Amounts owed to other group undertakings	-	761.8	-	-

As part of the restructuring of the group in October 2002 the long-term loan of £761.8 million between TRW Deutschland Holding GmbH, a wholly owned subsidiary of Lucas Varity and TRW Overseas Finance B.V., a wholly owned subsidiary of Northrop Grumman was settled.

16 Borrowings	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m	DECEMBER 2002 PARENT COMPANY £m	DECEMBER 2001 PARENT COMPANY £m
Amounts falling due within one year:				
Bank overdrafts	-	0.4	-	-
Bank loans	**155.9**	81.6	-	-
Finance lease obligations	**2.8**	5.2	-	-
Total short-term borrowings	**158.7**	87.2	-	-
Amounts falling due after more than one year:				
Bank loans	**10.7**	6.2	-	-
10⅞% Eurosterling Bonds 2020	**94.6**	100.0	-	-
Finance lease obligations	**5.5**	23.1	-	-
Total long-term borrowings	**110.8**	129.3	-	-
Total borrowings	**269.5**	216.5	-	-

The parent company has no borrowings.

Included in bank loans are secured loans amounting to £4.6 million (December 2001 - £4.6 million). The security given by the various subsidiaries to which these relate is normally a charge on the land and buildings owned by those companies.

On 23 and 25 January 2002 £5.4 million Eurosterling Bonds were redeemed at a cost of £7.2 million.

16 Borrowings (continued)

	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m	DECEMBER 2002 PARENT COMPANY £m	DECEMBER 2001 PARENT COMPANY £m
Bank loans and overdrafts analysed by maturity:				
In one year or less or on demand	**155.9**	82.0	-	-
Between one and two years	**2.3**	4.5	-	-
Between two and five years	**3.9**	1.2	-	-
Five years or more - by instalments	**4.5**	0.5	-	-
	166.6	88.2	-	-
Other borrowings analysed by maturity:				
Five years or more - not by instalments	**94.6**	100.0	-	-
Finance lease obligations:				
Obligations are payable as follows:				
Within one year	**2.8**	5.2	-	-
Between one and two years	**2.4**	4.6	-	-
Between two and five years	**2.4**	10.4	-	-
Over five years	**0.7**	8.1	-	-
	8.3	28.3	-	-

As part of the Northrop Grumman restructuring £16.7 million of finance lease obligations were terminated at a cost of £17.1 million.

As part of the Blackstone acquisition the existing uncommitted borrowings facilities were replaced by a $250.0 million US Dollar facility and a Sterling facility for the equivalent of $22.0 million dollars with Barclays Bank PLC.

17 Provisions for liabilities and charges

Group:	DEFERRED TAXATION £m	PENSION OBLIGATIONS £m	POST-RETIREMENT BENEFITS £m	OTHER PROVISIONS £m	TOTAL £m
At 1 January 2002	4.7	140.3	10.6	86.1	241.7
Disposal on sale and closure of business	-	-	-	(5.9)	(5.9)
Utilised in the year	-	(6.0)	(0.1)	(53.8)	(59.9)
Charged in the year	11.1	9.1	-	18.5	38.7
Exchange adjustments	2.5	6.4	(0.1)	3.0	11.8
At 31 December 2002	**18.3**	**149.8**	**10.4**	**47.9**	**226.4**

Other provisions includes warranty provisions, restructuring provisions, redundancy provisions, environmental provisions and various sundry provisions. At 31 December 2002 the warranty provision was £17.7 million (December 2001 - £20.2 million). At 31 December 2002 the restructuring and redundancy provision was £10.7 million (December 2001 - £44.1 million). At 31 December 2002 the environmental provision was £19.5 million (December 2001 - £18.8 million).

Deferred taxation, pension obligations and post retirement benefits and environmental provisions will in the main be utilised after more than one year.

The pension obligations, post retirement benefits and environmental provisions have been analysed by currency in note 28, 'Derivatives and other financial instruments'.

17 Provisions for liabilities and charges (continued)

Deferred taxation

Provided for:	DECEMBER 2002 GROUP £m	DECEMBER 2001 GROUP £m
Tax on excess of capital allowances over depreciation	**25.4**	22.1
Other timing differences	**(2.9)**	(13.2)
Advance corporation tax recoverable	**(4.2)**	(4.2)
	18.3	4.7
Not provided for:		
Tax on excess of capital allowances over depreciation	-	4.5
	-	4.5

No provision has been made for potential taxation which could arise on the remittance to the United Kingdom of retained overseas earnings or on the disposal of revalued property, as no remittances or disposals are envisaged in the foreseeable future which would give rise to a material liability. There is an unrecognised deferred tax asset relating to surplus advance corporation tax of £49.9 million (December 2001 - £59.9 million) and to gross tax losses of £74.8 million (December 2001 - £72.0 million) due to unforeseeable future taxable profits.

The parent company has no provision for deferred tax.

18 Pensions and post-retirement health care benefits

Pensions

The group operates a number of pension schemes throughout the world in accordance with local conditions and practices. The majority are defined benefit schemes where the assets are held in trust funds separate from the group's finances. Pension expense is assessed in accordance with the advice of independent professionally qualified actuaries and is disclosed in Note 3.

Pensions - United Kingdom

SSAP24 disclosures

The largest scheme, in which most UK employees are members is the TRW Pension Scheme (formerly the Lucas Pension Scheme), a defined benefit scheme. The latest actuarial valuation of the scheme was carried out at 31 March 2000 by a qualified independent actuary Hymans Robertson.

At that time the market value of the scheme assets was £3,678.0 million. The assessed value of these assets was sufficient to cover 147% of the benefits accrued to members, after allowing for expected future increases in earnings. Company contributions to the scheme are suspended.

In this latest funding valuation, assets were taken into account at 95% of their market value, which reflects the average level of investment markets over the 12 months prior to the valuation date.

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

18 Pensions and post-retirement health care benefits (continued)

Pensions - United Kingdom (continued)

The main assumptions used for valuing liabilities were as follows:

	LPI pension increases	2.75% per annum
	Earnings increases	4.50% per annum
Return on investments:		
	- Pre Retirement	6.00% per annum
	- Post Retirement	5.50% per annum

As a result of this significant surplus in the TRW Pension Scheme, the cost of benefits accruing to employees is more than offset by amortization of the surplus. As a prudent measure, no credit is recognised and the net pension expense in respect of this scheme is taken as zero. There are no outstanding or prepaid contributions at the balance sheet date.

FRS 17 disclosures

A new pension accounting standard, FRS 17 the full implementation of which has been deferred, requires certain transitional disclosures. Under these new arrangements the company is required to disclose the following information about the scheme and the figures that would have been shown under FRS 17 in the current balance sheet.

An interim actuarial valuation was carried out at 31 March 2002 and up dated to 31 December 2002 by a qualified independent actuary Hymans Robertson. The major assumptions used by the actuary for FRS 17 purposes were:

	AT 31 DECEMBER 2002 %	AT 31 DECEMBER 2001 %
Price inflation	**2.25**	2.25
Salary increases	**4.00**	4.00
Pension increases	**2.25**	2.25
Discount rate	**5.50**	5.70

The assets in the scheme (excluding defined contribution assets) and the expected rate of return were:

	LONG-TERM RATE OF RETURN EXPECTED AT 31 DECEMBER 2002 %	VALUE AT 31 DECEMBER 2002 £m	LONG-TERM RATE OF RETURN EXPECTED AT 31 DECEMBER 2001 %	VALUE AT 31 DECEMBER 2001 £m
Equities and property	**8.00**	**2,041.0**	8.00	2,516.0
Bonds	**4.70**	**602.0**	5.00	694.0
Other	**4.00**	**46.0**	4.00	61.0
Total market value	**7.20**	**2,689.0**	7.30	3,271.0
Actual value of liabilities		**(2,592.0)**		(2,459.0)
Surplus in the scheme		**97.0**		812.0
Related deferred tax liability		**(29.1)**		(243.6)
Net pension assets		**67.9**		568.4

18 Pensions and post-retirement health care benefits (continued)

Pensions - United Kingdom (continued)

Analysis of amount charged to operating profit:

	YEAR TO 31 DECEMBER 2002 £m
Current service cost	**27.0**
Curtailments and settlements	**(35.0)**
Total operating charge	**(8.0)**

Analysis of amount credited to other finance income:

	YEAR TO 31 DECEMBER 2002 £m
Expected return on pension scheme assets	**233.0**
Interest on pension liabilities	**(136.0)**
Net return	**97.0**

Analysis of amount recognised in statement of total recognised gains and losses (STRGL):

	YEAR TO 31 DECEMBER 2002 £m
Actual return less expected return on pension scheme assets	**(665.0)**
Experience gains and losses arising on the scheme liabilities	**(62.0)**
Changes in assumptions underlying the present value of the scheme liabilities	**(90.0)**
Actuarial loss in pension plan and recognised in STRGL	**(817.0)**

Movement in surplus during the year:

	YEAR TO 31 DECEMBER 2002 £m
Surplus in scheme at beginning of the year	**812.0**
Current service cost	**(27.0)**
Other expenses	**(3.0)**
Impact of settlements and curtailments	**35.0**
Net return	**97.0**
Actuarial gains and losses	**(817.0)**
Surplus in scheme at end of year	**97.0**

History of experience gains and losses:

	YEAR TO 31 DECEMBER 2002 £m
Difference between the expected and actual return on scheme assets	**665.0**
Value of plan assets	**2,689.0**
Percentage of scheme assets	**24.73%**
Experience losses on scheme liabilities	**(62.0)**
Present value of scheme liabilities	**2,592.0**
Percentage of the present value of scheme liabilities	**(2.4%)**
Actuarial losses recognised in STRGL	**(817.0)**
Present value of scheme liabilities	**2,592.0**
Percentage of the present value of scheme liabilities	**(31.52%)**

18 Pensions and post-retirement health care benefits (continued)

Pensions - United Kingdom (continued)

If the above pension asset was recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	VALUE AT 31 DECEMBER 2002 £m	VALUE AT 31 DECEMBER 2001 £m
Net assets excluding pension asset	**410.7**	3,490.7
Pension reserve	**67.9**	568.4
Net assets including pension asset	**478.6**	4,059.1

	VALUE AT 31 DECEMBER 2002 £m	VALUE AT 31 DECEMBER 2001 £m
Profit and loss reserve excluding pension asset	**(101.4)**	783.8
Pension reserve	**67.9**	568.4
Profit and loss reserve including pension asset	**(33.5)**	1,352.2

Pensions - Germany

The Germany PLU pension scheme, in which most German aerospace employees are members, is a defined benefit scheme. The latest actuarial valuation of the scheme was carried out at 31 December 2001 by a qualified actuary Towers Perrin. At that time the actuarial value of the plan's assets was £0.9 million (euros 1.5 million). The assessed value of these assets was sufficient to cover 16% of the benefits accrued to members.

The main assumptions used for valuing liabilities were as follows:

	LPI pension increases	2.00% per annum
Return on investments:		
	- Pre Retirement	5.50% per annum
	- Post Retirement	5.50% per annum

The actuarial valuation was carried out at 31 December 2001 and up dated to 31 December 2002 by a qualified independent actuary Towers Perrin. The major assumptions used by the actuary for FRS 17 purposes were:

	AT 31 DECEMBER 2002 %	AT 31 DECEMBER 2001 %
Price inflation	**2.00**	2.00
Pension increases	**2.00**	2.00
Discount rate	**5.50**	5.50

The assets and liabilities in the scheme (excluding defined contribution assets) and the expected rate of return were:

	LONG-TERM RATE OF RETURN EXPECTED AT 31 DECEMBER 2002 %	VALUE AT 31 DECEMBER 2002 £m	LONG-TERM RATE OF RETURN EXPECTED AT 31 DECEMBER 2001 %	VALUE AT 31 DECEMBER 2001 £m
Total market value	**5.00**	**1.2**	5.00	0.9
Actual value of liabilities		**(6.3)**		(5.7)
Deficit in the scheme		**(5.1)**		(4.8)
Related deferred tax liability		**1.5**		1.4
Net pension liability		**(3.6)**		(3.4)

18 Pensions and post-retirement health care benefits (continued)

Pensions - Germany (continued)

The above pension liability has been provided for in the financial statements, see note 17.

Movement in deficit during the year:

	YEAR TO 31 DECEMBER 2002
	£m
Deficit in scheme at beginning of the year	**(4.8)**
Actuarial gains and losses	**(0.3)**
Deficit in scheme at end of year	**(5.1)**

The other sixteen Germany pension schemes, in which most German automotive employees are members, are defined benefit schemes. The latest actuarial valuation of the scheme was carried out at 31 December 2001 by a qualified actuary Towers Perrin.

At that time the actuarial value of the plan's assets was £3.0 million (euros 4.9 million). The assessed value of these assets was sufficient to cover 2.2% of the benefits accrued to members.

The main assumptions used for valuing liabilities were as follows:

	LPI pension increases	2.00% per annum
	Earnings increases	3.00% per annum
Return on investments:		
	- Pre Retirement	5.50% per annum
	- Post Retirement	5.50% per annum

The actuarial valuation was carried out at 31 December 2001 and up dated to 31 December 2002 by a qualified independent actuary Towers Perrin. The major assumptions used by the actuary for FRS 17 purposes were:

	AT 31 DECEMBER 2002	AT 31 DECEMBER 2001
	%	%
Price inflation	**2.00**	2.00
Salary increases	**3.00**	3.00
Pension increases	**2.00**	2.00
Discount rate	**5.50**	5.50

The assets and liabilities in the scheme (excluding defined contribution assets) and the expected rate of return were:

	LONG-TERM RATE OF RETURN EXPECTED AT 31 DECEMBER 2002	VALUE AT 31 DECEMBER 2002	LONG-TERM RATE OF RETURN EXPECTED AT 31 DECEMBER 2001	VALUE AT 31 DECEMBER 2001
	%	£m	%	£m
Total market value	**6.00**	**3.3**	6.00	3.0
Actual value of liabilities		**(149.5)**		(135.7)
Deficit in the scheme		**(146.2)**		(132.7)
Related deferred tax asset		**44.0**		40.0
Net pension liability		**(102.2)**		(92.7)

18 Pensions and post-retirement health care benefits (continued)

Pensions - Germany (continued)

The above pension liabilities have been provided for in the financial statements, see note 17.

Movement in deficit during the year:

	YEAR TO 31 DECEMBER 2002
	£m
Deficit in scheme at beginning of the year	**(132.7)**
Current service cost	**(3.1)**
Employer contributions	**6.6**
Other expenses	**(7.0)**
Actuarial gains and losses	**(1.8)**
Currency exchange effect	**(8.2)**
Deficit in scheme at end of year	**(146.2)**

Full FRS17 transitional disclosures for the German pension schemes have not been disclosed.

Post-retirement health care

The latest actuarial valuation of the scheme was carried out at 31 December 2002 by a qualified actuary Towers Perrin. A provision of £10.4 million exists to cover post-retirement health care for a limited number of employees and ex-employees. The scheme has now been closed.

The main assumptions used for valuing liabilities were as follows:

Discount rate	5.50% per annum
Earnings increases	4.00% per annum
Health care cost trend - select	8.00% per annum
Health care cost trend - ultimate	2.25% per annum

19 Share capital

	AUTHORISED		ISSUED, ALLOTTED & FULLY PAID	
Ordinary shares (25p each)	NO.	£m	NO.	£m
Balance at 1 January 2002	2,000,000,000	500.0	1,530,777,952	382.7
Bonus share issue	8,008,800,000	2,002.2	8,008,104,040	2,002.0
Capital reduction	-	-	(8,798,270,100)	(2,199.5)
Exercise of options;				
Savings - related schemes	-	-	422,744	0.1
Balance at 31 December 2002	**10,008,800,000**	**2,502.2**	**741,034,636**	**185.3**

During the year 422,744 ordinary shares of 25p each, with an aggregate nominal value of £0.1 million were issued for a total consideration of £0.7million. The shares were issued in exchange for cash under the Lucas Varity and Richmond TAUK Limited scheme of arrangement dated 6 September 1996, relating to the exercise of Lucas Industries savings related share options.

On 28 October 2002 the company increased the authorised share capital by £2,002,200,000 by creating 8,008,800,000 ordinary shares of 25p ranking pari passu in all respects as one class of shares with the existing shares in the capital of the company.

On 28 October 2002 the company capitalised the merger reserve by £1,721.3 million and the share premium account by £280.7 million by way of a bonus issue.

On 30 October 2002 the share capital of the company was reduced by £2,199,567,525 by the cancellation of 8,798,270,100 ordinary shares of 25p each, registered in the name of TRW Automotive UK Limited.

As the company is unlimited it is no longer subject to the capital maintenance requirements of the Companies Act 1985.

Lucas Varity Ordinary Share based plans

By virtue of a change to the Articles of Association of Lucas Industries, approved by shareholders at an Extraordinary General Meeting of the company held on 13 August 1996, the Lucas Industries Ordinary Shares to be issued following the exercise of options under the Lucas Industries Savings-Related Share Option Schemes will be exchanged for Lucas Varity Ordinary Shares on the same terms as set out in the Scheme of Arrangement dated 6 September 1996.

Following the acquisition of Lucas Varity by TRW Automotive UK, the Articles of Association of Lucas Varity have been changed so that if, on or after 10 May 1999, any Ordinary Shares of that company are allotted and issued to any person other than TRW Automotive UK, all shares so allotted and issued will be immediately transferred to TRW Automotive UK in consideration of the payment of £2.88 in cash for each such Ordinary Share.

Summarised information about the savings-related and other related share options outstanding under the former Lucas Industries schemes at 31 December 2002 is as follows:

	DATE OF GRANT	NUMBER OF SHARES	PRICE (P)	DATE OF EXERCISE
Lucas Industries Savings- Related Share Option Scheme (1991)	26.04.96	1,095,352	171.20	01.07.01 – 01.07.03

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

20 Reserves

	SHARE PREMIUM ACCOUNT £m	CAPITAL REDEMPTION RESERVE £m	CAPITAL RESERVE £m	MERGER RESERVE £m	REVALUATION RESERVE £m	OTHER RESERVE £m	PROFIT AND LOSS ACCOUNT £m
Group:							
At 1 January 2002	280.4	14.4	290.1	1,637.3	73.0	-	783.8
Exchange adjustments	-	-	-	-	-	-	(4.4)
Arising on share issues	0.6	-	-	-	-	-	-
Transfer in respect of disposal of fixed assets	-	-	-	-	(48.9)	-	48.9
Transfer of realised revalued depreciation	-	-	-	-	(2.1)	-	2.1
Bonus share capital issue	(280.7)	-	-	(1,721.3)	-	-	-
Goodwill on disposal charged to profit and loss account	-	-	-	48.4	-	-	-
Transfer on re-registration to an unlimited company	(0.3)	(14.4)	(290.1)	35.6	(22.0)	189.8	101.4
Retained loss	-	-	-	-	-	-	(931.8)
At 31 December 2002	-	-	-	-	-	**189.8**	-

	SHARE PREMIUM ACCOUNT £m	CAPITAL REDEMPTION RESERVE £m	CAPITAL RESERVE £m	MERGER RESERVE £m	OTHER RESERVE £m	PROFIT AND LOSS ACCOUNT £m
Parent company:						
At 1 January 2002	280.4	14.4	290.1	1,722.7	-	477.9
Exchange adjustments	-	-	-	-	-	-
Arising on share issues	0.6	-	-	-	-	-
Bonus share issue	(280.7)	-	-	(1,721.3)	-	-
Transfer on re-registration to an unlimited company	(0.3)	(14.4)	(290.1)	(1.4)	300.6	5.6
Retained loss	-	-	-	-	-	(483.5)
At 31 December 2002	-	-	-	-	**300.6**	-

The parent company's profit for the year before dividends paid, amounted to £719.2 million (December 2001 - £120.4 million).

Following its conversion to an unlimited company the company is no longer subject to the Companies Act 1985 requirements regarding maintenance of capital or distributability of reserves. Consequently all previous reserves of the company have been reclassified into a single distributable reserve.

21 Minority interests

Minority interests have equity interests in the net assets of subsidiaries amounting to £35.6 million (December 2001 - £29.0 million).

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

22 Sale and closure of business

Disposal of TRW Aeronautical Systems business (formerly Lucas Aerospace)

The sale of TRW Aeronautical Systems to Goodrich Corporation was completed on 2 October 2002 for $1.5 billion in cash. The Lucas Varity group share of the proceeds was £536.2 million ($839.0 million). The contribution to group profit up to the date of disposal was £16.1 million.

	TOTAL £m
Goodwill previously written off to reserves	48.4
Capitalised goodwill	18.1
Intangible fixed assets	71.2
Tangible fixed assets	163.1
Working capital	101.5
Provisions	5.9
Net assets disposed	408.2
Gain on sale and disposal	121.0
	529.2
Satisfied by:	
Costs associated with sale	(7.0)
Cash proceeds	536.2
Total consideration	**529.2**

23 Financial commitments

Group capital commitments	DECEMBER 2002 £m	DECEMBER 2001 £m
Contracted but not provided	**9.1**	20.4

Group leasing commitments	DECEMBER 2002 PROPERTIES £m	DECEMBER 2001 PROPERTIES £m	DECEMBER 2002 PLANT AND EQUIPMENT £m	DECEMBER 2001 PLANT AND EQUIPMENT £m
Operating leases				
Annual charge for leases terminating:				
Within one year	**0.6**	0.5	**4.3**	3.3
Within two to five years	**1.1**	1.5	**16.0**	8.3
After more than five years	**1.1**	5.0	**1.5**	0.7
	2.8	7.0	**21.8**	12.3

The majority of property leases are subject to rent reviews. The parent company has no capital commitments or operating lease commitments.

24 Contingent liabilities

Northrop Grumman has guaranteed uncommitted borrowing facilities of £359.6 million (December 2001 - £384.0 million), for subsidiary undertakings within the Lucas Varity group.

While certain of the company's subsidiaries have been subject in recent years to asbestos-related claims, management believes that such claims will not have a material adverse effect on the company's financial condition or results of operations. In general, these claims seek damages for illnesses alleged to have resulted from exposure to asbestos used in certain components sold by the company's subsidiaries. Management believes that the majority of the claimants were assembly workers at the major U.S. automobile manufacturers.

The vast majority of these claims name as defendants numerous manufacturers and suppliers of a wide variety of products allegedly containing asbestos. Management believes that, to the extent any of the products sold by these subsidiaries and at issue in these cases contained asbestos, the asbestos was encapsulated. Based upon several years of experience with such claims, management believes that only a small proportion of the claimants has or will ever develop any asbestos-related impairment.

Neither the company's settlement costs in connection with asbestos claims nor average annual legal fees to defend these claims have been material in the past. These claims are strongly disputed by the company and it has been the company's policy to defend against them aggressively. The company has been successful in obtaining the dismissal of many cases without any payment whatsoever. Moreover, there is significant insurance coverage with solvent carriers with respect to these claims. However, while the company's costs to defend and settle these claims in the past have not been material, there can be no assurances that this will remain so in the future.

Management believes that the ultimate resolution of the foregoing matters will not have a material effect on the company's financial condition or results of operations.

25 Numbers of employees

Headcount:	DECEMBER 2002 GROUP	DECEMBER 2001 GROUP RESTATED
At the year end actual numbers of employees were as follows:		
United Kingdom	**3,584**	6,952
Rest of World	**18,330**	19,408
	21,914	26,360

Average numbers of employees	YEAR TO 31 DECEMBER 2002	YEAR TO 31 DECEMBER 2001
By class of business:		
Automotive	**21,688**	22,397
Aerospace	**3,596**	4,795
	25,284	27,192
By geographical region:		
United Kingdom	**6,153**	6,746
Rest of World	**19,131**	20,446
	25,284	27,192

The parent company had no employees during the year (December 2001 – nil).

26 Ultimate parent company and parent undertaking of larger group

The largest group in which the results of the company are consolidated is that headed by Northrop Grumman incorporated in California in the USA. The consolidated accounts of Northrop Grumman Corporation are available to the public and may be obtained from the Company Secretary at 1840 Century Park East, Los Angeles, California 90067- 2199, USA.

Principal group undertakings

The following list includes group undertakings which materially affect the accounts. All undertakings are wholly owned, except where stated, and the group's interests are in ordinary shares or their equivalent. Interests in undertakings marked* are held by intermediate undertakings. The places of incorporation and countries of operation are as shown below. All group undertakings now operate in the Automotive business segment. A full list of group companies will be included in the company's annual return.

Subsidiary undertakings

England	France	Germany
TRW Limited*	TRW France	TRW Deutschland Holding GmbH*
Lucas Industries Limited	Holding SAS*	

Associated undertakings and Joint ventures

India	France
India Brakes Limited (49% holding, year end 31 March)	Autocruise SA (50% holding)

27 Derivatives and other financial instruments

The group's principal financial instruments, other than derivatives, comprise bonds listed on the London Stock Exchange, loans with Northrop Grumman group companies, bank loans, finance leases, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. With the exception of the currency disclosures short-term debtors and creditors have been excluded from the disclosures below.

The group also enters into derivative transactions, in the form of forward currency contracts. The purpose is to manage the currency risk arising from the group's operations. It is, and has been throughout the year under review, the group's policy that no trading in financial instruments shall be undertaken.

The company's ultimate parent company is Northrop Grumman. Interest rate risk, liquidity risk and currency risk, are managed from the perspective of the Northrop Grumman group of which the Lucas Varity group forms a part.

Interest rate risk

The group finances its operations through a mixture of retained profits and bank borrowings. The group borrows in desired currencies at both fixed and floating rates of interest to generate the desired interest profile. At the year end, 97% (December 2001 - 60%) of the group's net borrowings, other than from the Northrop Grumman group were at fixed rates. The Northrop Grumman policy is to keep between 30% and 80% of its total group borrowings at fixed rates of interest.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans and loans with other Northrop Grumman group companies.

Currency risk

Although the group is based in the US, it has a significant investment in overseas operations, particularly in Europe. As a result, the group's sterling balance sheet can be significantly affected by movements in the Euro. The group seeks to mitigate the effect of these structural currency exposures by borrowing in the same currencies as the operating (or 'functional') currencies of its main operating unit. The group also has transactional currency exposures, such exposures arising from sales or purchases by an operating unit in currencies other than the unit's functional currency. The group seeks to identify natural off sets in transactional exposures arising between operating units prior to using forward currency contracts to eliminate currency exposures for the next 12 months.

At 31 December 2002, the group had contracts outstanding with a notional value of £438.2 million (December 2001 - £1,176.0 million), denominated principally in US Dollars and Euros.

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

28 Derivatives and other financial instruments (continued)

(i) Interest rate risk profile of financial liabilities

The interest rate portfolio of the financial liabilities of the group as at 31 December was as follows:

	31 DECEMBER 2002				31 DECEMBER 2001			
CURRENCY	TOTAL	FIXED RATE FINANCIAL LIABILITIES	FLOATING RATE FINANCIAL LIABILITIES	FINANCIAL LIABILITIES ON WHICH NO INTEREST IS PAID	TOTAL	FIXED RATE FINANCIAL LIABILITIES	FLOATING RATE FINANCIAL LIABILITIES	FINANCIAL LIABILITIES ON WHICH NO INTEREST IS PAID
	£m	£m	£m	£m	£m	£m	£m	£m
Sterling	**237.9**	**208.0**	**4.2**	**25.7**	177.7	108.7	43.0	26.0
Euro	**208.1**	**10.5**	**45.0**	**152.6**	203.7	-	60.1	143.6
US Dollar	-	-	-	-	764.9	661.9	3.1	99.9
Other	**3.2**	**0.2**	**1.6**	**1.4**	1.6	-	1.6	-
Total	**449.2**	**218.7**	**50.8**	**179.7**	1,147.9	770.6	107.8	269.5

	31 DECEMBER 2002			31 DECEMBER 2001		
FIXED RATE FINANCIAL LIABILITIES	FIXED RATE FINANCIAL LIABILITIES	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED	FIXED RATE FINANCIAL LIABILITIES	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED
	£m	%	YEARS	£m	%	YEARS
Sterling	**208.0**	**7.55**	**9**	108.7	10.58	17
Euro	**10.5**	**5.16**	**9**	-	-	-
US Dollar	-	-	-	661.9	7.75	8
Other	**0.2**	**3.14**	**1**	-	-	-
	218.7	-	-	770.6	-	-

There is no difference between the average maturity period and the average period over which the rates are fixed.

The average period to the maturity of the liabilities on which no interest is paid is over five years.

The floating rate financial liabilities comprise:
- Sterling denominated bank loans that bear interest at rates based on LIBOR; and
- Euro denominated bank loans that bear interest at rates based on EURIBOR

28 Derivatives and other financial instruments (continued)

(ii) Interest rate risk profile of financial assets

The interest rate portfolio of the financial assets of the group as at 31 December was as follows:

	31 DECEMBER 2002				31 DECEMBER 2001			
CURRENCY	TOTAL £m	FIXED RATE FINANCIAL ASSETS £m	FLOATING RATE FINANCIAL ASSETS £m	FINANCIAL ASSETS ON WHICH NO INTEREST IS EARNED £m	TOTAL £m	FIXED RATE FINANCIAL ASSETS £m	FLOATING RATE FINANCIAL ASSETS £m	FINANCIAL ASSETS ON WHICH NO INTEREST IS EARNED £m
Sterling	**12.7**	-	**12.6**	**0.1**	1,394.2	577.2	816.9	0.1
Euro	**14.5**	-	**8.9**	**5.6**	6.1	-	1.0	5.1
Other	**20.3**	-	**20.3**	-	18.3	-	18.3	-
Total	**47.5**	-	**41.8**	**5.7**	1,418.6	577.2	836.2	5.2

The fixed and floating rate Sterling assets held at 31 December 2001 for £577.2 million and £816.9 million were settled on 2 October 2002.

The balances above are represented by cash and short term deposits all falling due within one year. The floating rate financial assets comprise bank deposits based on the relevant inter bank rates in the country of the currency deposited.

Included within financial assets attracting no interest are trade investments being held for the foreseeable future.

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

28 Derivatives and other financial instruments (continued)

(iii) **Currency exposure**

The table below shows the group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets (e.g. long and short term debtors and cash) and monetary liabilities (e.g. long and short term creditors, borrowings and overdrafts) of the group that are not denominated in the operating (or 'functional') currency of the operating unit involved.

Functional currency	31 DECEMBER 2002					31 DECEMBER 2001				
	STERLING	US DOLLAR	EURO	OTHER	TOTAL	STERLING	US DOLLAR	EURO	OTHER	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sterling	-	-	-	**(11.7)**	**(11.7)**	-	73.7	8.9	-	82.6
Euro	**346.4**	**(190.3)**	-	**15.8**	**171.9**	271.0	(654.7)	-	20.5	(363.2)
Total	**346.4**	**(190.3)**	-	**4.1**	**160.2**	271.0	(581.0)	8.9	20.5	(280.6)

The amounts in the table above do not take into account the effect of forward foreign currency contracts entered into to manage these currency exposures.

Forward currency contracts in place

Functional currency	31 DECEMBER 2002					31 DECEMBER 2001				
	STERLING	US DOLLAR	EURO	OTHER	TOTAL	STERLING	US DOLLAR	EURO	OTHER	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sterling	-	-	-	**11.7**	**11.7**	-	(49.9)	(8.3)	-	(58.2)
Euro	**(347.5)**	-	-	-	**(347.5)**	(181.3)	(10.3)	-	-	(191.6)
Total	**(347.5)**	-	-	**11.7**	**(335.8)**	(181.3)	(60.2)	(8.3)	-	(249.8)

Net exposure

Functional currency	31 DECEMBER 2002					31 DECEMBER 2001				
	STERLING	US DOLLAR	EURO	OTHER	TOTAL	STERLING	US DOLLAR	EURO	OTHER	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sterling	-	-	-	-	-	-	23.8	0.6	-	24.4
Euro	**(1.1)**	**(190.3)**	-	**15.8**	**(175.6)**	89.7	(665.0)	-	20.5	(554.8)
Total	**(1.1)**	**(190.3)**	-	**15.8**	**(175.6)**	89.7	(641.2)	0.6	20.5	(530.4)

The Euro to Sterling exposure of £346.4 million (December 2001 - £271.0 million) includes a Sterling group asset of £117.0 million (December 2001 - £90.0 million).

The Euro to US Dollar exposure of £190.3 million (December 2001 - £654.7 million) includes a US Dollar group liability of £189.0 million (December 2001 - £661.9 million).

These exposures are eliminated within the Northrop Grumman group of which Lucas Varity group forms a part.

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

28 Derivatives and other financial instruments (continued)

(iv) **Maturity of financial liabilities**

The maturity profile of the group's financial liabilities at 31 December was as follows:

	DECEMBER 2002 £m	DECEMBER 2001 £m
In one year or less, or on demand	**158.7**	87.2
In more than one year but not more than two	**4.7**	9.1
In more than two years, but not more than five	**6.3**	11.6
In more than five years	**279.5**	1,040.0
Total	**449.2**	1,147.9

(v) **Borrowing facilities**

The group has no committed borrowing facilities available to it. However, uncommitted borrowing facilities exist as part of Northrop Grumman group's overall funding arrangements.

(vi) **Fair values of financial assets and financial liabilities**

Set out below is a comparison by category of book values and fair values of all the group's financial assets and financial liabilities as at 31 December:

Primary financial instruments	DECEMBER 2002		DECEMBER 20001	
	BOOK VALUE £m	FAIR VALUE £m	BOOK VALUE £m	FAIR VALUE £m
Eurobonds	**(94.6)**	**(124.2)**	(100.0)	(122.7)
Other borrowings	**(174.9)**	**(174.9)**	(116.5)	(116.5)
Other creditors due outside one year	-	-	(761.8)	(782.7)
Provisions	**(179.7)**	**(179.7)**	(169.6)	(169.6)
Trade investments	**5.7**	**5.7**	5.2	5.2
Cash and short term deposits	**41.8**	**41.8**	35.3	35.3
Debtors due outside one year	-	-	1,378.1	1,414.0
Total	**(401.7)**	**(431.3)**	270.7	263.0

	DECEMBER 2002		DECEMBER 20001	
Derivative financial instruments held to manage the foreign currency exposures	BOOK VALUE £m	FAIR VALUE £m	BOOK VALUE £m	FAIR VALUE £m
Forward foreign currency contracts	-	**3.7**	-	(26.9)

Market rates have been used to determine the fair values of forward foreign currency contracts and the Eurobonds. The fair value of all other items have been calculated by discounting the expected future cash flows at prevailing interest rates.

Lucas Varity
Notes to the Financial Statements (continued)
At 31 December 2002

28 Derivatives and other financial instruments (continued)

(vii) **Hedges**

The group enters into forward exchange contracts which hedge foreign currency commitments, and anticipated transactions.

Gains and losses on instruments for hedging are not recognised until the exposure that is being hedged is itself recognised. The foreign currency exposures will be realised within 12 months of the balance sheet date. Unrecognised gain and losses and deferred gains and losses on financial instruments used for hedging are as follows:

Derivative financial instruments	DECEMBER 2002			DECEMBER 20001		
	GAINS	**LOSSES**	**TOTAL**	GAINS	LOSSES	TOTAL
	£m	**£m**	**£m**	£m	£m	£m
Gains and losses unrecognised at 31 December	**4.6**	**(0.9)**	**3.7**	7.4	(37.3)	(29.9)
Total	**4.6**	**(0.9)**	**3.7**	7.4	(37.3)	(29.9)
Of which: Gains and losses expected to be recognised in the profit and loss account in 2003/2002	**4.6**	**(0.9)**	**3.7**	3.8	(8.4)	(4.6)
Gains and losses included in the profit and loss account that arose in previous years	**5.7**	**(4.6)**	**1.1**	6.1	(9.7)	(3.6)