

A high-speed photograph of a water splash against a blue gradient background. The splash is captured mid-air, with a large, clear droplet at the top and many smaller droplets falling below it. The water is bright blue and glistening.

# International Financial Reporting Standards

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# International Financial Reporting Standards

- An EU-wide accounting and reporting regime for listed groups
- Applies to the O2 Group from 1 April 2005
- Results in certain limited changes to O2 Group accounting policies
- First results to be reported under IFRS:
  - 6 months to 30 September 2005
  - 12 months to 31 March 2006
  - Comparatives restated for both periods

## Income statement adjustments

Year ended 31 March 2005	Revenue £m	EBITDA £m	Underlying earnings £m	Retained profit £m
As reported under UK GAAP	6,683	1,768	735	105
1. Revenue recognition	(108)	-	-	-
2. Cessation of goodwill amortisation	-	-	-	200
3. Pensions	-	(6)	(7)	(7)
4. Share-based payments	-	(2)	(2)	(2)
5. Recognition of financial instruments	-	-	2	2
6. UMTS licence creditor	-	-	(1)	(1)
7. De-recognition of dividends	-	-	-	196
<b>Restated under IFRS</b>	<b>6,575</b>	<b>1,760</b>	<b>727</b>	<b>493</b>

## Income statement adjustments

Six months ended 30 September 2004	Revenue £m	EBITDA £m	Underlying earnings £m	Retained profit £m
As reported under UK GAAP	3,285	851	386	236
1. Revenue recognition	(58)	-	-	-
2. Cessation of goodwill amortisation	-	-	-	100
4. Share-based payments	-	(1)	(1)	(1)
5. Recognition of financial instruments	-	-	1	1
<b>Restated under IFRS</b>	<b>3,227</b>	<b>850</b>	<b>386</b>	<b>336</b>

## Reconciliation of net assets

	As at 31 March 2005 £m	As at 30 September 2004 £m	As at 1 April 2004 £m
As reported under UK GAAP	10,281	10,403	10,094
2. Cessation of goodwill amortisation	200	100	-
3. Pensions	(119)	(93)	(93)
5. Recognition of financial instruments	-	(2)	(3)
6. UMTS licence creditor	(3)	(2)	(2)
7. De-recognition of dividends	196	-	-
8. Deferred tax liability	(358)	(358)	(358)
9. Other employee benefits	(2)	(2)	(2)
<b>Restated under IFRS</b>	<b>10,195</b>	<b>10,046</b>	<b>9,636</b>

## Adjustment 1- Revenue recognition (IAS 18)

<b>Income statement</b>	Year ended 31 March 2005 £m	Six months ended 30 September 2004 £m
Service revenue	(120)	(63)
Other revenue	12	5
Cost of sales	108	58
Gross profit	-	-

- Arises on the recognition of “Mobile Number Portability” (MNP) income, in the UK business, on a net basis
- Results in a reduction in O2 UK revenue and cost of sales of £108 million for the year ended 31 March 2005
- O2 UK’s 12 month rolling blended ARPU reduced by £8 and EBITDA margin increased by 0.8% to 30.2%
- No impact on profit or cash flows

## Adjustment 2 - Goodwill amortisation (IFRS 3)

<b>Income statement</b>	Year ended 31 March 2005 £m	Six months ended 30 September 2004 £m
Goodwill amortisation	200	100

- Goodwill amortisation ceases at 1 April 2004
- Charges for the year ended 31 March 2005 and the six months ended 30 September 2004 reversed
- No impact on underlying earnings
- Carrying value of goodwill fixed in local currency at 1 April 2004

## Adjustment 3 – Pensions (IAS 19) - 1/2

<b>Income statement</b>	Year ended 31 March 2005 £m	Six months ended 30 September 2004 £m
Pension costs - administrative expenses	(6)	-
Pension costs - net financing costs	(1)	-
	<hr style="border: 1px solid black;"/> (7) <hr style="border: 1px solid black;"/>	-
Actuarial losses - in statement of recognised income and expense	(19)	-
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- On transition to IFRS, deficit on defined benefit pension schemes is recognised on the Group balance sheet
- Thereafter service cost recognised in the income statement and actuarial gains and losses recognised in the statement of recognised income and expense (the “SORIE”)
- No effect on the six months ended 30 September 2004
- Under UK GAAP the Group recognised a SSAP 24 credit which does not arise under IAS 19 resulting in a higher charge under IFRS

## Adjustment 3 – Pensions (IAS 19) - 2/2

<b>Balance sheet</b>	At 31 March 2005 £m	At 1 April 2004 £m
Retirement benefit obligations	(126)	(105)

- Deficit recognised at 31 March 2005, calculated using IAS 19 principles, is £126 million:
  - £103 million in relation to the UK defined benefit scheme
  - £23 million in relation to other schemes in the UK, Germany and Manx

## Adjustment 4 - Share based payments (IFRS 2)

<b>Income statement</b>	Year ended 31 March 2005 £m	Six months ended 30 September 2004 £m
Administrative expenses	(2)	(1)

- IFRS 2 requires all share based payments to be expensed using “fair value”
- Fair value expense also recognised for SAYE schemes (specifically exempt under UK GAAP)
- The Group has used the IFRS transition exemption not to account for share options granted before 7 November 2002
- Impact on the year ended 31 March 2005 is to increase the charge by £2 million

## Adjustment 5 - Financial instruments (IAS 39)

	Year ended 31 March 2005 £m	Six months ended 30 September 2004 £m
<b>Income statement</b>		
Net financing costs	2	1
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	At 31 March 2005 £m	At 1 April 2004 £m
<b>Balance sheet</b>		
Net assets	-	(3)
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- Under IAS 39, financial instruments are required to be fair valued and recognised on the balance sheet
- Most of the Group's financial instruments are hedges and changes in fair value are recognised directly in reserves or offset in the income statement
- Impact on the income statement for the year ended 31 March 2005 is minimal as the Group is almost fully hedged

## Adjustment 6 – UMTS licence creditor (IAS 39)

<b>Income statement</b>	Year ended 31 March 2005 £m	Six months ended 30 September 2004 £m
Net financing costs	(1)	-
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<b>Balance sheet</b>	At 31 March 2005 £m	At 1 April 2004 £m
Intangibles: telecommunication licences	(13)	(13)
Non-current liabilities: trade and other payables	10	11
Net assets	(3)	(2)
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- Under UK GAAP, asset and liability are recognised at their undiscounted value
- Under IFRS, the asset cost is recorded at the discounted present value of the payments and a corresponding creditor established
- an interest cost is recognised as the discount unwinds

## Adjustment 7 – Dividends (IAS 10)

### Balance sheet

	At 31 March 2005 £m	At 1 April 2004 £m
Current liabilities: other payables	196	-

- Dividends not declared at the year end cannot be recognised in the income statement and as a liability at that date
- The Group's inaugural final dividend for the year ended 31 March 2005 of £196 million is de-recognised under IFRS
- The dividend will be recognised on approval in the year ended 31 March 2006

## Adjustment 8 - Deferred tax liability (IAS 12)

<b>Balance sheet</b>	At 31 March 2005 £m	At 1 April 2004 £m
Deferred tax provision	(358)	(358)

- Liability of £358 million recognised on balance sheet at 1 April 2004
- Represents the tax effect of a capital gain, arising as a result of BT's disposal, prior to demerger, of a non-mobile UK business, which was rolled over into the base cost of an O2 business
- Expected to reverse in the short to medium term through the tax line on the income statement, with no impact on cash

## Adjustment 9 – Other employee benefits (IAS 19)

- Liability recognised of £2 million on transition to IFRS in respect of holiday pay accrual

# Income statement reclassification adjustments

- **Software reclassification (IAS 38)**

	Year ended 31 March 2005 £m	Six month ended 30 September 2004 £m
Depreciation	171	89
Other amortisation	(171)	(89)
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	-	-
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- **Joint ventures and associates (IAS 31/28)**

	Year ended 31 March 2005 £m	Six months ended 30 September 2004 £m
Net financing costs	(1)	-
Taxation	1	-
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	-	-
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# Balance sheet reclassification adjustments

- **Software reclassification (IAS 38)**

	At 31 March 2005 £m	At 1 April 2004 £m
Property, plant and equipment	(606)	(530)
Other intangible assets	606	530
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	-	-

- **Cash reclassification (IAS 7)**

	At 31 March 2005 £m	At 1 April 2004 £m
Other financial assets	(968)	(645)
Cash and cash equivalents	968	645
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	-	-

## Consolidated income statement – IFRS format

Year ended 31 March 2005	UK GAAP £m	IFRS adjustments £m	IFRS £m
<b>Revenue</b>	<b>6,683</b>	<b>(108)</b>	<b>6,575</b>
Cost of sales	(3,799)	108	(3,691)
<b>Gross profit</b>	<b>2,884</b>	-	<b>2,884</b>
Administrative expenses	(2,543)	192	(2,351)
<b>EBITDA</b>	<b>1,768</b>	<b>(8)</b>	<b>1,760</b>
<b>Operating profit</b>	<b>341</b>	<b>192</b>	<b>533</b>
Share of result of joint ventures and associates	(3)	-	(3)
Costs of capital reorganisation	(20)	-	(20)
Net financing costs	(9)	(1)	(10)
<b>Profit before taxation</b>	<b>309</b>	<b>191</b>	<b>500</b>
Taxation	(8)	1	(7)
<b>Profit for the year attributable to equity shareholders</b>	<b>301</b>	<b>192</b>	<b>493</b>
Dividends	(196)	196	-
<b>Retained profit for the financial year</b>	<b>105</b>	<b>388</b>	<b>493</b>
Basic earnings per share (pence)	3.5	2.2	5.7
Underlying earnings per share (pence)	8.5	(0.1)	8.4

## Consolidated balance sheet

Year ended 31 March 2005	UK GAAP £m	IFRS adjustments £m	IFRS £m
Property, plant and equipment	4,449	(606)	3,843
Goodwill	3,011	200	3,211
Other intangible assets and investments	4,036	593	4,629
<b>Fixed assets</b>	<b>11,496</b>	<b>187</b>	<b>11,683</b>
Working capital	(694)	(3)	(697)
Retirement benefit obligations	(18)	(108)	(126)
Deferred tax liability	(131)	(358)	(489)
Other provisions	(105)	-	(105)
Dividend	(196)	196	-
Other	7	1	8
Net debt	(78)	(1)	(79)
<b>Net assets</b>	<b>10,281</b>	<b>(86)</b>	<b>10,195</b>

## Net debt movement since 31 March 2004

	UK GAAP £m	IFRS adjustments £m	IFRS £m
EBITDA	1,768	(8)	1,760
Working capital	74	8	82
Capital expenditure	(1,415)	-	(1,415)
<b>Operating cash flow</b>	<b>427</b>	<b>-</b>	<b>427</b>
Cash expended on exceptional provisions	(24)	-	(24)
Tax	(15)	-	(15)
Interest before hedging	(40)	-	(40)
Forward foreign exchange contracts - hedging	(32)	-	(32)
Exchange differences and other movements	(28)	1	(27)
<b>Reduction in net debt</b>	<b>288</b>	<b>1</b>	<b>289</b>
Net debt at 31 March 2004	(366)	(2)	(368)
<b>Net debt at 31 March 2005</b>	<b>(78)</b>	<b>(1)</b>	<b>(79)</b>

## Summary

- Significant increase in reported profit and EPS
  - from cessation of goodwill amortisation
- No significant change in underlying earnings
- Reported net assets decreased by
  - pension deficit;
  - deferred tax liability;
  - offset by increase in net assets from cessation of goodwill amortisation
- Net debt unchanged
- Cash flow unchanged

A high-speed photograph of a water splash against a blue gradient background. The splash is centered at the top, with a large, clear droplet at the peak and many smaller droplets falling away from it. The background transitions from a deep blue at the top to a lighter blue at the bottom.

# International Financial Reporting Standards

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