



IFRS Transition
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Preliminary remarks

- **The information presented has been prepared in accordance with International Financial Reporting Standards, as currently published by the IASB and endorsed by the European Union**
- **The IFRS are in constant evolution and all standards have not yet been endorsed by the European Union. Therefore, the information contained in this document might change**
- **The objective of this document is to present the new accounting principles for the group as well as the main anticipated impacts and does not replace the detailed communication about transition that will take place in accordance with AMF recommendations**



Timing of transition

Description of new accounting principles

Description of estimated impacts

Timing of transition

- **Opening balance sheet and June 2004 Financial statements are being reviewed by auditors**
- **On February 17th, during the presentation of 2004 financial statements, the group will publish a reconciliation between French and IFRS financial statements**
- **The IFRS financial statements will be presented as follows**
 - Reconciliation of the P&L, Balance Sheet and retained earnings
 - Note explaining the impacts
- **Full IFRS financial statements will be published for annual shareholder's meeting**



Timing of transition

Description of new accounting principles

Description of estimated impacts

***Note: Notes refer to 2003 Annual Report**

Description of new accounting principles

■ Consolidation principles (Note 2.3)

- No change in the scope of consolidation
- No change in the method of consolidation

■ Translation policies (Note 2.4 et Note 2.5)

- No change in the functional currencies or translation methods
- The group has taken the option offered by IFRS 1 to deduct cumulative translation adjustments against retained earnings: this restatement has no impact on total equity

Description of new accounting principles

■ Goodwill (Note 2.6)

- Purchase accounting that occurred prior to 1/1/04 have not been restated in accordance with the option offered by IFRS 1
- IFRS 3 - *Business combinations* has been applied prospectively from 1/1/04 to measure goodwill arising in business combinations that have occurred in 2004 or are still open in 2004
- Goodwill are no longer amortized and are valued at their net carrying amount as of 1/1/04 less impairment, if any
- The application of IAS 36- *Impairment of assets* had been anticipated under French GAAP

Description of new accounting principles

■ Intangible assets (Note 2.7)

- Intangible assets in the balance sheet at 31/12/03 comply with the recognition criteria in IAS 38 - *Intangible Assets* except for a non significant item that has been removed from balance sheet
- Deferred charges have been reclassified in the appropriate lines of assets or removed from balance sheet (amount is not significant)
- Useful lives for amortization of intangible assets have not been modified

Description of new accounting principles

■ Research & Development (Note 2.20)

- The necessary information systems have been implemented starting 2004 to allow the follow-up and the capitalization of R&D costs on new projects
 - ◆ Only the costs incurred in projects for the development of new products launched from 2004 are capitalized
 - ◆ Impact of capitalization is therefore increasing throughout 2004, 2005 and 2006: it will represent at the end from 20 to 40% of total R&D costs
 - ◆ The average useful life for amortization of projects is estimated at 5 years
 - ◆ Taking into account cumulative effects of capitalization and depreciation, the catch up of costs in the P&L is expected in 2011
- The classification of R&D costs in the P&L has changed:
 - ◆ Part of costs are capitalized (20 to 40% of costs)
 - ◆ Integration of R&D costs related to the production process in the cost of goods sold and the inventory valuation (40 to 50% of costs)
 - ◆ Only costs relating to research activities remain in R&D costs (20 to 30% of costs)

Description of new accounting principles

■ Tangible assets (Note 2.8)

- Adoption of IAS 16 - *Property, Plant and Equipment*, and IAS 40 - *Investment Property* has no impact on consolidated financial statements
- Assets held for sale (primarily buildings) at the closing date are presented separately under IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*
- No material impact arising from the review of lease contracts under the criteria of IAS 17 - *Leases*
- Current treatment of borrowing costs is retained: recognized as expenses as incurred and not incorporated in the value of asset (*IAS 23 - Borrowing costs*)

Description of new accounting principles

■ Impairment of long lived-assets (Note 2.10)

- The group had anticipated under French Gaap the adoption of the rules on depreciation and impairment of assets
- Calculation of impairment of tangible and intangible assets is already compliant with IAS 36 - *Impairment of assets*

■ Inventory (Note 2.11)

- Inventory valuation has been reviewed in order to include R&D costs linked to the production process in the cost of products
- Depreciation of inventories is already compliant with IAS 2 - *Inventories*

Description of new accounting principles

■ Deferred Taxes (Note 2.13)

- The major impact of adopting IAS 12 - *Income Taxes* is the recognition of deferred taxes on brands acquired in 2004 and before, without any impact on P&L

■ Treasury shares (Note 2.15)

- Treasury shares are classified in Cash & cash equivalent under French Gaap and are deducted from equity under IFRS
- This restatement is related to the adoption of IAS 32 - *Financial Instruments: Disclosure and Presentation*

Description of new accounting principles

■ Financial Instruments

- IAS 39 - *Financial instruments - Recognition and Measurement* and IAS 32 - *Financial instruments - Disclosure and Presentation* will be applied prospectively starting 1/1/05
- These standards cover mainly the following items in the balance sheet:
 - ◆ Investments and marketable securities (Note 2.9)
 - ◆ Cash and cash equivalents (Note 2.14)
 - ◆ Financial instruments and derivatives (Note 2.18)

Description of new accounting principles

■ Financial instruments

- Measurement of financial assets (non consolidated investments and marketable securities)
 - ◆ Information about fair market value of financial assets is already disclosed in the financial statements (Note 8)
 - ◆ No impact anticipated on net income since differences between historical cost and fair value are booked in equity until the actual sale of investment
- Hedge accounting
 - ◆ The Group periodically enters into hedging transactions to cover changes in exchange rates, interest rates and prices of raw materials.
 - ◆ These hedges, described in notes 2.18 and 21, are being documented to comply with IAS 39 criteria

Description of new accounting principles

■ Pensions and other post retirement benefit obligations (Note 2.16)

- The Group has performed a complete assessment of its pension and other post retirement benefits obligations
- Defined benefit obligations are already recognized as liabilities
- The adoption of IAS 19 - *Employee benefits* results in a systematic recognition of all constructive obligations relating to pensions and health insurance
- In relation with options offered for the First Time Adoption of IFRS, cumulative actuarial gain and losses and past service costs that have already vested have been recognized as liabilities through retained earnings

Description of new accounting principles

■ Stock options

- The adoption date of IFRS 2 - *Share Based Payments* depends upon the decision of the European Union (forecasted on December, 20th 2004)
- Valuation model chosen by the Group is a Binomial model

■ Provisions for losses and contingencies (Note 2.17)

- Recognition criteria for liabilities have not changed since they are compliant with IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*
- The consequence of implementing IAS 37 is the discounting of provisions for losses and contingencies, with no material impact

Description of new accounting principles

■ Revenue recognition (Note 2.19)

- Current policies of revenue recognition are compliant with IAS 18 - *Revenue* and IAS 11 - *Construction Contracts*
 - ◆ Sales of goods are recognized when risks and rewards of ownership have been transferred
 - ◆ Revenue on long term contracts is recognized based on percentage of completion. Losses at completion are provided for as soon as they become probable

Description of new accounting principles

■ Cash Flow Statement (Note 2.23)

- The methodology currently used to establish cash flow statement is compliant with IAS 7 - *Cash Flow Statements*
- The main impact of IFRS on cash flow statement is linked to the capitalization of R&D costs that is now presented as Investing activities
- Most of the IFRS adjustments that have an impact on net income have no impact on cash flow statement

■ Earnings per share calculation (Note 2.22)

- The method used for calculation remains the same
- Changes in the ratio are due to adjustments booked on net income

Income Statement Presentation

Currently	Under IFRS
Sales	Revenue
Cost of sales	Cost of sales <i>Including development costs attributable to the products</i>
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Gross margin	Gross margin
Research & development	Research expenses
Selling, general and administrative expense	Selling, general & administrative expense
	Stock options cost
	Goodwill impairment (if any)
	Other income
	Other expense
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Operating income	Operating income
Financial expense, net	Financial expense, net
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Income from continuing operations before tax	Income from continuing operations before tax
Exceptional items	
Income tax	Income tax
Goodwill amortization	
Share in Income(loss) of equity investments	Share in Income(loss) of equity investments
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Net income (loss)	Net income (loss)



Timing of transition

Description of new accounting principles

Description of estimated impacts

Options retained for the preparation of opening balance sheet (IFRS1)

- **No restatement of past business combinations**
 - All assets and liabilities relating to past business combinations have been recognized, in particular deferred taxes on brands
- **The option for measurement of tangible and intangible assets at fair value has not been retained**
- **All actuarial gains and losses on pension and other post-retirement obligations are recognized as liabilities through equity as of December, 2003**
- **Standards on Financial Instruments are not applied as of 1/1/04**
 - IAS 32 and IAS 39 will be applied on a prospective basis as of 1/1/2005

Main Impacts on Opening Balance Sheet

Actuarial gain and losses booked in equity (net of tax)	
Additional employee benefit liabilities linked to group's constructive obligations for pension and health insurance benefits (net of tax)	~ -500M€
Intangible assets that do not comply with recognition criteria under IFRS removed from balance sheet (deferred charges, ..)	Not significant
Group's treasury shares currently presented as cash equivalent and deducted from equity	~- 90M€
Total impact on equity 8% of equity under French GAAP	~ 600M€

Prospective recurring impacts

■ Capitalization of part of R&D costs

- Costs capitalized in 2004: approx. 40M€

■ Amortization of R&D projects capitalized

- growing effect over 5 years

■ Goodwill no longer amortized

- estimated impact for 2004: approx. 220M€

■ Stock options costs

- Scope: options granted after 7/11/2002 and not yet vested at date of transition
- Cost of 10 to 13€ per option (depending on plan)
- Cost is taken into result over vesting period
- Potential impact is 10 to 15M€ per year

■ Cumulative actuarial gains and losses on pension and other long term benefits are not amortized

- amortization period was 10 to 20 years

Conclusion

- **Equity is adjusted by approximately 8% under IFRS**
 - **Net financial debt does not change**
 - **Deviation of operating margin after IFRS restatements is less than 1 point**
 - **Net income (and earning per share) under IFRS are higher than net income before goodwill amortization under French GAAP**
- } Impact on gearing is not significant

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