



# **MacDonald, Dettwiler and Associates Ltd.**

## **International Financial Reporting Standards Education Session**

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# Agenda

1. Background
2. IFRS conversion project
3. Accounting differences
4. Opening balance sheet adjustments
5. Impact on Operating EBITDA and Operating EPS
6. Q&A and Wrap-Up

# Background

## ❖ What is IFRS?

- ❑ International Financial Reporting Standards (IFRS) are principles based accounting standards set by the International Accounting Standards Board (IASB)
- ❑ IFRS replaces Canadian GAAP for all publicly accountable companies in Canada effective January 1, 2011, with a transition date of January 1, 2010 to allow for comparative financial information
- ❑ MDA will start reporting under IFRS in Q1 2011

## ❖ Objective

- ❑ To explain the principal accounting differences between IFRS and previous Canadian GAAP for MDA

# Background

## ❖ Why IFRS?

- ❑ IFRS has already been adopted in the UK, Europe, Australia, India, South Africa and many other countries
  - provides a common language for comparability of financial results
- ❑ IFRS has a principles based approach rather than a rules based approach like US GAAP
  - allows management to exercise professional judgment to faithfully report the economic substance of their business
- ❑ IFRS has enhanced disclosures that aim to provide more transparency to financial statement users

# Background

## ❖ What will change?

- ❑ Certain assets, liabilities, revenues and expenses will be recognized and measured differently – mostly timing related
- ❑ Some changes to financial statement presentation and terminology
- ❑ Additional note disclosures required in financial statements

## ❖ What will not change?

- ❑ Double-entry bookkeeping
- ❑ Business strategy and operations
- ❑ Cash flows and value of the company
- ❑ Ability to meet debt covenants

## IFRS Conversion Project

- ❖ **MDA undertook a multi-stage project to ensure compliance with IFRS**
  - ❑ Accounting policies have been finalized and reviewed with external auditors, accounting differences have been identified, and the January 1, 2010 opening balance sheet has been prepared
  - ❑ A dual reporting system was implemented to collect comparative information for 2010 and quarterly financial statements are near completion
  - ❑ MDA has provided key finance staff with adequate training and resources throughout the transition
  - ❑ The Audit Committee has been updated regularly on issues and the progress of the conversion

# Accounting Differences

- ❖ **Accounting differences include the following:**
  - ❑ First-time adoption exemptions
  - ❑ Ongoing accounting differences
  - ❑ Ongoing presentation and disclosure differences
  - ❑ Tax effect of IFRS transition adjustments
  
- ❖ **For MDA's current business, ongoing accounting differences are not significant**

# Accounting Differences

## ❖ First-time adoption exemptions

- ❑ Cumulative translation adjustment reset and recognized in retained earnings at January 1, 2010
- ❑ Unamortized pension actuarial adjustments recognized in retained earnings at January 1, 2010
- ❑ Certain IFRS standards applied prospectively rather than retrospectively:
  - Business combinations
  - Share-based payments
  - Borrowing costs



## Cumulative Translation Adjustment

- ❖ **MDA will elect to reset its CTA account to zero as of January 1, 2010**
  - ❑ Foreign currency translation losses of \$199 million were recognized directly in retained earnings
  - ❑ CTA would have otherwise been recognized in earnings upon disposal of the respective foreign operations
  - ❑ The CTA reset as of January 1, 2010 reduced the carrying value of the Property Information Business by approximately \$180 million
    - MDA will report a gain on the sale of the Property Information Business in Q1 2011



## Pension Plan Actuarial Adjustments

- ❖ **MDA will elect to recognize all unamortized defined benefit pension plan actuarial adjustments in retained earnings as of January 1, 2010**
  - ❑ The election resulted in decreases to other long-term assets of \$11.2 million, other long-term liabilities of \$1.7 million and retained earnings of \$9.5 million.

# Accounting Differences

## ❖ Other accounting differences

- ❑ Share-based payments
- ❑ Provisions and contingent liabilities
- ❑ Employee benefits
- ❑ Leases
- ❑ Construction contracts
- ❑ Presentation reclassifications



## Share-based Payments

### ❖ Valuation of Share Appreciation Rights (SAR's)

- ❑ IFRS – value using an option pricing model
- ❑ CGAAP – value at intrinsic value
- ❑ On January 1, 2010, the use of a Black-Scholes option pricing model to value SAR's resulted in a higher fair value adjustment
  - The change resulted in an increase to accounts payable and accrued liabilities of \$8.6 million, an increase to other long-term liabilities of \$11.0 million and a decrease to retained earnings of \$19.6 million.
- ❑ The fair value adjustments reverse over the lives of the SAR's and are ultimately replaced by the true cash cost paid to employees on exercise.
- ❑ Share-based compensation expense will continue to be excluded from operating EBITDA and operating earnings calculations.

## Provisions and Contingent Liabilities

### ❖ Recognition threshold

- ❑ IFRS – Recognize provisions and contingent liabilities when likelihood of payment is “probable” (considered to be 50%)
- ❑ CGAAP – Recognize provisions and contingent liabilities when payment is “likely” (considered to be a higher threshold)
- ❑ On January 1, 2010, the change in recognition of earn-out provisions resulted in an increase to accounts payable and accrued liabilities of \$6.0 million, a decrease to other long-term liabilities of \$2.1 million and a decrease to retained earnings of \$3.9 million.
- ❑ Earn-out provisions will reverse through earnings if criteria for payment are not met



## Employee Benefits

- ❖ **Vested past service costs under defined benefit pension plans**
  - ❑ IFRS – recognize in earnings immediately
  - ❑ CGAAP – defer and amortize over the average remaining service period of the employee group
  - ❑ On January 1, 2010, the change resulted in increases to long-term assets of \$3.1 million, other long-term liabilities of \$1.2 million and retained earnings of \$1.9 million.

## Leases

### ❖ **Classification between finance leases and operating leases**

- ❑ IFRS – Lease classification is based on management’s judgment including a qualitative analysis of indicators
- ❑ CGAAP – Lease classification is based on quantitative bright-line thresholds
- ❑ Based on management’s analysis, certain computer equipment operating leases were reclassified as finance leases
- ❑ On January 1, 2010, the change resulted in increases to property, plant and equipment of \$1.0 million, current portion of long-term debt of \$0.9 million and retained earnings of \$0.1 million.

## Construction Contracts

### ❖ Accounting treatment of warranty obligations

- ❑ IFRS – Cost of warranty obligations is included in total estimated contract costs
- ❑ CGAAP – Cost of warranty obligations is accrued separately as a liability
- ❑ On January 1, 2010, the change resulted in an increase to current deferred revenue of \$0.4 million and decreases to unbilled accounts receivable of \$0.2 million, accounts payable and accrued liabilities of \$0.1 million, non-current deferred revenues of \$0.4 million and retained earnings of \$0.1 million.

## Presentation Reclassifications

### ❖ Changes in balance sheet presentation due to IFRS

- ❑ More line-items on balance sheet under IFRS than CGAAP
- ❑ Some change in terminology under IFRS
- ❑ On January 1, 2010, the following reclassifications were made:
  - \$4.0 million of non-current assets were reclassified to current assets
  - \$14.2 million of non-current liabilities were reclassified to current liabilities

## Accounting Differences

- ❖ **Accounting differences were also noted for the following key topics, but there was no opening balance sheet impact**
  - ❑ Impairment of assets – IFRS has different criteria when grouping assets and cash generating units for impairment testing – limited relevance for MDA after sale of Property Information Business
  - ❑ Financial instruments/hedge accounting– no fundamental conceptual differences; however, IFRS requires that hedge ineffectiveness be assessed and measured each reporting period
  - ❑ Capital assets – IFRS requires that capital assets be componentized, with each component to be depreciated over its estimated useful life



# Opening Balance Sheet Adjustments

(\$ millions)	Under Canadian GAAP	Pensions (IFRS 1 exemption)	Share-based payments	Provisions	Employee benefits	Leases	Construction Contracts	Presentation reclassification	Income taxes	Under IFRS (unaudited)
<b>Assets:</b>										
Current assets	285.7	-	-	-	-	-	(0.2)	4.0	-	289.5
Non-current assets	1,000.5	(11.2)	-	-	3.1	1.9	-	(4.0)	3.7	994.0
	<b>1,286.2</b>	<b>(11.2)</b>	<b>-</b>	<b>-</b>	<b>3.1</b>	<b>1.9</b>	<b>(0.2)</b>	<b>-</b>	<b>3.7</b>	<b>1,283.5</b>
<b>Liabilities:</b>										
Current liabilities	281.4	-	8.6	(2.1)	-	0.9	0.3	14.2	-	303.3
Non-current liabilities	471.3	(1.7)	11.0	6.0	1.2	0.9	(0.4)	(14.2)	(5.5)	468.6
	<b>752.7</b>	<b>(1.7)</b>	<b>19.6</b>	<b>3.9</b>	<b>1.2</b>	<b>1.8</b>	<b>(0.1)</b>	<b>-</b>	<b>(5.5)</b>	<b>771.9</b>
Shareholders' equity	533.5	(9.5)	(19.6)	(3.9)	1.9	0.1	(0.1)	-	9.2	511.6
	<b>1,286.2</b>	<b>(11.2)</b>	<b>-</b>	<b>-</b>	<b>3.1</b>	<b>1.9</b>	<b>(0.2)</b>	<b>-</b>	<b>3.7</b>	<b>1,283.5</b>



## Operating EBITDA and Operating EPS

- ❖ **The following IFRS adjustments will impact Operating EBITDA and Operating EPS**
  - ❑ Recognition of provisions
  - ❑ Recognition of vested past service costs under defined benefit pension plans
  - ❑ Classification of leases between finance and operating
  - ❑ Accounting treatment for warranty obligations
- ❖ **These adjustments impact timing only and, in total, are expected to be negligible**



## Q&A and Wrap-Up

- ❖ **IFRS is an accounting change only and will not impact the Company's strategy or management**
- ❖ **Additional information about the Company's IFRS conversion project can be found in the 2010 Management Discussion & Analysis**
- ❖ **Q1 2011 financial statements will be reported under IFRS in May 2011**