

Explanation of transition to IFRS

Cobham plc presented its consolidated financial statements for the year ended 31 December 2005 under IFRS for the first time. The last financial statements under UK GAAP were for the year ended 31 December 2004. As the date of transition to IFRS was 1 January 2004, comparative financial information presented in the financial statements for the year ended 31 December 2005 has been re-presented under IFRS.

The Group has taken advantage of the following exemptions under IFRS 1 (First Time Adoption of IFRS):

- Business combinations completed prior to 1 January 2004 have not been restated.
- Opening fair values of fixed assets have been deemed as cost as at 1 January 2004, after reviewing for impairment as appropriate.
- Cumulative translation differences relating to overseas subsidiaries have been set to zero as at 1 January 2004.
- Transition to IAS 32 and 39 has been made effective 1 January 2005 and the 2004 comparatives have not been restated for these standards.

As explained in Note 29 to the consolidated financial statements, errors were discovered during 2005 which have led to the restatement of Net Assets as at 31 December 2003 and the profit for the year to 31 December 2004. As these adjustments have impacted the transitional UK GAAP position as at 31 December 2003, the comparative IFRS information presented in the consolidated financial statements differs to that previously published by the Group. The impact on the UK GAAP position is as follows:

£m	2004	2003
UK GAAP Net Assets as previously stated on IFRS transition (unaudited)	509.7	456.9
Adjustment to provisions	(9.0)	(9.7)
Adjustment to corporation tax	2.7	2.9
UK GAAP Net Assets as restated	503.4	450.1
UK GAAP Profit after Taxation for the year as previously stated on IFRS transition (unaudited)	85.0	
Adjustment to cost of sales (release of provision)	0.7	
Adjustment to tax charge for the year	(0.2)	
UK GAAP Profit after Taxation for the year as restated	85.5	

A reconciliation of the previously published unaudited IFRS position at 31 December 2003 and 2004 to that presented in the group financial statements is shown in the tables below.

Reconciliation of equity at 1 January 2004

£m	Note	Under UK GAAP as restated	Effect of transition to IFRS	Revised IFRS
Non-Current Assets				
Intangible assets	a)	345.9	2.6	348.5
Property, plant and equipment	b)	224.0	0.9	224.9
Investment properties		4.1	-	4.1
Investments in joint ventures and associates	c)	16.5	(4.2)	12.3
Trade and other receivables	d)	6.3	(2.4)	3.9
Deferred taxation assets		-	0.5	0.5
		596.8	(2.6)	594.2
Current Assets				
Inventories		190.0	-	190.0
Trade and other receivables		184.5	-	184.5
Available for sale investments		0.1	-	0.1
Cash and cash equivalents	f)	106.1	38.3	144.4
		480.7	38.3	519.0
Current Liabilities				
Borrowings	b)	(80.4)	(38.4)	(118.8)
Trade and other payables	g)	(226.0)	21.1	(204.9)
Corporation tax		(30.9)	-	(30.9)
		(337.3)	(17.3)	(354.6)
Non-Current Liabilities				
Borrowings		(180.2)	-	(180.2)
Trade and other payables	b)	(11.7)	(0.8)	(12.5)
Deferred taxation liabilities	h)	(18.4)	18.4	-
Provisions		(30.6)	-	(30.6)
Retirement benefit obligation	i)	(49.2)	(22.1)	(71.3)
		(290.1)	(4.5)	(294.6)
Net Assets		450.1	13.9	464.0

£m	Note	Under UK GAAP as restated	Effect of transition to IFRS	Revised IFRS
Capital and Reserves				
Called up share capital		27.8	-	27.8
Share premium account		76.8	-	76.8
Translation reserve	j)	-	-	-
Revaluation reserve	k)	1.7	(1.7)	-
Other reserves	l)	0.7	2.1	2.8
Retained earnings	m)	342.0	13.5	355.5
Total Shareholders' Equity		449.0	13.9	462.9
Minority interest	n)	1.1	-	1.1
Total Equity		450.1	13.9	464.0
IFRS Net Assets as at 1 January 2004 as previously published (unaudited)				470.8
Net effect of prior year adjustment to UK GAAP position				(6.8)
IFRS Net Assets as at 1 January 2004 as restated				464.0

Reconciliation of equity at 31 December 2004 (last UK GAAP financial statements)

£m	Note	Under UK GAAP as restated	Effect of transition to IFRS	Revised IFRS
Non-Current Assets				
Intangible assets	a)	373.8	31.8	405.6
Property, plant and equipment	b)	236.9	0.9	237.8
Investment properties		4.1	-	4.1
Investments in joint ventures and associates	c)	17.3	(3.1)	14.2
Trade and other receivables	d)	9.6	(2.3)	7.3
		641.7	27.3	669.0
Current Assets				
Inventories		183.9	-	183.9
Trade and other receivables	e)	227.7	(3.6)	224.1
Cash and cash equivalents	f)	101.3	74.7	176.0
		512.9	71.1	584.0
Current Liabilities				
Borrowings	b)	(116.1)	(72.5)	(188.6)
Trade and other payables	g)	(232.7)	23.0	(209.7)
Corporation tax		(45.7)	0.3	(45.4)
Provisions		-	(2.2)	(2.2)
		(394.5)	(51.4)	(445.9)
Non-Current Liabilities				
Borrowings		(151.3)	-	(151.3)
Trade and other payables	b)	(10.6)	(0.8)	(11.4)
Deferred taxation liabilities	h)	0.2	(16.3)	(16.1)
Provisions		(26.9)	2.2	(24.7)
Retirement benefit obligation	i)	(68.1)	(1.0)	(69.1)
		(256.7)	(15.9)	(272.6)
Net Assets		503.4	31.1	534.5
Capital and Reserves				
Called up share capital		27.9	-	27.9
Share premium account		81.6	-	81.6
Translation reserve	j)	-	(11.4)	(11.4)
Revaluation reserve	k)	1.7	(1.7)	-
Other reserves	l)	0.3	4.5	4.8
Retained earnings	m)	390.8	39.5	430.3
Total Shareholders' Equity		502.3	30.9	533.2
Minority interest	m)	1.1	0.2	1.3
Total Equity		503.4	31.1	534.5
IFRS Net Assets as at 31 December 2004 as previously published (unaudited)				541.2
Effect of prior year adjustment to UK GAAP position				(6.3)
Adjustments to IFRS restatement				(0.4)
IFRS Net Assets as at 31 December 2004 as restated				534.5

Notes to the reconciliation of equity at 1 January 2004 and 31 December 2004

An explanation of the key impacts arising from the transition to IFRS is given below:

- a) Development costs of £2.6m have been capitalised as at 1 January 2004 under IAS 38 (Intangible Assets) which were expensed to profit and loss under previously applied UK GAAP. A further £0.7m adjustment was required for the year to 31 December 2004.
In addition, the application of IFRS 3 (Business Combinations) has resulted in a £20.9m increase in the goodwill balance as at 31 December 2004, compared to that previously reported under UK GAAP, as no amortisation is charged to goodwill under IFRS.
Also, the application of IFRS 3 increases intangibles and goodwill as at 31 December 2004 by £11.8m and the application of IAS 21 results in a decrease of £2.8m on translation.
- b) The application of IAS17 (Leases) has resulted in the reclassification of a number of leases previously held as operating leases to finance leases and recognition of corresponding finance lease liabilities. Assets have been recognised with a net book value of £0.9m as at 1 January 2004 and 31 December 2004, with increases in finance lease liabilities reflected in trade and other payables and other non-current creditors (£0.1m and £0.8m respectively as at 1 January 2004 and at 31 December 2004).
- c) Accounting for costs associated with borrowing under IAS 23 (Borrowing Costs) has resulted in a net decrease in the value of investments in joint ventures £4.2m as at 1 January 2004 and £3.1m as at 31 December 2004. This relates to interest costs associated with long-term aircraft leases.
- d) Under IAS 18 (Revenue), other non-current receivables have been discounted by £2.4m as at 1 January 2004 and £2.3m as at 31 December 2004.
- e) Under IAS 21(The Effects of Changes in Foreign Exchange Rates), all non-functional currency current asset balances are required to be recognised at the rate prevailing at the balance sheet date. Under UK GAAP applicable currency hedges could be applied.
- f) Although netted under UK GAAP, application of IFRS to the Group's banking arrangements results in a gross up of cash and cash equivalents and overdrafts amounting to £38.3m and £72.4m as at 31 December 2003 and 2004 respectively. The effect of the application of IAS 21 to the value of cash and cash equivalents as at 31 December 2004 was £2.3m.
- g) Dividends are recognised only when authorised for payment under IAS 10 (Events after the Balance Sheet Date). This change from UK GAAP in the recognition of the year end dividend results in a reduction in dividend liabilities of £22.3m as at 1 January 2004, and £2.2m as at 31 December 2004. Other standards impacting creditors include IAS 17(Leases) and IAS 19 (Employee Benefits).
- h) The total effect of the application of IAS12 (Income Taxes) and tax impact of the first time application of other IFRS and reclassifications on transition to IFRS is a reduction in deferred taxation liabilities of £18.4m as at 1 January 2004 and £4.1m as at 31 December 2004.
- i) Under UK GAAP presentation the deferred tax relating to the retirement benefit obligation is netted against the liability whilst under IFRS this tax is reflected as part of the net deferred tax liability or asset. This presentational change increases the retirement benefit obligation by £21.1m at 1 January 2004 and £20.4m at 31 December 2004. Additionally, for both periods, the retirement benefit obligation recognised under IAS19 (Employee Benefits) is £1.0m higher than that recognised under the equivalent UK GAAP accounting standard due to the change in equity asset valuation methodology from mid price to bid price.
- j) IAS21 requires translation differences arising on the results and financial position of subsidiaries which do not report in the Group's functional currency to be disclosed separately in a translation reserve.
- k) The revaluation reserve which arose under previous GAAP on the revaluation of investment properties is transferred to retained earnings on transition to IFRS under IAS 40 (Investment Property), as the investment properties are held at deemed cost under IFRS.
- l) Accounting for share based payments under IFRS 2 increases the reported Share Option account within Other Reserves as at 31 December 2004 by £2.8m when compared to UK GAAP. There is also a deferred tax effect relating to potential future tax benefits offset within retained earnings bringing the total movement in Other Reserves at 31 December 2004 to £4.5m.
- m) The following cumulative adjustments have been made to retained earnings:

£m	1 January 2004	31 December 2004
- IAS 10 (Dividend Recognition)	22.3	24.6
- IAS 11/23 & IAS 18 (Revenue Recognition)	(5.9)	(5.9)
- IAS 19 (Employment Costs)	(1.5)	(2.0)
- IFRS 2 (Share Based Payments)	(0.3)	(2.4)
- IAS 38 (Capitalisation of Development Costs)	1.9	1.4
- IFRS 3 (Reversal of Goodwill Amortisation)	-	20.9
- IFRS 3 (Amortisation of Intangibles Recognised on Acquisitions)	-	(1.2)
- IAS 21 (Foreign Currency Translation) *	-	8.6
- IAS40 (Investment Properties)	1.7	1.7
- Other	(0.1)	-
- Taxation adjustment	(4.6)	(6.2)
	13.5	39.5

* The effects of IAS 21 are largely offset in the translation reserve.

- n) Movements in minority interests relate to IAS 10 (Events after the Balance Sheet Date) requirements regarding dividends.

The application of IAS 21, IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) has resulted in the following adjustments to the opening Balance Sheet as at 1 January 2005:

£m	31 December 2004	Effect of transition to IFRS	1 January 2005
Trade and other receivables - non-current	7.3	(2.2)	5.1
Trade and other receivables - current	224.1	3.0	227.1
Cash and cash equivalents	176.0	(7.6)	168.4
Derivative financial instruments	-	18.5	18.5
Borrowings (total)	(339.9)	(0.6)	(340.5)
Trade & other payables	(209.7)	0.8	(208.9)
Corporation tax	(45.4)	0.1	(45.3)
Deferred tax	(16.1)	(4.7)	(20.8)
		7.3	

Reconciliation of profit for the year ended 31 December 2004

£m	Note	Under UK GAAP as restated	Effect of transition to IFRS	Reanalysis of discontinued operations	Revised IFRS
Continuing Operations					
Revenue	o)	983.0	(4.0)	(146.7)	832.3
Cost of sales	p)	(713.9)	0.3	120.2	(593.4)
Gross Profit		269.1	(3.7)	(26.5)	238.9
Selling and distribution costs	q)	(55.5)	(0.1)	9.5	(46.1)
Administrative expenses	r)	(83.3)	19.2	10.8	(53.3)
Group Operating Profit		130.3	15.4	(6.2)	139.5
Share of post tax profits from joint ventures and associates	s)	2.8	(0.2)	-	2.6
Finance income	t)	133.1	15.2	(6.2)	142.1
Finance expense		23.2	0.3	(0.1)	23.4
		(31.2)	-	0.1	(31.1)
Profit on Continuing Operations before Taxation		125.1	15.5	(6.2)	134.4
Tax on continuing operations	u)	(39.6)	(0.4)	1.9	(38.1)
Profit on Continuing Operations after Taxation		85.5	15.1	(4.3)	96.3
Profit after taxation from discontinued operations		-		4.3	4.3
Profit after Taxation for the Year		85.5	15.1	-	100.6
IFRS Profit after Taxation for the year ended 31 December 2004 as previously published (unaudited)					101.2
Effect of prior year adjustment to UK GAAP position					0.5
Adjustments to IFRS restatement					(1.1)
IFRS Profit after Taxation attributable to equity shareholders for the year ended 31 December 2004 as restated					100.6

UK GAAP figures as shown above are as restated for the fundamental accounting error as described in Note 29 to the consolidated financial statements and as described above.

Notes to the reconciliation of the Income Statement for the year ended 31 December 2004

- o) Movements in revenue relate to the retranslation of foreign currency sales, as required by IAS 21. In line with IFRS 1 this results only in a reclassification within the income statement.
- p) See 'o' above and some impacts from IAS 19 (Employee benefits) and IAS 38 (Intangible Assets).
- q) IAS 19 (Employee benefits).
- r) Primarily the reversal of goodwill under IFRS 3 (Business Combinations) and the reversal of IAS 21 adjustments to revenue, partially offset by the amortisation of intangibles recognised on acquisition (IFRS 3) and share based payment costs (IFRS 2).
- s) Under IAS 1, the share of earnings from joint ventures is required to be reported after tax and interest charges. This change reverses out in the Finance Income and Taxation lines, having no effect on Profit after Tax.
- t) Primarily the reversal of the joint venture costs described in note 's' above. There is also a small impact from the accounting change described in note 'c' above.
- u) This contains the tax effect of the points noted above as well as an additional tax charge under IAS 12 (Income Taxes).

Explanation of material adjustments to the cash flow statements for the year to 31 December 2004

Income taxes of £22.9m paid during the year ended 2004 are classified as a part of operating cash flows under IFRS, but were included in a separate category of tax cash flows under UK GAAP. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.