



**Transition to
International Financial
Reporting Standards**

Agenda

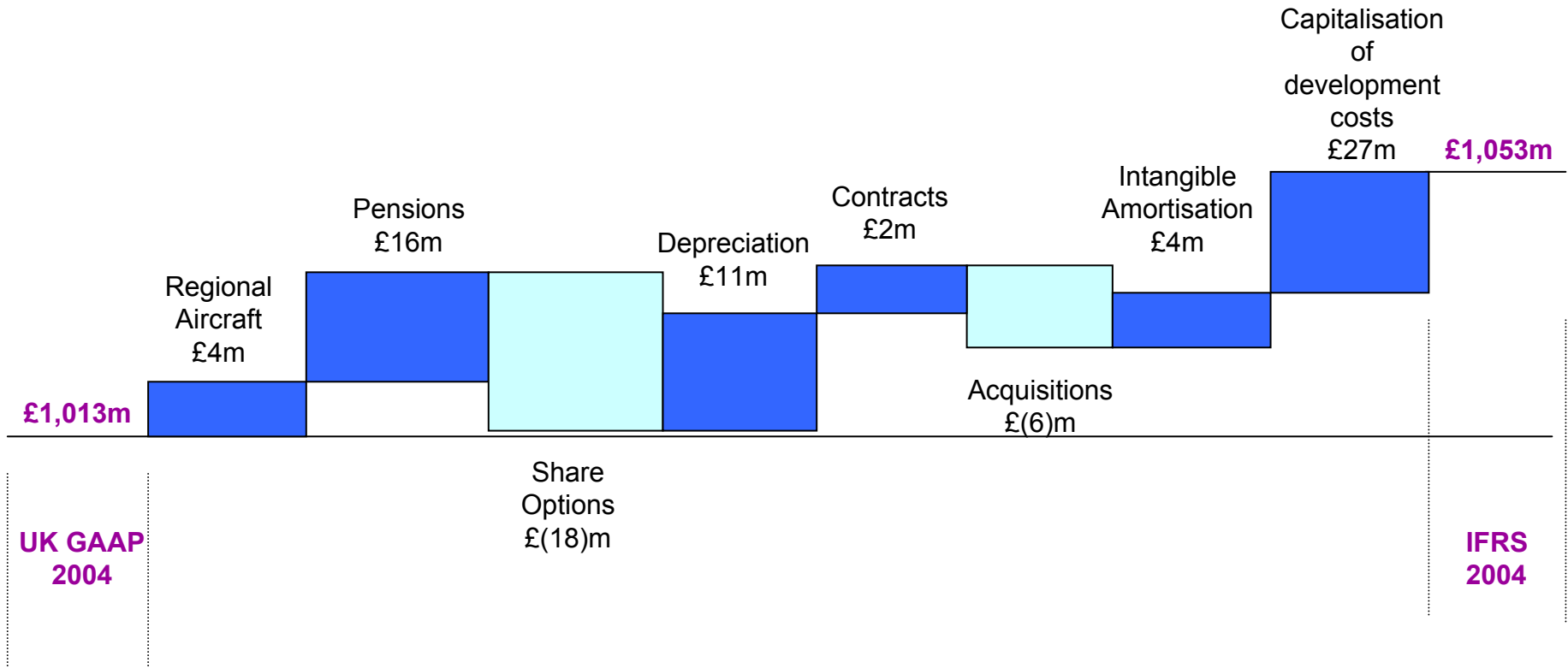
- **Transition overview**
 - **George Rose**

- **Itemised transition adjustments**
 - **Peter Earl**
 - **Peter Lynas**
 - **David Brent**

- **Summary**
 - **George Rose**

- **Questions**
 - **All**

Transition adjustments - EBITA



Transition adjustments

- Underlying earnings per share

Year ending 31 December 2004

IFRS

EBITA

Add back fair value on stocks

1,053

6

1,059

Interest:

- excluding pension financing credit

- excluding market value movements on derivative instruments

(176)

(24)

-

(200)

Underlying PBT

859

Tax before:

- impact of fair value on stocks

- impact of pension financing credit

(280)

(2)

9

(273)

Minority interests

(1)

Preference dividends

(21)

Underlying earnings

564

Weighted average number of shares in issue

3,058

Underlying earnings per share

18.4 p

Tax rate of 31.8% based on adjusted earnings of £859m and adjusted tax charge of £273m

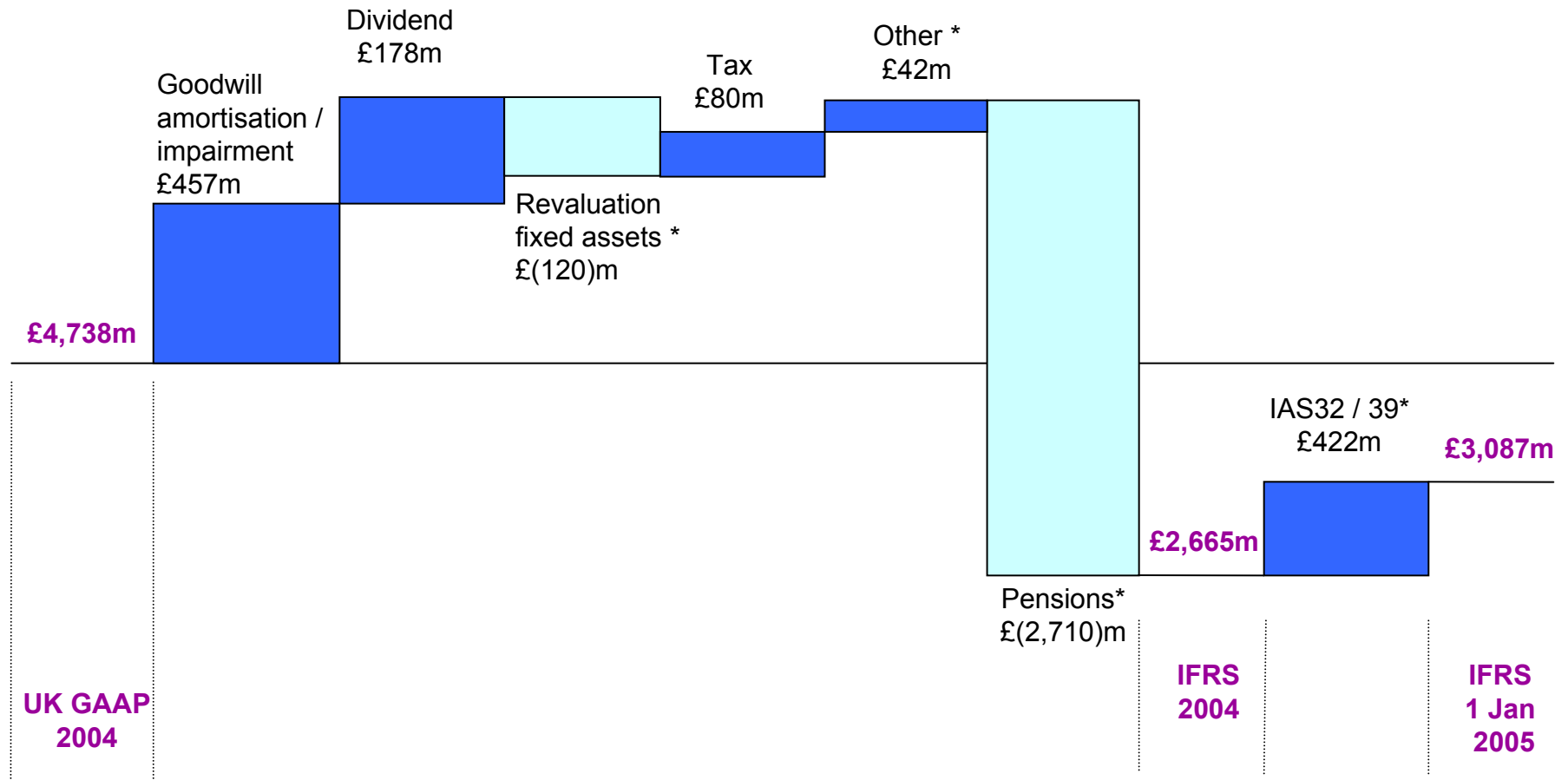
Transition adjustments

- Underlying earnings per share

| Year ending 31 December 2004 | UK GAAP | IFRS |
|--|---------------|---------------|
| EBITA | 1,013 | 1,053 |
| Add back fair value on stocks | - | 6 |
| | 1,013 | 1,059 |
| Interest: | (207) | (176) |
| - excluding pension financing credit | - | (24) |
| - excluding market value movements on derivative instruments | - | - |
| | (207) | (200) |
| Underlying PBT | 806 | 859 |
| Tax before: | (234) | (280) |
| - impact of fair value on stocks | - | (2) |
| - impact of pension financing credit | - | 9 |
| | (234) | (273) |
| Minority interests | (1) | (1) |
| Preference dividends | (21) | (21) |
| Underlying earnings | 550 | 564 |
| Weighted average number of shares in issue | 3,058 | 3,058 |
| Underlying earnings per share | 18.0 p | 18.4 p |

Tax rate of 31.8% based on adjusted earnings of £859m and adjusted tax charge of £273m

Transition adjustments - Net assets



* after tax

Transition adjustments

- Net cash / (debt)

| | £m |
|---------------------------|-------|
| UK GAAP, 31 December 2004 | 5 |
| Regional Aircraft | (673) |
| | <hr/> |
| IFRS, 31 December 2004 | (668) |
| IAS 32 / 39 | (283) |
| | <hr/> |
| IFRS, 1 January 2005 | (951) |
| | <hr/> |

Itemised transition adjustments

- **Regional Aircraft financing** - Peter Earl
- **Pensions** “
- **Share options** “
- **Dividends** “
- **Revaluation of land and buildings** “
- **Taxation** “
- **Contract accounting** - Peter Lynas
- **Development costs** “
- **Goodwill amortisation** “
- **Acquisition changes** “
- **Treasury related adjustments** - David Brent

Regional Aircraft financing

- Aircraft and related debt on balance sheet
- Grosses up UK GAAP recourse liabilities of £248m
- At 31 December 2004
 - Aircraft related assets of £542m
 - Additional debt of £790m
- Creditors of £38m also reclassified into debt
- Retranslation at 31 December 2004 FX rates

IFRS Adjustments

| | 2004 |
|------------|---------|
| EBITA | £4 m |
| Interest | £7 m |
| Debt | £(673)m |
| Net assets | £36 m |

Regional Aircraft financing

- Aircraft depreciated over economic life
- Underpinned by insurance
- Required to separate fixed assets and insurance recoveries
- Small increase to EBITA
- Interest on debt replaces NPV adjustments

IFRS Adjustments

| | 2004 |
|-------------------|---------|
| EBITA | £4 m |
| Interest | £7 m |
| Debt | £(673)m |
| Net assets | £36 m |

Pensions

- IFRS similar to FRS17
- Pension deficit on balance sheet
- Requirement to allocate share of pension deficit to joint ventures

| | Pre tax | Post tax |
|--------------------------------|---------|----------|
| UK/US deficit on balance sheet | (3,068) | (2,154) |
| Share of allocation to JVs | (371) | (260) |
| Reversal of SSAP 24 assets | (501) | (296) |
| Change to net assets | (3,940) | (2,710) |

Pensions

| | Pre tax | Post tax |
|--|----------------|----------------|
| UK/US deficit disclosed - FRS 17 | (4,261) | (2,990) |
| Allocation to JVs | 1,198 | 839 |
| Mid Market/Bid | (5) | (3) |
| UK/US deficit on balance sheet - IAS 19 | (3,068) | (2,154) |

£ millions

Pensions

- Operating charge of £186m, reduced by £16m from UK GAAP
- Financing credit of £24m
- Financing credit reversed for underlying earnings

IFRS Adjustments

| | 2004 |
|------------|-----------|
| EBITA | £16 m |
| Interest | £24 m |
| Debt | - |
| Net assets | £(2,710)m |

Share options

- Under IFRS, cost based on fair value
- No charge under UK GAAP if options granted at market value or under SAYE arrangements
- Cash settled options are reassessed at each period end
- £18m additional charge in 2004

IFRS Adjustments

| | 2004 |
|-------------------|--------|
| EBITA | £(18)m |
| Interest | - |
| Debt | - |
| Net assets | £(8)m |

Dividends

- Dividends are accounted in the period in which they are declared
- 2003 final dividend of £168m reversed in 2003 and charged in 2004
- 2004 final dividend of £178m reversed in 2004 and charged in 2005

IFRS Adjustments

| | 2004 |
|------------|-------|
| EBITA | - |
| Interest | - |
| Debt | - |
| Net assets | £178m |

Revaluation of land and buildings

- Revaluations will be reversed to revert to historic cost
- Impact at 31 December 2004 is to reduce shareholders' funds by £120m

IFRS Adjustments

| | 2004 |
|-------------------|----------|
| EBITA | £11 m |
| Interest | - |
| Debt | - |
| Net assets | £(120) m |

Taxation

- Underlying tax rate of 31.8% on IFRS basis for 2004
- Deferred tax on US acquisition goodwill
- Planning rate of 31% for 2005

IFRS Adjustments

| | 2004 |
|------------|------|
| EBITA | - |
| Interest | - |
| Debt | - |
| Net assets | £80m |

Itemised transition adjustments

- Regional Aircraft financing - Peter Earl
- Pensions “
- Share options “
- Dividends “
- Revaluation of land and buildings “
- Taxation “
- **Contract accounting** - **Peter Lynas**
- **Development costs** “
- **Goodwill amortisation** “
- **Acquisition changes** “
- Treasury related adjustments - David Brent

Contract accounting

- Existing policies largely consistent with IFRS
- Impact is to increase turnover by £29m in 2004
- Accelerated trading of profits on some US award fee contracts

IFRS Adjustments

| | 2004 |
|------------|------|
| EBITA | £2m |
| Interest | - |
| Debt | - |
| Net assets | £8m |

Development costs

- Capitalise if meet certain criteria
- Defence development activity substantially covered by contract - continue to account as WIP
- Balance is mainly early state R&D

No material adjustment on defence businesses

- Airbus and Aerostructures capitalise on A380

IFRS Adjustments

| | 2004 |
|------------|------|
| EBITA | £27m |
| Interest | - |
| Debt | - |
| Net assets | £22m |

Goodwill amortisation

- No amortisation of goodwill under IFRS from 1 January 2004
- Reversal of £492m charge in 2004
- Goodwill is subject to annual impairment review

IFRS Adjustments

| | 2004 |
|------------|-------|
| EBITA | - |
| Interest | - |
| Debt | - |
| Net assets | £457m |

Acquisition changes

- UK GAAP goodwill is analysed between other intangible assets and goodwill (from 1 January 2004)
- Other intangible assets include trademarks, order book, technology, licences
- Other intangible assets are amortised over useful life
- £153m of these intangible assets recognised on 2004 acquisitions
- Acquired stocks are recorded at market value

IFRS Adjustments

| | 2004 |
|------------|--------|
| EBITA | £(6)m |
| Interest | - |
| Debt | - |
| Net assets | £(12)m |

Itemised transition adjustments

- Regional Aircraft financing - Peter Earl
- Pensions “
- Share options “
- Dividends “
- Revaluation of land and buildings “
- Taxation “
- Contract accounting - Peter Lynas
- Development costs “
- Goodwill amortisation “
- Acquisition changes “
- **Treasury related adjustments** - **David Brent**

Treasury related adjustments

- **Interest**
- **Pro forma impact of IAS 32 and IAS 39**
- **Foreign exchange hedging**
- **Interest rate hedging**
- **Vodafone Exchangeable Bond**
- **Convertible Preference Shares**

Interest

| | UK GAAP | IFRS |
|--------------------------------------|---------|-------|
| Net interest payable | (151) | (200) |
| NPV adjustments on Regional Aircraft | (56) | - |
| | (207) | (200) |
| Pensions | | |
| - expected return on assets | - | 545 |
| - interest on scheme liabilities | - | (521) |
| | - | 24 |
| | (207) | (176) |

£ millions

Proforma impact of IAS 32 and IAS 39

| | Other assets/ liabilities | Tax | Net Debt | Equity | Non- equity / convertible options |
|--|---------------------------------|------------|--------------|--------------|--|
| IFRS - 31 December 2004 | 2,368 | 965 | (668) | 2,399 | 266 |
| Group foreign exchange and interest rate derivative contracts | (12) | 14 | (84) | (82) | - |
| Share of Airbus derivative contracts | 1,202 | (427) | - | 775 | - |
| Share of MBDA derivative contracts | (3) | 1 | - | (2) | - |
| Vodafone Exchangeable Bond | (62) | (8) | 24 | (46) | - |
| Convertible Preference Shares | | | | | |
| - recognise fair value of debt | - | - | (223) | - | (223) |
| - recognise fair value of convertible option | - | - | - | (35) | 35 |
| IFRS - 1 January 2005 | 3,493 | 545 | (951) | 3,009 | 78 |

£ millions

Foreign exchange hedging

- **Policy to hedge all firm transactional exposures as well as manage economic cash flow exposures**
- **Aim under IFRS is to achieve hedge accounting for foreign exchange contracts**
- **Hedges marked-to-market each period end - changes in market value taken to reserves if hedges remain effective**

Interest rate hedging

- Instruments used to manage the exposure to interest rate fluctuations
- Aim to achieve hedge accounting
- Hedges marked-to-market each period end - changes in market value taken to P&L to offset changes in the market value of the debt

Vodafone Exchangeable Bond

| | |
|--|-------|
| Outstanding under UK GAAP at 31 December 2004 | (674) |
| Fair value of debt under IFRS at 1 January 2005 | (650) |
| Reduction in reported net debt at 1 January 2005 | 24 |
| | |
| Fair value of Call Option at 1 January 2005 | (62) |

Convertible Preference Shares

- **UK GAAP**
 - **Included within non-equity Shareholders' Funds at £266m at 31 December 2004**
 - **Amount not revalued but is adjusted for any conversions**
 - **Dividends included in the profit and loss account as non-equity preference share dividend**

Convertible Preference Shares

Preference shares under UK GAAP at 1 January 2005 (266)

IFRS:

Fair value of Debt element (223)

Fair value of Convertible Option (78)

(301)

Summary

| | UK GAAP | IFRS |
|----------------|----------------|----------------|
| EBITA | £1,013m | £1,053m |
| Underlying EPS | 18.0p | 18.4p |
| Basic EPS | (16.0)p | (0.6)p |
| Cash/(Debt) | £5m | £(668)m |
| Net Assets | £4,738m | £2,665m |