

## Appendix 1. Group Income Statement – Total IFRS adjustments

for the year ended 31 December 2004

	UK GAAP (IFRS format) £m	Total IFRS adjustments £m	IFRS £m
<b>Combined sales of group and equity accounted investments</b>	13,479	73	13,552
Less: adjustment for share of equity accounted investments	(4,384)	14	(4,370)
<b>Revenue</b>	9,095	87	9,182
<b>Operating costs</b>	(9,443)	262	(9,181)
<i>Excluding goodwill impairment and amortisation of intangible assets</i>	(8,510)	(77)	(8,587)
<i>Amortisation of intangible assets</i>	(4)	(9)	(13)
<i>Goodwill impairment</i>	(929)	348	(581)
<b>Other income</b>	110	-	110
<b>Share of results of equity accounted investments</b>	88	128	216
<i>Excluding goodwill impairment, finance costs and tax</i>	322	26	348
<i>Goodwill impairment</i>	(109)	109	-
<i>Finance costs</i>	(30)	3	(27)
<i>Tax</i>	(95)	(10)	(105)
	(150)	477	327
<i>Operating profit excluding the following items:</i>	1,017	36	1,053
<i>Amortisation of intangible assets</i>	(4)	(9)	(13)
<i>Goodwill impairment</i>	(1,038)	457	(581)
<i>Finance costs of equity accounted investments</i>	(30)	3	(27)
<i>Tax on equity accounted investments</i>	(95)	(10)	(105)
<b>Finance costs</b>			
Financial income	57	552	609
Financial expense	(234)	(524)	(758)
	(177)	28	(149)
<b>Taxation expense</b>	(139)	(36)	(175)
<b>Profit/(loss) for the year</b>	<b>(466)</b>	<b>469</b>	<b>3</b>

## Appendix 2. Group Income Statement – Total IFRS adjustments

for the six months ended 30 June 2004

	UK GAAP (IFRS format) £m	Total IFRS adjustments £m	IFRS £m
<b>Combined sales of group and equity accounted investments</b>	6,125	(28)	6,097
Less: adjustment for share of equity accounted investments	(2,008)	6	(2,002)
<b>Revenue</b>	4,117	(22)	4,095
<b>Operating costs</b>	(4,454)	446	(4,008)
<i>Excluding goodwill impairment and amortisation of intangible assets</i>	(3,818)	1	(3,817)
<i>Amortisation of intangible assets</i>	(1)	(1)	(2)
<i>Goodwill impairment</i>	(635)	446	(189)
<b>Other income</b>	40	-	40
<b>Share of results of equity accounted investments</b>	35	58	93
<i>Excluding goodwill impairment, finance costs and tax</i>	148	5	153
<i>Goodwill impairment</i>	(53)	53	-
<i>Finance costs</i>	(10)	1	(9)
<i>Tax</i>	(50)	(1)	(51)
	(262)	482	220
<i>Operating profit excluding the following items:</i>	487	(16)	471
<i>Amortisation of intangible assets</i>	(1)	(1)	(2)
<i>Goodwill impairment</i>	(688)	499	(189)
<i>Finance costs of equity accounted investments</i>	(10)	1	(9)
<i>Tax on equity accounted investments</i>	(50)	(1)	(51)
<b>Finance costs</b>			
Financial income	26	243	269
Financial expense	(110)	(235)	(345)
	(84)	8	(76)
<b>Taxation expense</b>	(64)	(11)	(75)
<b>Profit/(loss) for the period</b>	<b>(410)</b>	<b>479</b>	<b>69</b>

### Appendix 3. Group Balance Sheet – Total IFRS adjustments

as at 31 December 2004

	UK GAAP (IFRS format) £m	Total IFRS Adjustments £m	IFRS £m
<b>Non-current assets</b>			
Intangible assets	5,678	437	6,115
Property, plant and equipment	1,581	165	1,746
Investment property	155	-	155
Investments in joint ventures and associates	1,604	(135)	1,469
Other investments	66	-	66
Debtors	944	(433)	511
Deferred tax assets	107	983	1,090
	10,135	1,017	11,152
<b>Current assets</b>			
Inventories	498	-	498
Debtors, including amounts due from customers for contract work	2,168	30	2,198
Other investments	763	-	763
Cash and cash equivalents	1,644	7	1,651
	5,073	37	5,110
<b>Total assets</b>	15,208	1,054	16,262
<b>Non-current liabilities</b>			
Loans and overdrafts	(1,665)	(448)	(2,113)
Creditors	(464)	-	(464)
Retirement benefit obligation	(166)	(3,044)	(3,210)
Deferred tax liabilities	(196)	182	(14)
Provisions	(328)	87	(241)
	(2,819)	(3,223)	(6,042)
<b>Current liabilities</b>			
Loans and overdrafts	(719)	(232)	(951)
Creditors	(6,377)	223	(6,154)
Retirement benefit obligation	(13)	13	-
Corporation tax	(200)	-	(200)
Provisions	(346)	96	(250)
	(7,655)	100	(7,555)
<b>Total liabilities</b>	(10,474)	(3,123)	(13,597)
	<b>4,734</b>	<b>(2,069)</b>	<b>2,665</b>
<b>Capital and reserves</b>			
Issued share capital	143	-	143
Share premium	412	-	412
Treasury shares	(7)	-	(7)
Statutory reserve	202	-	202
Other reserves	5,372	(136)	5,236
Profit and loss reserve	(1,398)	(1,933)	(3,331)
<b>Shareholders' funds</b>	4,724	(2,069)	2,655
<b>Equity minority interests</b>	10	-	10
	<b>4,734</b>	<b>(2,069)</b>	<b>2,665</b>

## Appendix 4. Group Balance Sheet – Total IFRS adjustments

as at 30 June 2004

	UK GAAP (IFRS format) £m	Total IFRS Adjustments £m	IFRS £m
<b>Non-current assets</b>			
Intangible assets	5,376	449	5,825
Property, plant and equipment	1,449	209	1,658
Investment property	159	-	159
Investments in joint ventures and associates	1,538	(142)	1,396
Other investments	90	-	90
Debtors	879	(454)	425
Deferred tax assets	72	1,036	1,108
	9,563	1,098	10,661
<b>Current assets</b>			
Inventories	449	-	449
Debtors, including amounts due from customers for contract work	2,902	46	2,948
Other investments	662	-	662
Cash and cash equivalents	863	8	871
	4,876	54	4,930
<b>Total assets</b>	14,439	1,152	15,591
<b>Non-current liabilities</b>			
Loans and overdrafts	(1,739)	(654)	(2,393)
Creditors	(484)	-	(484)
Retirement benefit obligation	(143)	(2,775)	(2,918)
Deferred tax liabilities	(111)	111	-
Provisions	(266)	72	(194)
	(2,743)	(3,246)	(5,989)
<b>Current liabilities</b>			
Loans and overdrafts	(832)	(162)	(994)
Creditors	(5,434)	243	(5,191)
Corporation tax	(195)	-	(195)
Provisions	(307)	94	(213)
	(6,768)	175	(6,593)
<b>Total liabilities</b>	(9,511)	(3,071)	(12,582)
	<b>4,928</b>	<b>(1,919)</b>	<b>3,009</b>
<b>Capital and reserves</b>			
Issued share capital	143	-	143
Share premium	412	-	412
Treasury shares	(8)	-	(8)
Statutory reserve	202	-	202
Other reserves	5,284	(147)	5,137
Profit and loss reserve	(1,114)	(1,772)	(2,886)
<b>Shareholders' funds</b>	4,919	(1,919)	3,000
<b>Equity minority interests</b>	9	-	9
	<b>4,928</b>	<b>(1,919)</b>	<b>3,009</b>

## Appendix 5. Group Balance Sheet – Total IFRS adjustments

as at 31 December 2003

	UK GAAP (IFRS format) £m	Total IFRS adjustments £m	IFRS £m
<b>Non-current assets</b>			
Intangible assets	6,017	3	6,020
Property, plant and equipment	1,527	242	1,769
Investment property	167	-	167
Investments in joint ventures and associates	1,610	(153)	1,457
Other investments	95	-	95
Debtors	836	(378)	458
Deferred tax assets	84	920	1,004
	10,336	634	10,970
<b>Current assets</b>			
Inventories	388	-	388
Debtors, including amounts due from customers for contract work	2,970	32	3,002
Other investments	699	-	699
Cash and cash equivalents	964	7	971
	5,021	39	5,060
<b>Total assets</b>	15,357	673	16,030
<b>Non-current liabilities</b>			
Loans and overdrafts	(1,749)	(614)	(2,363)
Creditors	(463)	-	(463)
Retirement benefit obligation	(170)	(2,319)	(2,489)
Deferred tax liabilities	(83)	83	-
Provisions	(427)	223	(204)
	(2,892)	(2,627)	(5,519)
<b>Current liabilities</b>			
Loans and overdrafts	(779)	(329)	(1,108)
Creditors	(5,681)	366	(5,315)
Retirement benefit obligation	(5)	5	-
Corporation tax	(196)	-	(196)
Provisions	(203)	-	(203)
	(6,864)	42	(6,822)
<b>Total liabilities</b>	(9,756)	(2,585)	(12,341)
	<b>5,601</b>	<b>(1,912)</b>	<b>3,689</b>
<b>Capital and reserves</b>			
Issued share capital	143	-	143
Share premium	412	-	412
Treasury shares	(9)	-	(9)
Statutory reserve	202	-	202
Other reserves	5,370	(147)	5,223
Profit and loss reserve	(527)	(1,765)	(2,292)
<b>Shareholders' funds</b>	5,591	(1,912)	3,679
<b>Equity minority interests</b>	10	-	10
	<b>5,601</b>	<b>(1,912)</b>	<b>3,689</b>

## Appendix 6. Group Income Statement – Details of IFRS adjustments

for the year ended 31 December 2004

	Regional aircraft financing	Pensions	Business combinations	Goodwill amortisation	Development costs	Share-based payments	Long-term contracts	Depreciation	Taxation	Total IFRS adjustments
	4.3	4.4	4.5	4.6	4.7	4.8	4.9	4.10	4.12	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Combined sales of group and equity accounted investments</b>	<b>44</b>	-	-	-	-	-	<b>29</b>	-	-	<b>73</b>
Less: adjustment for share of equity accounted investments	-	-	-	-	-	-	14	-	-	14
<b>Revenue</b>	<b>44</b>	-	-	-	-	-	<b>43</b>	-	-	<b>87</b>
<b>Operating costs</b>	<b>(40)</b>	<b>11</b>	<b>(13)</b>	<b>348</b>	<b>4</b>	<b>(18)</b>	<b>(41)</b>	<b>11</b>	-	<b>262</b>
<i>Excluding goodwill impairment and amortisation of intangible assets</i>	(40)	11	(6)	-	6	(18)	(41)	11	-	(77)
<i>Amortisation of intangible assets</i>	-	-	(7)	-	(2)	-	-	-	-	(9)
<i>Goodwill impairment</i>	-	-	-	348	-	-	-	-	-	348
<b>Other income</b>	-	-	-	-	-	-	-	-	-	-
<b>Share of results of equity accounted investments</b>	-	<b>6</b>	-	<b>109</b>	<b>13</b>	-	-	-	-	<b>128</b>
<i>Excluding goodwill impairment, finance costs and tax</i>	-	5	-	-	21	-	-	-	-	26
<i>Goodwill impairment</i>	-	-	-	109	-	-	-	-	-	109
<i>Finance costs</i>	-	3	-	-	-	-	-	-	-	3
<i>Tax</i>	-	(2)	-	-	(8)	-	-	-	-	(10)
	<b>4</b>	<b>17</b>	<b>(13)</b>	<b>457</b>	<b>17</b>	<b>(18)</b>	<b>2</b>	<b>11</b>	-	<b>477</b>
<i>Operating profit excluding the following items:</i>	4	16	(6)	-	27	(18)	2	11	-	36
<i>Amortisation of intangible assets</i>	-	-	(7)	-	(2)	-	-	-	-	(9)
<i>Goodwill impairment</i>	-	-	-	457	-	-	-	-	-	457
<i>Finance costs of equity accounted investments</i>	-	3	-	-	-	-	-	-	-	3
<i>Tax on equity accounted investments</i>	-	(2)	-	-	(8)	-	-	-	-	(10)
<b>Finance costs</b>										
Financial income	10	542	-	-	-	-	-	-	-	552
Financial expense	(3)	(521)	-	-	-	-	-	-	-	(524)
	<b>7</b>	<b>21</b>	-	-	-	-	-	-	-	<b>28</b>
<b>Taxation expense</b>	(3)	(17)	5	-	(1)	9	(1)	(3)	(25)	(36)
<b>Profit for the year</b>	<b>8</b>	<b>21</b>	<b>(8)</b>	<b>457</b>	<b>16</b>	<b>(9)</b>	<b>1</b>	<b>8</b>	<b>(25)</b>	<b>469</b>

## Appendix 7. Group Income Statement – Details of IFRS adjustments

for the six months ended 30 June 2004

	Regional aircraft financing	Pensions	Business combinations	Goodwill amortisation	Development costs	Share-based payments	Long-term contracts	Depreciation	Taxation	Total IFRS adjustments
	4.3	4.4	4.5	4.6	4.7	4.8	4.9	4.10	4.12	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Combined sales of group and equity accounted investments</b>	<b>27</b>	-	-	-	-	-	(55)	-	-	<b>(28)</b>
Less: adjustment for share of equity accounted investments	-	-	-	-	-	-	6	-	-	6
<b>Revenue</b>	<b>27</b>	-	-	-	-	-	<b>(49)</b>	-	-	<b>(22)</b>
<b>Operating costs</b>	<b>(20)</b>	<b>(20)</b>	-	<b>446</b>	<b>(1)</b>	<b>(12)</b>	<b>52</b>	<b>1</b>	-	<b>446</b>
<i>Excluding goodwill impairment and amortisation of intangible assets</i>	(20)	(20)	-	-	-	(12)	52	1	-	1
<i>Amortisation of intangible assets</i>	-	-	-	-	(1)	-	-	-	-	(1)
<i>Goodwill impairment</i>	-	-	-	446	-	-	-	-	-	446
<b>Other income</b>	-	-	-	-	-	-	-	-	-	-
<b>Share of results of equity accounted investments</b>	-	<b>2</b>	-	<b>53</b>	<b>3</b>	-	-	-	-	<b>58</b>
<i>Excluding goodwill impairment, finance costs and tax</i>	-	2	-	-	3	-	-	-	-	5
<i>Goodwill impairment</i>	-	-	-	53	-	-	-	-	-	53
<i>Finance costs</i>	-	1	-	-	-	-	-	-	-	1
<i>Tax</i>	-	(1)	-	-	-	-	-	-	-	(1)
	<b>7</b>	<b>(18)</b>	-	<b>499</b>	<b>2</b>	<b>(12)</b>	<b>3</b>	<b>1</b>	-	<b>482</b>
<i>Operating profit excluding the following items:</i>	7	(18)	-	-	3	(12)	3	1	-	(16)
<i>Amortisation of intangible assets</i>	-	-	-	-	(1)	-	-	-	-	(1)
<i>Goodwill impairment</i>	-	-	-	499	-	-	-	-	-	499
<i>Finance costs of equity accounted investments</i>	-	1	-	-	-	-	-	-	-	1
<i>Tax on equity accounted investments</i>	-	(1)	-	-	-	-	-	-	-	(1)
<b>Finance costs</b>										
Financial income	5	238	-	-	-	-	-	-	-	243
Financial expense	(9)	(226)	-	-	-	-	-	-	-	(235)
	(4)	12	-	-	-	-	-	-	-	8
<b>Taxation expense</b>	(1)	1	-	-	-	3	(1)	-	(13)	(11)
<b>Profit for the period</b>	<b>2</b>	<b>(5)</b>	-	<b>499</b>	<b>2</b>	<b>(9)</b>	<b>2</b>	<b>1</b>	<b>(13)</b>	<b>479</b>

## Appendix 8. Group Balance Sheet – Details of IFRS adjustments

as at 31 December 2004

	Regional aircraft financing	Pensions	Business combinations	Goodwill amortisation	Development costs	Share-based payments	Long-term contracts	Other 4.10 / 4.11	Taxation 4.12	Total IFRS adjustments
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Non-current assets</b>										
Intangible assets	-	51	30	348	8	-	-	-	-	437
Property, plant and equipment	301	-	-	-	-	-	-	(136)	-	165
Investment property	-	-	-	-	-	-	-	-	-	-
Investments in joint ventures and associates	-	(260)	-	109	16	-	-	-	-	(135)
Other investments	-	-	-	-	-	-	-	-	-	-
Debtors	169	(602)	-	-	-	-	-	-	-	(433)
Deferred tax assets	-	969	(3)	-	-	-	-	-	17	983
	<b>470</b>	<b>158</b>	<b>27</b>	<b>457</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>(136)</b>	<b>17</b>	<b>1,017</b>
<b>Current assets</b>										
Inventories	-	-	-	-	-	-	-	-	-	-
Debtors, including amounts due from customers for contract work	-	-	-	-	-	-	31	-	(1)	30
Other investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	7	-	-	-	-	-	-	-	-	7
	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>-</b>	<b>(1)</b>	<b>37</b>
<b>Total assets</b>	<b>477</b>	<b>158</b>	<b>27</b>	<b>457</b>	<b>24</b>	<b>-</b>	<b>31</b>	<b>(136)</b>	<b>16</b>	<b>1,054</b>
<b>Non-current liabilities</b>										
Loans and overdrafts	(448)	-	-	-	-	-	-	-	-	(448)
Creditors	-	-	-	-	-	-	-	-	-	-
Retirement benefit obligation	-	(3,044)	-	-	-	-	-	-	-	(3,044)
Deferred tax liabilities	(15)	163	(45)	-	(2)	6	(5)	16	64	182
Provisions	101	-	-	-	-	(14)	-	-	-	87
	<b>(362)</b>	<b>(2,881)</b>	<b>(45)</b>	<b>-</b>	<b>(2)</b>	<b>(8)</b>	<b>(5)</b>	<b>16</b>	<b>64</b>	<b>(3,223)</b>
<b>Current liabilities</b>										
Loans and overdrafts	(232)	-	-	-	-	-	-	-	-	(232)
Creditors	56	-	7	-	-	-	(18)	178	-	223
Retirement benefit obligation	-	13	-	-	-	-	-	-	-	13
Corporation tax	-	-	-	-	-	-	-	-	-	-
Provisions	97	-	(1)	-	-	-	-	-	-	96
	<b>(79)</b>	<b>13</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18)</b>	<b>178</b>	<b>-</b>	<b>100</b>
<b>Total liabilities</b>	<b>(441)</b>	<b>(2,868)</b>	<b>(39)</b>	<b>-</b>	<b>(2)</b>	<b>(8)</b>	<b>(23)</b>	<b>194</b>	<b>64</b>	<b>(3,123)</b>
	<b>36</b>	<b>(2,710)</b>	<b>(12)</b>	<b>457</b>	<b>22</b>	<b>(8)</b>	<b>8</b>	<b>58</b>	<b>80</b>	<b>(2,069)</b>
Issued share capital	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-
Statutory reserve	-	-	-	-	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-	-	(136)	-	(136)
Profit and loss reserve	36	(2,710)	(12)	457	22	(8)	8	194	80	(1,933)
<b>Shareholders' funds</b>	<b>36</b>	<b>(2,710)</b>	<b>(12)</b>	<b>457</b>	<b>22</b>	<b>(8)</b>	<b>8</b>	<b>58</b>	<b>80</b>	<b>(2,069)</b>
<b>Equity minority interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>36</b>	<b>(2,710)</b>	<b>(12)</b>	<b>457</b>	<b>22</b>	<b>(8)</b>	<b>8</b>	<b>58</b>	<b>80</b>	<b>(2,069)</b>



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31	(2,537)	-	499	7	(6)	7	(12)	92	(1,919)
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## Appendix 10. Group Balance Sheet – Details of IFRS adjustments

as at 31 December 2003

	Regional aircraft financing	Pensions	Business combinations	Goodwill amortisation	Development costs	Share-based payments	Long-term contracts	Other	Taxation	Total IFRS adjustments
	4.3	4.4	4.5	4.6	4.7	4.8	4.9	4.10/4.11	4.12	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Non-current assets</b>										
Intangible assets	-	-	-	-	3	-	-	-	-	3
Property, plant and equipment	389	-	-	-	-	-	-	(147)	-	242
Investment property	-	-	-	-	-	-	-	-	-	-
Investments in joint ventures and associates	-	(154)	-	-	1	-	-	-	-	(153)
Other investments	-	-	-	-	-	-	-	-	-	-
Debtors	153	(531)	-	-	-	-	-	-	-	(378)
Deferred tax assets	-	781	-	-	-	1	-	-	138	920
	542	96	-	-	4	1	-	(147)	138	634
<b>Current assets</b>										
Inventories	-	-	-	-	-	-	-	-	-	-
Debtors, including amounts due from customers for contract work	-	-	-	-	-	-	33	-	(1)	32
Other investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	7	-	-	-	-	-	-	-	-	7
	7	-	-	-	-	-	33	-	(1)	39
<b>Total assets</b>	549	96	-	-	4	1	33	(147)	137	673
<b>Non-current liabilities</b>										
Loans and overdrafts	(614)	-	-	-	-	-	-	-	-	(614)
Creditors	-	-	-	-	-	-	-	-	-	-
Retirement benefit obligation	-	(2,319)	-	-	-	-	-	-	-	(2,319)
Deferred tax liabilities	(16)	115	-	-	(1)	-	(4)	19	(30)	83
Provisions	227	-	-	-	-	(4)	-	-	-	223
	(403)	(2,204)	-	-	(1)	(4)	(4)	19	(30)	(2,627)
<b>Current liabilities</b>										
Loans and overdrafts	(329)	-	-	-	-	-	-	-	-	(329)
Creditors	220	-	-	-	-	-	(22)	168	-	366
Retirement benefit obligation	-	5	-	-	-	-	-	-	-	5
Corporation tax	-	-	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-	-	-
	(109)	5	-	-	-	-	(22)	168	-	42
<b>Total liabilities</b>	(512)	(2,199)	-	-	(1)	(4)	(26)	187	(30)	(2,585)
	37	(2,103)	-	-	3	(3)	7	40	107	(1,912)
Issued share capital	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-
Statutory reserve	-	-	-	-	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-	-	(147)	-	(147)
Profit and loss reserve	37	(2,103)	-	-	3	(3)	7	187	107	(1,765)
<b>Shareholders' funds</b>	37	(2,103)	-	-	3	(3)	7	40	107	(1,912)
<b>Equity minority interests</b>	-	-	-	-	-	-	-	-	-	-
	37	(2,103)	-	-	3	(3)	7	40	107	(1,912)



## Appendix 11. Reformat of UK GAAP Group Income Statement

for the year ended 31 December 2004

	UK GAAP	Reclass. joint ventures	Finance costs	Other income	General reclass.	UK GAAP (IFRS format)	
	£m	4.1 (i) £m	4.1 (ii) £m	4.1 (iii) £m	4.1 (iv) £m	£m	
<b>Sales</b>	13,479	-	-	-	-	13,479	<b>Combined sales of group and equity accounted investments</b>
Less: adjustment for share of joint venture sales	(4,384)	-	-	-	-	(4,384)	Less: adjustment for share of equity accounted investments
<b>Turnover</b>	<b>9,095</b>	-	-	-	-	<b>9,095</b>	<b>Revenue</b>
<b>Operating costs</b>	(9,333)	-	-	(110)	-	(9,443)	<b>Operating costs</b>
Excluding goodwill amortisation and impairment	(8,404)	-	-	(110)	4	(8,510)	Excluding goodwill impairment and amortisation of intangible assets
Goodwill amortisation and impairment	(929)	-	-	-	(4)	(929)	Amortisation of intangible assets Goodwill impairment
	-	-	-	110	-	110	<b>Other income</b>
<b>Share of operating profit of joint ventures</b>	<b>213</b>	<b>(125)</b>	-	-	-	<b>88</b>	<b>Share of results of equity accounted investments</b>
Excluding goodwill amortisation	322	-	-	-	-	322	Excluding goodwill impairment, finance costs and tax
Goodwill amortisation	(109)	-	-	-	-	(109)	Goodwill impairment
	-	(30)	-	-	-	(30)	Finance costs
	-	(95)	-	-	-	(95)	Tax
<b>Loss before interest</b>	<b>(25)</b>	<b>(125)</b>	-	-	-	<b>(150)</b>	
Excluding goodwill amortisation and impairment	1,013	-	-	-	4	1,017	Operating profit, excluding the following items:
Goodwill amortisation and impairment	(1,038)	-	-	-	1,034	(4)	Amortisation of intangible assets
	-	-	-	-	(1,038)	(1,038)	Goodwill impairment
	-	(30)	-	-	-	(30)	Finance costs of equity accounted investments
	-	(95)	-	-	-	(95)	Tax on equity accounted investments
<b>Interest</b>	<b>(207)</b>	<b>30</b>	-	-	-	<b>(177)</b>	<b>Finance costs</b>
Net interest	(177)	-	234	-	-	57	Financial income
	-	-	(234)	-	-	(234)	Financial expense
Share of net interest of joint ventures	(30)	30	-	-	-	-	
<b>Tax</b>	<b>(234)</b>	<b>95</b>	-	-	-	<b>(139)</b>	<b>Taxation expense</b>
Tax on profit	(139)	-	-	-	-	(139)	
Share of tax of joint ventures	(95)	95	-	-	-	-	
<b>Loss on ordinary activities after taxation</b>	<b>(466)</b>	-	-	-	-	<b>(466)</b>	<b>Loss for the year</b>

## Appendix 12. Reformat of UK GAAP Group Income Statement

for the six months ended 30 June 2004	UK GAAP	Reclass. joint ventures	Finance costs	Other income	General reclass.	UK GAAP (IFRS format)	
	£m	4.1 (i) £m	4.1 (ii) £m	4.1 (iii) £m	4.1 (iv) £m	£m	
<b>Sales</b>	6,125	-	-	-	-	6,125	<b>Combined sales of group and equity accounted investments</b>
Less: adjustment for share of joint venture sales	(2,008)	-	-	-	-	(2,008)	Less: adjustment for share of equity accounted investments
<b>Turnover</b>	<b>4,117</b>	-	-	-	-	<b>4,117</b>	<b>Revenue</b>
<b>Operating costs</b>	(4,414)	-	-	(40)	-	(4,454)	<b>Operating costs</b>
<i>Excluding goodwill amortisation and impairment</i>	(3,779)	-	-	(40)	1	(3,818)	<i>Excluding goodwill impairment and amortisation of intangible assets</i>
<i>Goodwill amortisation and impairment</i>	(635)	-	-	-	(1)	(635)	<i>Amortisation of intangible assets</i>
	-	-	-	40	-	40	<i>Goodwill impairment</i>
							<b>Other income</b>
<b>Share of operating profit of joint ventures</b>	<b>95</b>	<b>(60)</b>	-	-	-	<b>35</b>	<b>Share of results of equity accounted investments</b>
<i>Excluding goodwill amortisation</i>	148	-	-	-	-	148	<i>Excluding goodwill impairment, finance costs and tax</i>
<i>Goodwill amortisation</i>	(53)	-	-	-	-	(53)	<i>Goodwill impairment</i>
	-	(10)	-	-	-	(10)	<i>Finance costs</i>
	-	(50)	-	-	-	(50)	<i>Tax</i>
<b>Loss before interest</b>	<b>(202)</b>	<b>(60)</b>	-	-	-	<b>(262)</b>	
<i>Excluding goodwill amortisation and impairment</i>	486	-	-	-	1	487	<i>Operating profit, excluding the following items:</i>
<i>Goodwill amortisation and impairment</i>	(688)	-	-	-	687	(1)	<i>Amortisation of intangible assets</i>
	-	-	-	-	(688)	(688)	<i>Goodwill impairment</i>
	-	(10)	-	-	-	(10)	<i>Finance costs of equity accounted investments</i>
	-	(50)	-	-	-	(50)	<i>Tax on equity accounted investments</i>
<b>Interest</b>	<b>(94)</b>	<b>10</b>	-	-	-	<b>(84)</b>	<b>Finance costs</b>
<i>Net interest</i>	(84)	-	110	-	-	26	Financial income
	-	-	(110)	-	-	(110)	Financial expense
<i>Share of net interest of joint ventures</i>	(10)	10	-	-	-	-	
<b>Tax</b>	<b>(114)</b>	<b>50</b>	-	-	-	<b>(64)</b>	<b>Taxation expense</b>
<i>Tax on profit</i>	(64)	-	-	-	-	(64)	
<i>Share of tax of joint ventures</i>	(50)	50	-	-	-	-	
<b>Loss on ordinary activities after taxation</b>	<b>(410)</b>	-	-	-	-	<b>(410)</b>	<b>Loss for the period</b>

## Appendix 13. Reformat of UK GAAP Group Balance Sheet

as at 31 December 2004

	UK GAAP	General reclass. 4.1 (iv)	Reclass. debtors & creditors 4.1 (v)	Long-term contract related 4.1 (vi)	Other 4.1 (vii)	UK GAAP (IFRS format)	
	£m	£m	£m	£m	£m	£m	
<b>Fixed assets</b>							<b>Non-current assets</b>
Intangible assets	5,647	-	-	-	31	5,678	Intangible assets
Tangible assets	1,751	(155)	-	-	(15)	1,581	Property, plant and equipment
		155	-	-	-	155	Investment property
Investments – share of joint ventures	1,608	-	-	-	(4)	1,604	Investments in joint ventures and associates
Investments – other	66	-	-	-	-	66	Other investments
	-	-	957	-	(13)	944	Debtors
	-	-	107	-	-	107	Deferred tax assets
	9,072	-	1,064	-	(1)	10,135	
<b>Current assets</b>							<b>Current assets</b>
Stocks	895	-	-	(397)	-	498	Inventories
Debtors due within one year	1,774	-	-	397	(3)	2,168	Debtors, including amounts due from customers for contract work
Debtors due after one year	1,064	-	(1,064)	-	-	-	
Investments	1,420	(657)	-	-	-	763	Other investments
Cash at bank and in hand	987	657	-	-	-	1,644	Cash and cash equivalents
	6,140	-	(1,064)	-	(3)	5,073	
	15,212	-	-	-	(4)	15,208	<b>Total assets</b>
<b>Liabilities falling due after one year</b>							<b>Non-current liabilities</b>
Loans	(1,665)	-	-	-	-	(1,665)	Loans and overdrafts
Creditors	(508)	109	-	(65)	-	(464)	Creditors
	-	(109)	(57)	-	-	(166)	Retirement benefit obligation
	-	-	(196)	-	-	(196)	Deferred tax liabilities
	-	-	(393)	65	-	(328)	Provisions
	(2,173)	-	(646)	-	-	(2,819)	
<b>Liabilities falling due within one year</b>							<b>Current liabilities</b>
Loans and overdrafts	(719)	-	-	-	-	(719)	Loans and overdrafts
Creditors	(6,565)	213	-	(25)	-	(6,377)	Creditors
	-	(13)	-	-	-	(13)	Retirement benefit obligation
	-	(200)	-	-	-	(200)	Corporation tax
<b>Provisions for liabilities and charges</b>	(1,017)	-	646	25	-	(346)	Provisions
	(8,301)	-	646	-	-	(7,655)	
	(10,474)	-	-	-	-	(10,474)	<b>Total liabilities</b>
	<b>4,738</b>	-	-	-	<b>(4)</b>	<b>4,734</b>	
Called up share capital	143	-	-	-	-	143	Issued share capital
Share premium account	412	-	-	-	-	412	Share premium
Own shares	-	-	-	-	(7)	(7)	Treasury shares
Statutory reserve	202	-	-	-	-	202	Statutory reserve
Other reserves	5,372	-	-	-	-	5,372	Other reserves
Profit and loss account	(1,405)	-	-	-	7	(1,398)	Profit and loss reserve
<b>Shareholders' funds</b>	4,724	-	-	-	-	4,724	<b>Shareholders' funds</b>
<b>Equity minority interests</b>	14	-	-	-	(4)	10	<b>Equity minority interests</b>
	<b>4,738</b>	-	-	-	<b>(4)</b>	<b>4,734</b>	

## Appendix 14. Reformat of UK GAAP Group Balance Sheet

as at 30 June 2004

	UK GAAP	General reclass. 4.1 (iv)	Reclass. debtors & creditors 4.1 (v)	Long-term contract related 4.1 (vi)	Other 4.1 (vii)	UK GAAP (IFRS format)	
	£m	£m	£m	£m	£m	£m	£m
<b>Fixed assets</b>							<b>Non-current assets</b>
Intangible assets	5,360	-	-	-	16	5,376	Intangible assets
Tangible assets	1,615	(159)	-	-	(7)	1,449	Property, plant and equipment
	-	159	-	-	-	159	Investment property
Investments – share of joint ventures	1,542	-	-	-	(4)	1,538	Investments in joint ventures and associates
Investments - other	90	-	-	-	-	90	Other investments
	-	-	883	-	(4)	879	Debtors
	-	-	72	-	-	72	Deferred tax assets
	8,607	-	955	-	1	9,563	
<b>Current assets</b>							<b>Current assets</b>
Stocks	910	-	-	(461)	-	449	Inventories
Debtors due within one year	2,446	-	-	461	(5)	2,902	Debtors, including amounts due from customers for contract work
Debtors due after one year	955	-	(955)	-	-	-	
Investments	734	(72)	-	-	-	662	Other investments
Cash at bank and in hand	791	72	-	-	-	863	Cash and cash equivalents
	5,836	-	(955)	-	(5)	4,876	
	14,443	-	-	-	(4)	14,439	<b>Total assets</b>
<b>Liabilities falling due after one year</b>							<b>Non-current liabilities</b>
Loans	(1,739)	-	-	-	-	(1,739)	Loans and overdrafts
Creditors	(503)	77	-	(58)	-	(484)	Creditors
	-	(77)	(66)	-	-	(143)	Retirement benefit obligation
	-	-	(111)	-	-	(111)	Deferred tax liabilities
	-	-	(324)	58	-	(266)	Provisions
	(2,242)	-	(501)	-	-	(2,743)	
<b>Liabilities falling due within one year</b>							<b>Current liabilities</b>
Loans and overdrafts	(832)	-	-	-	-	(832)	Loans and overdrafts
Creditors	(5,604)	195	-	(25)	-	(5,434)	Creditors
	-	(195)	-	-	-	(195)	Corporation tax
<b>Provisions for liabilities and charges</b>	(833)	-	501	25	-	(307)	Provisions
	(7,269)	-	501	-	-	(6,768)	
	(9,511)	-	-	-	-	(9,511)	<b>Total liabilities</b>
	<b>4,932</b>	-	-	-	<b>(4)</b>	<b>4,928</b>	
Called up share capital	143	-	-	-	-	143	Issued share capital
Share premium account	412	-	-	-	-	412	Share premium
Own shares	(8)	-	-	-	-	(8)	Treasury shares
Statutory reserve	202	-	-	-	-	202	Statutory reserve
Other reserves	5,284	-	-	-	-	5,284	Other reserves
Profit and loss account	(1,114)	-	-	-	-	(1,114)	Profit and loss reserve
<b>Shareholders' funds</b>	4,919	-	-	-	-	4,919	<b>Shareholders' funds</b>
<b>Equity minority interests</b>	13	-	-	-	(4)	9	<b>Equity minority interests</b>
	<b>4,932</b>	-	-	-	<b>(4)</b>	<b>4,928</b>	

## Appendix 15. Reformat of UK GAAP Group Balance Sheet

as at 31 December 2003

	UK GAAP	General reclass. 4.1 (iv)	Reclass. debtors & creditors 4.1 (v)	Long-term contract related 4.1 (vi)	Other 4.1 (vii)	UK GAAP (IFRS format)	
	£m	£m	£m	£m	£m	£m	
<b>Fixed assets</b>							<b>Non-current assets</b>
Intangible assets	6,000	-	-	-	17	6,017	Intangible assets
Tangible assets	1,699	(167)	-	-	(5)	1,527	Property, plant and equipment
	-	167	-	-	-	167	Investment property
Investments – share of joint ventures	1,615	-	-	-	(5)	1,610	Investments in joint ventures and associates
Investments - other	95	-	-	-	-	95	Other investments
	-	-	843	-	(7)	836	Debtors
	-	-	84	-	-	84	Deferred tax assets
	9,409	-	927	-	-	10,336	
<b>Current assets</b>							<b>Current assets</b>
Stocks	775	-	-	(387)	-	388	Inventories
Debtors due within one year	2,588	-	-	387	(5)	2,970	Debtors, including amounts due from customers for contract work
Debtors due after one year	927	-	(927)	-	-	-	
Investments	883	(184)	-	-	-	699	Other investments
Cash at bank and in hand	780	184	-	-	-	964	Cash and cash equivalents
	5,953	-	(927)	-	(5)	5,021	
	15,362	-	-	-	(5)	15,357	<b>Total assets</b>
<b>Liabilities falling due after one year</b>							<b>Non-current liabilities</b>
Loans	(1,749)	-	-	-	-	(1,749)	Loans and overdrafts
Creditors	(482)	102	-	(83)	-	(463)	Creditors
	-	(102)	(68)	-	-	(170)	Retirement benefit obligation
	-	-	(83)	-	-	(83)	Deferred tax liabilities
	-	-	(510)	83	-	(427)	Provisions
	(2,231)	-	(661)	-	-	(2,892)	
<b>Liabilities falling due within one year</b>							<b>Current liabilities</b>
Loans and overdrafts	(779)	-	-	-	-	(779)	Loans and overdrafts
Creditors	(5,846)	201	-	(36)	-	(5,681)	Creditors
	-	(5)	-	-	-	(5)	Retirement benefit obligation
	-	(196)	-	-	-	(196)	Corporation tax
<b>Provisions for liabilities and charges</b>	(900)	-	661	36	-	(203)	Provisions
	(7,525)	-	661	-	-	(6,864)	
	(9,756)	-	-	-	-	(9,756)	<b>Total liabilities</b>
	<b>5,606</b>	-	-	-	<b>(5)</b>	<b>5,601</b>	
Called up share capital	143	-	-	-	-	143	Issued share capital
Share premium account	412	-	-	-	-	412	Share premium
Own shares	(9)	-	-	-	-	(9)	Treasury shares
Statutory reserve	202	-	-	-	-	202	Statutory reserve
Other reserves	5,370	-	-	-	-	5,370	Other reserves
Profit and loss account	(527)	-	-	-	-	(527)	Profit and loss reserve
<b>Shareholders' funds</b>	5,591	-	-	-	-	5,591	<b>Shareholders' funds</b>
<b>Equity minority interests</b>	15	-	-	-	(5)	10	Equity minority interests
	<b>5,606</b>	-	-	-	<b>(5)</b>	<b>5,601</b>	

## Appendix 16. Pro forma IFRS Group Balance Sheet reflecting the impact of IAS 32 and IAS 39

	At 31 December 2004 £m	Restate hedged assets/liabilities £m	Share of JV hedge book £m	Preference Shares £m	Exchangeable Bond £m	At 1 January 2005 £m
<b>Non-current assets</b>						
Intangible assets	6,115	-	-	-	-	6,115
Property, plant and equipment	1,746	-	-	-	-	1,746
Investment property	155	-	-	-	-	155
Investments in joint ventures and associates	1,469	(3)	773	-	-	2,239
Other investments	66	-	-	-	-	66
Debtors	511	(11)	-	-	-	500
Other financial assets	-	12	-	-	-	12
Deferred tax assets	1,090	14	-	-	(8)	1,096
	<b>11,152</b>	<b>12</b>	<b>773</b>	<b>-</b>	<b>(8)</b>	<b>11,929</b>
<b>Current assets</b>						
Inventories	498	-	-	-	-	498
Debtors, including amounts due from customers for contract work	2,198	(72)	-	-	-	2,126
Other investments	763	-	-	-	-	763
Other financial assets	-	150	-	-	-	150
Cash and cash equivalents	1,651	(16)	-	-	-	1,635
	<b>5,110</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,172</b>
<b>Total assets</b>	<b>16,262</b>	<b>74</b>	<b>773</b>	<b>-</b>	<b>(8)</b>	<b>17,101</b>
<b>Non-current liabilities</b>						
Loans and overdrafts	(2,113)	(63)	-	(223)	24	(2,375)
Creditors	(464)	-	-	-	-	(464)
Retirement benefit obligation	(3,210)	-	-	-	-	(3,210)
Other financial liabilities	-	(10)	-	-	(62)	(72)
Deferred tax liabilities	(14)	-	-	-	-	(14)
Provisions	(241)	(4)	-	-	-	(245)
	<b>(6,042)</b>	<b>(77)</b>	<b>-</b>	<b>(223)</b>	<b>(38)</b>	<b>(6,380)</b>
<b>Current liabilities</b>						
Loans and overdrafts	(951)	(5)	-	-	-	(956)
Creditors	(6,154)	64	-	-	-	(6,090)
Other financial liabilities	-	(138)	-	-	-	(138)
Corporation tax	(200)	-	-	-	-	(200)
Provisions	(250)	-	-	-	-	(250)
	<b>(7,555)</b>	<b>(79)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,634)</b>
<b>Total liabilities</b>	<b>(13,597)</b>	<b>(156)</b>	<b>-</b>	<b>(223)</b>	<b>(38)</b>	<b>(14,014)</b>
	<b>2,665</b>	<b>(82)</b>	<b>773</b>	<b>(223)</b>	<b>(46)</b>	<b>3,087</b>
Issued share capital	143	-	-	(66)	-	77
Share premium	412	-	-	-	-	412
Equity option	-	-	-	78	-	78
Treasury shares	(7)	-	-	-	-	(7)
Statutory reserve	202	-	-	-	-	202
Other reserves	5,236	-	-	-	-	5,236
Profit and loss reserve	(3,331)	(82)	773	(235)	(46)	(2,921)
<b>Shareholders' funds</b>	<b>2,655</b>	<b>(82)</b>	<b>773</b>	<b>(223)</b>	<b>(46)</b>	<b>3,077</b>
<b>Equity minority interests</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10</b>
	<b>2,665</b>	<b>(82)</b>	<b>773</b>	<b>(223)</b>	<b>(46)</b>	<b>3,087</b>

## **Appendix 17. IFRS accounting policies**

### **For adoption in the first full set of IFRS financial statements**

#### **Statement of compliance**

The financial statements have been prepared in accordance with all International Financial Reporting Standards including Standing Interpretations Committee and International Financial Reporting Interpretations Committee interpretations issued by the International Accounting Standards Board (IASB) effective for the group's reporting for the year ended 31 December 2005. The restated financial information for the year to 31 December 2004 has been prepared on the same basis with the exception of IAS 32 Financial Instruments: Disclosure and Presentation (IAS 32) and IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).

In November 2004 the EU endorsed a reduced version of IAS 39 as issued previously by the IASB. With effect from 1 January 2005 the group has adopted IAS 39 in accordance with the guidance issued by the IASB.

In preparing this financial information, the group has assumed that the EU will endorse the amendment issued in December 2004 to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures.

In general, for the first-time adoption of IFRS, the standards are applied retrospectively. However there are a number of exceptions available under IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS 1) and details of the exceptions that the group has applied are shown in the notes to the accounts.

The financial statements have been prepared in accordance with IAS 1 Presentation of Financial Statements.

#### **Basis of preparation**

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments).

#### **Basis of consolidation**

The financial statements of the group consolidate the results of the company and its subsidiary undertakings, and include its share of its joint ventures' and associates' results on the equity method, all of which are prepared to 31 December.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets

acquired is recorded as goodwill. The results of such subsidiaries are included in the consolidated income statement from the date of acquisition, up to the date of disposal or closure.

Where the group contributes a business, or other non-monetary asset for an interest in a subsidiary, joint venture or associate, such transactions are recorded so that the reduction in ownership of the business being contributed is accounted for as a disposal while the increased interest in the enlarged group or new interest in the business contributed by other parties to the transaction are accounted for as an acquisition. Fair values are applied to those operations which are subject to the exchange and which have not previously been held within the group. Any loss or realised gain resulting from the transaction is recorded in the consolidated income statement while any unrealised gain is recorded in the statement of recognised income and expense.

### **Goodwill**

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures and associates is included in investments in joint ventures and associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

### **Impairment**

The carrying amounts of the group's assets, other than stocks and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Goodwill was tested for impairment at 1 January 2004, the date of transition to IFRS.

The recoverable amount of the group's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **Revenue recognition**

Sales are recognised when the group obtains the right to consideration in exchange for its performance, this is usually when title passes or a separately identifiable phase of a contract or development has been completed and accepted by the customer. Sales comprise the net value of such deliveries made, work completed or services rendered during the year and include the group's net share of joint ventures and associates. Revenue represents sales made by the company and its subsidiary undertakings, excluding the group's share of joint ventures and associates.

Profit is recognised at the time of sale. In the case of contracts with extended delivery programmes, it is arrived at by reference to the estimated overall profitability of the contract and appropriate provision is made for any losses in the year in which they are first foreseen.

### **Foreign currencies**

Transactions in overseas currencies are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities and goodwill, denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date. These exchange differences are recognised in the consolidated income statement unless they qualify for hedging accounting treatment, in which case they are recognised directly in reserves.

For consolidation purposes the assets and liabilities of overseas subsidiary undertakings, joint ventures and associates are translated at the exchange rate ruling at the balance sheet date. Income statements of such undertakings are translated at average rates of exchange during the year. All resulting exchange differences including exchange differences arising from translation of borrowings and other currency instruments designated as hedges of such investments are recognised directly in a separate component of reserves.

Transition differences that arose before the transition date to IFRS are presented in equity but not as a separate component. When the foreign operation is sold, the cumulative exchange differences recognised since the adoption of IFRS are recognised in the income statement as part of the profit or loss on sale.

### **Research and development**

Group funded revenue expenditure on research activities is written off as incurred and charged to the profit and loss account, except where supported under contract.

Expenditure on development activities, whereby such findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised as

an internally generated intangible asset if certain conditions are met. The expenditure capitalised includes the cost of materials, direct labour and related overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight-line basis over the estimated useful life of the asset.

### **Other intangible assets**

Acquired computer software licences are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes for sale are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Capitalised software development expenditure is stated at cost less accumulated amortisation and impairment losses.

Trademarks and licences are stated at historical cost. Trademarks and licences have definite useful lives and are carried at cost less accumulated amortisation and impairment losses.

Intangible assets arising from a business combination are amortised over their remaining useful lives.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible asset. The estimated useful lives are as follows:

Acquired software licences	2 – 5 years
Capitalised software development	2 - 5 years
Trademarks and licences	up to 20 years
Other intangibles	5 - 10 years

### **Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Depreciation is provided, normally on a straight line basis, to write off the cost of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	- up to 50 years, or the lease term if shorter
Research equipment	- 8 years
Computing equipment, motor vehicles and short life works equipment	- 3 to 5 years
Aircraft	- up to 15 years, or the lease term if shorter
Other equipment	- 10 to 15 years, or the project life if shorter

In the group's North America business, depreciation is normally provided on a basis consistent with cost reimbursement profiles under US government contracts. Typically this provides for a faster rate of depreciation than would otherwise arise on a straight line basis.

No depreciation is provided on freehold land and assets in the course of construction.

Impairment reviews are undertaken if there are indications that the carrying values may not be recoverable.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets obtained under finance leases are included in property, plant and equipment and stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

### **Investment property**

Land and buildings that are leased to non-group entities (predominantly to joint ventures and associates) are classified as investment property. The group applies the cost model to measure investment property at its cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided, normally on a straight line basis, to write off the cost of investment property over their estimated useful lives of up to 50 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### **Other investments**

The group determines the classification of its other investments at initial recognition and re-evaluates this designation at every reporting date. The classification depends on the purpose for which the investments were acquired. The group classifies its other investments in the following categories:

#### **(a) Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

#### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

#### **(c) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and

ability to hold to maturity. During the year, the group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Unrealised gains or losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices.

**Debtors**

Debtors are stated at their cost less impairment losses.

**Inventories**

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value. Cost is generally determined using the weighted average method.

Long-term contracts - the amount of profit attributable to the stage of completion of a long-term contract is arrived at by reference to the estimated overall profitability of the contract.

Appropriate provisions are made for any losses in the year in which they are first foreseen.

Work in progress relating to long-term contracts is stated at cost less provision for anticipated losses.

Cash received on customers’ account and customer stage payments - Amounts received from customers in accordance with the terms of contracts which specify payments in advance of delivery are credited, as progress payments, against any expenditure incurred upon inventories for the particular contract. Any unexpended balance is held in creditors as customer stage payments or, if the amounts are subject to advance payment guarantees unrelated to company performance, as cash received on customers’ account.

**Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, call deposits and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value. For the purpose of the cash flow statement, cash and cash equivalents also includes bank overdrafts that are repayable on demand.

Cash received on customers' account is excluded from the figure for net debt as defined by the group.

**Non-current assets and disposal groups held for sale**

Non-current assets and disposal groups are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

**Loans and overdrafts**

Loans and overdrafts are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, loans and overdrafts are stated at amortised costs with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Dividends on redeemable preference shares are recognised as a liability on an accrual basis and charged as financial expense using the effective interest method.

**Borrowing costs**

Borrowing costs are not capitalised.

**Creditors**

Trade and other creditors are stated at their cost.

**Leases**

Assets obtained under finance leases are included in property, plant and equipment at cost and are depreciated over their useful lives, or the lease term, whichever is the shorter. Future instalments under such leases, net of financing costs, are included within loans. Rental payments are apportioned between the finance element, which is included in financing costs, and the capital element, which reduces the outstanding obligation for future instalments, so as to give a constant charge on the outstanding obligation.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses. Rental income is recognised in revenue on a straight-line basis.

Assets leased out under finance leases cease to be recognised in the balance sheet after the inception of the lease. Instead, a finance lease payments receivable representing the discounted future lease payments to be received from the lessee plus any discounted unguaranteed residual value is recorded as long-term financial assets. Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

### **Derivative financial instruments**

The global nature of the group's business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the group's policy is to hedge all firm transactional exposures as well as to manage anticipated economic cash flow exposures over the medium term. The group also uses interest rate derivative instruments to manage the group's exposure to interest rate fluctuations on its borrowings and deposits by varying the proportion of fixed rate debt relative to floating rate debt over the forward time horizon.

To achieve hedge accounting, the group is required to designate these financial instruments against specific assets, liabilities, income and expenses. All such instruments are recognised initially at cost and subsequently measured at fair value as at the balance sheet date and the effectiveness of each hedge tested against defined criteria. Changes in the fair value of the financial instruments are recognised either in profit or loss for the period or, in the case of a cash flow hedge, directly in equity and subsequently recognised in profit or loss for the period when the underlying transaction is realised. For financial instruments designated as fair value hedges, changes in the fair value of the hedged item and the derivative are recognised in the profit or loss for the period. Gains and losses on financial instruments, both realised and unrealised, that do not qualify for hedge accounting are included in profit or loss for the period. The group aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures and those interest rate exposures where hedge accounting can be achieved.

All financial instruments are recognised as either financial assets or financial liabilities.

### **Tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is expected tax payable on the taxable income for the year, using rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based in the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### **Provisions**

A provision is recognised in the balance sheet when the group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work in progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts are updated regularly.

A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

In accordance with the group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

### **Employee benefits:**

#### **Retirement Benefit Plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined benefit retirement schemes, the cost of providing benefits is determined periodically by independent actuaries and charged to the income statement in the period those benefits are earned by the employees. Actuarial gains and losses are recognised in full in the period in which they occur, and are recognised in the statement of recognised income and expense. Past service cost is recognised immediately to the extent the benefits are already

vested, or otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets.

**Long-term service benefits:**

**Equity and equity-related compensation benefits**

The group issues equity-settled and cash-settled share options to employees. Equity-settled share options are measured at fair value at the date of grant using an option pricing model. This calculated fair value is expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will actually vest.

In accordance with the requirements of IFRS 2, the group has applied IFRS 2 to all equity-settled share options granted after 7 November 2002 that were unvested as of 1 January 2005.

In respect of cash-settled share options, the group recognises a liability based on the respective completion of the vesting period at the current fair value determined at the balance sheet date.