

**Warren Tucker**  
***Group Financial Director***  
**Restatement of 2004 Results**  
**to International Financial Reporting**  
**Standards**

- ✦ **IFRS conversion project started in 2003:**
  - ◆ **Central team technical expertise**
  - ◆ **3 phase process**
  - ◆ **Training for all operating unit finance teams**
  - ◆ **Bottom up collection of financial data**
  - ◆ **Participation in industry forums**
  - ◆ **External auditors**
  
- ➔ **Investor Day: announcement of 2004 re-statement**
  
- ➔ **2005 Interim and Annual reports in IFRS**

- ✦ **No changes in:**

- ◆ **Management of the business**
- ◆ **Cashflows**
- ◆ **Underlying business performance**
- ◆ **Segmental disclosure**

- ✦ **Reported earnings change due to:**

- ◆ **Future volatility due to accounting for financial hedges**
- ◆ **Acquisition accounting**
- ◆ **Share incentives**
- ◆ **Deferred taxation**

- ✦ **Basic EPS up by 19% to 90.5p**
  - **Principally from not amortising goodwill**
  
- ✦ **Net assets at 31st December 2004 increase by 6% to £541.0m**
  - **Not amortising goodwill**
  - **Not recognising final dividend**
  - **Increased tax liabilities**
  - **Retranslation of goodwill assets to spot rate**
  - **Development costs capitalised**

## Summary of Underlying Financial Impact

- ✦ **Underlying operating profit decreases by £6.1m (4%) to £150.8m**
  - **Changing cost basis for share incentives**
  - **Additional employee benefit accruals**
- ✦ **Underlying operating margin falls by 0.6%pts to 15.2%**
- ✦ **For 2004, underlying tax rate increased by 0.3%pts to 28.1%**
  - **Increased deferred tax charge**
- ✦ **Underlying profit after tax reduces by £3.1m (3%) to £102.9m**
- ✦ **Underlying EPS down by 3% to 91.6p**

# Summary of 2004 Income Statement Adjustments

## Reconciliation of Profit

£ millions	Operating Profit	Profit After Tax
<b>UK GAAP</b>	<b>135.9</b>	<b>85.0</b>
IAS 1 (reclassification of JV's)	(3.5)	-
IAS 12 (taxes on income)	-	(1.5)
IAS 18/23 (long term contracts)	(0.5)	(0.2)
IAS 19 (employee benefits)	(0.6)	(0.4)
IAS 38 (development costs)	0.2	0.1
IFRS 2 (share incentives)	(1.7)	(1.6)
IFRS 3 (goodwill amortisation)	21.0	21.0
IFRS 3 (business combinations)	(1.7)	(1.2)
<b>IFRS (unaudited)</b>	<b>149.1</b>	<b>101.2</b>

## Reconciliation of Underlying Operating Profit

£ millions	UK GAAP	IFRS (unaudited)
<b>Group Operating Profit</b>	<b>135.9</b>	<b>149.1</b>
Reverse goodwill amortisation	21.0	-
Reverse IFRS 3 amortisation	-	1.7
<b>Underlying Operating Profit</b>	<b>156.9</b>	<b>150.8</b>

# Summary Balance Sheet Impacts

<u>Net Assets</u> £ millions	Opening Adjustments		2004 Adjustments	
<b>UK GAAP</b>		<b>456.9</b>		<b>509.7</b>
Carry forward opening adjustments			*	13.9
8.1 IAS 12 (taxes on income)	(4.6)		(1.6)	
8.2 IAS 18/23 (long term contracts)	(5.9)		(0.2)	
8.3 IAS 19 (employee benefits)	(1.5)		(0.5)	
8.4 IAS 21 (currency translation)	-		(2.8)	
8.5 IAS 38 (development costs)	1.9		0.1	
8.6 IFRS 2 (share incentives)	1.8		0.1	
8.7 IFRS 3 (goodwill amortisation)	-		21.0	
8.8 IFRS 3 (business combinations)	-		(1.2)	
8.9 IAS 10 (retiming dividend)	22.3		2.5	
Other	(0.1)		-	
<b>IFRS (unaudited)</b>	13.9	<b>470.8</b>		<b>541.0</b>

## Impact on presentation of accounts:

- ➔ **Share of operating profit from equity accounted joint ventures and associates to be reported post tax within operating profit**
- ➔ **Finance income and expense may no longer be presented net on the face of the income statement**
- ➔ **Certain credits to admin cost moved to tax expense**
- ➔ **Deferred tax assets and liabilities to be shown separately**
- ➔ **Pension deficit to be shown gross of deferred tax**

# Restatement of Accounts for Joint Ventures and Associates

## Income from Joint Ventures and Associates

£ millions	UK GAAP		IFRS (unaudited)
Group operating profit	129.6		129.6
Share of income from JV's & Associates	6.3	(3.5)	2.8
	135.9		132.4
Net interest	(10.5)	2.0	(8.5)
Other finance income	0.5	-	0.5
Group profit before taxation	125.9		124.4
Tax on profit	(40.9)	1.5	(39.4)
Profit after tax	85.0		85.0

- ✦ **Cobham will apply hedge accounting rules for net asset hedges and interest rate swaps, but will not attempt to achieve hedge accounting for foreign currency contracts**
  - **Current “macro” approach to currency hedging will not be changed**
  - **Hedge accounting not effective as impossible to “match” individual transactions successfully**
  
- ✦ **Lack of hedge accounting is likely to lead to volatility on the income statement**
  - **Underlying results will be presented excluding these effects**

- ✦ **Broadly extrapolate from 2004, subject to:**
  - **Share-based payments**
    - ◆ Impact increases up to 2006 due to transition
  - **Accounting for foreign exchange hedging**
  - **Acquisitions**

- **Significant milestone in the successful completion of IFRS transition for Cobham**
- **Technical expertise embedded within Cobham finance teams**
- **Minimal impact on reported underlying earnings**
- **No changes in underlying business conduct or performance**