

29 JUNE 2005

INFORMATION MEETING ON  
**THE IMPACT OF ADOPTING  
IFRS STANDARDS**

## 1. Introduction

- ❖ **Project team formed at start of 2002 in connection with CACs**
- ❖ **Project duly presented to the Accounting and Audit Committee and to General Management**
- ❖ **Impact on the 2004 audited IFRS financial statements**

- **Revaluation of leasehold rights and land and buildings (shareholders' equity)**
- **Accounting for finance leases contracts (debt)**
- **Deferred taxes (shareholders' equity)**
- **Inventory valuation and depreciation (profit/loss)**
- **Adjustement of the UK risk provision as a result of the IFRS restatements (profit/loss)**

## Consolidated Group

<i>in million €</i>	Shareholders' Equity at 31/12/2004	Net debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ French standards	136.5	111.7	(56.4)
❖ IFRS Impact	+ 148.2	+ 51.3	+ 7.1
❖ IFRS	284.7	163.0	(49.3)

### Gearing at 31.12.04:

French standards: 82%

IFRS: 57%

## 2. General framework

- ❖ **Comparative statements of listed companies**
- ❖ **Fair Value**
- ❖ **Substance over form**
- ❖ **Attention: changing standards**
- ❖ **Increased volatility of profit/loss, BUT:**
  - **No impact on business**
  - **No impact on cash**

# Standards that impact the Etam Group statements



## **IFRS 1: First-time adoption of International Financial Reporting Standards**

IFRS 2: Share-based payment

IFRS 3: Business combinations

IFRS 4: Insurance contracts

IFRS 5: Non-current assets held for sale and discontinued operations

IAS 1: Presentation of financial statements

## **IAS 2: Inventories**

IAS 7: Cash flow statements

IAS 8: Accounting Policies, changes in Accounting Estimates and errors

IAS 10: Events after the balance sheet date

IAS 11: Construction contracts

## **IAS 12: Income taxes**

IAS 14: Segment reporting

IAS 15: Information reflecting the effects of changing prices

## **IAS 16: Property, plant and equipment**

## **IAS 17: Leases**

IAS 18: Revenue

## **IAS 19: Employee benefits**

IAS 20: Accounting for government grants and disclosure of government assistance

IAS 21: The effect of changes in foreign exchange rates

IAS 22: Business combinations

IAS 23: Borrowing costs

IAS 24: Related party disclosures

IAS 26: Accounting and reporting by retirement benefit plans

IAS 27: Consolidated and Separate financial statements

IAS 28: Investments in associates

IAS 29: Financial reporting in hyperinflationary economies

IAS 30: Disclosures in the financial statements of banks and similar financial institutions

IAS 31: Interests in joint ventures

IAS 33: Earnings per share

IAS 34: Interim financial reporting

IAS 35: Discontinuing operations

**IAS 36: Impairment of assets**

IAS 37: Provisions, contingent liabilities and contingent assets

**IAS 38: Intangible assets**

IAS 40: Investment property

IAS 41: Agriculture

	IAS	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ Revaluation of leasehold rights and other	38	✓		✓
❖ Revaluation of land and buildings	16	✓		✓
❖ Review of amort. of intangible assets	38	✓		✓
❖ Restatement of fixed asset acquisition costs	16, 17 & 38	✓		✓
❖ Restatement of lease financing contracts	17	✓	✓	✓
❖ Review of fixed asset amortization periods	16 & 17	✓		✓
❖ Fixed asset impairment test	36	✓		✓
❖ Stocks	2	✓		✓
❖ Deferred taxes	12	✓		✓
❖ Other adjustments	38 & 19	✓		✓

### 3. Impact of adopting IFRS Standards

# Revaluation of leasehold rights and land & buildings (IAS 16 & 38)



Leasehold rights: Stores

Land & buildings: Stores, warehouses and offices

**French standards**: Accounting at historical price

**IFRS**: Option to revalue all leasehold rights and land & buildings of the Group:  
Gains accounted for directly under shareholders' equity as "Revaluation Surplus"  
Losses accounted for as reserves  
Impairment test conducted regularly according to the type of asset:  
If gain in value: revaluation  
If loss in value: by deducting the appraisal decrease, asset by asset, up to the amount of the initially recorded values

# Revaluation of leasehold rights and land & buildings (IAS 16 & 38)

**Impact:**

*in million €*

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ Revaluation of leasehold rights	+ 139.6	-	- 1.4
❖ Revaluation of real land & buildings	+ 60.3	-	- 0.6
<b>TOTAL</b>	<b>+ 199.9</b>	<b>-</b>	<b>- 2.0</b>

# Review of amortization of intangible fixed assets (IAS 38)

**French standards:** Non-amortized leasehold rights, but depreciated in case of loss of value

**IFRS:** Amortization of leasehold rights over the useful life (foreign subsidiaries)  
 Non-amortization in France (indeterminate time period)  
 Entry rights are similar to leasehold rights

## Impact:

*in million €*

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ Leasehold rights	+ 1.0	-	0

# Fixed asset acquisition expenses (IAS 16, 17 & 38)

Acquisition expenses consist mainly of professional fees, legal expenses, recording dues.

**French standards**: Recording of these expenses as charges

**IFRS**: These expenses are considered asset acquisition cost components that generate amortizations, as applicable.

## Impact:

<i>in million €</i>	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ Fixed asset acquisition expenses	+ 11.6	-	+ 0.1

# Real estate and movable asset finance leases contracts (IAS 17)

**French standards**: Simple lease → accounting as operating expenses

**IFRS**: Consolidation of finance leases unconsolidated until then in 99-02

## Impact:

*in million €*

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ Finance leases	+ 4.5	+ 51.4	+ 1.1

# Review of amortization periods for land & buildings (IAS 16 & 17)

**French standards:** Amortization period modelled mainly according to French accounting

**IFRS:** Amortization periods reviewed for all Group companies taking into account the commonly accepted useful life of goods  
 Retroactive application  
 Approach by components

## **Impact:**

*in million €*

❖ Review of amortization periods

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ Review of amortization periods	+ 21.0	-	+ 1.8

# Impairment test of non-revalued fixed assets (IAS 36)

**French standards:** An exceptional amortization or depreciation is recorded in case of loss of value or modification of useful life.

**IFRS:** Estimate of the useful life of CGU (store) by the DCF method each time the operating margin does not cover its share of central expenses.  
A loss of value is recorded when the DCF of the CGU is lower than the NBV of its fixtures.

## Impact:

*in million €*

❖ Fixed asset impairment test

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ Fixed asset impairment test	- 13.8	-	- 3.6

## INVENTORY VALUATION

**French standards:** Inventories of materials and goods: evaluation at purchase price plus incidental expenses  
Manufactured product inventory: at the average weighted cost price

**IFRS:** Adding logistic costs to the valuation: cost of warehousing and store shipping

## INVENTORY DEPRECIATION

**French standards:** Loss recorded if realizable value is lower than inventory cost  
Group method: retroactive calculation

**IFRS:** Prospective method which takes into account sales at a loss made after the balance sheet date on current seasonal articles in stock at balance sheet date

### Impact:

*in million €*

❖ Stocks

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
	+ 4.1	-	+ 4.1

Essentially, the impact of deferred taxes results from revaluations of leasehold rights and land & buildings.

## Impact:

*in million €*

❖ **Deferred taxes**

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ <b>Deferred taxes</b>	<b>- 84.4</b>	<b>-</b>	<b>- 1.5</b>

## **CHARGES TO BE ALLOCATED (IAS 38)**

Essentially, the charges to be allocated consist of fees paid when syndicated credits were put in place.

**French standards**: Distribution over the term of the credits

**IFRS**: The fees are recorded as charges upfront, in the financial year during which they were incurred.

## **EMPLOYEE BENEFITS (IAS 19)**

The Group is already making provisions for most of its retirement commitments by observing the valuation criteria imposed by IFRS.

The impact of adopting IFRS is consequently very limited.

Stock options (IFRS 2): no restatement (plans prior to Nov. 2002)

## UK PROVISION ADJUSTMENT

Adjustment of the risk provision recorded in 2004 for UK withdrawal, following the IFRS restatements of Etam Plc accounts

## START-UP EXPENSES

Insignificant impact

## GOODWILL

In IFRS, the goodwill is no longer amortized, but depreciated, as applicable.

## Summary of other restatement impacts

<i>in million €</i>	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ Other adjustments	+ 4.1	- 0.1	+ 7.0
❖ Of which UK	+ 6.5		+ 6.5

# Summary of impact on the UK scope

- ❖ Review of the inventory depreciation method
  - impact on shareholders' equity 31/12/2004: - 0.4 M€
  - impact on net profit/loss 31/12/2004: + 0.8 M€
  
- ❖ Fixed asset impairment test:
  - impact on shareholders' equity 31/12/2004: - 8.6 M€
  - impact on net profit/loss 31/12/2004: - 3.0 M€
  
- ❖ Adjustment of the UK withdrawal provision
  - impact on shareholders' equity 31/12/2004: 6.5 M€
  - impact on net profit/loss 31/12/2004: 6.5 M€

## Impact:

*in million €*

❖ UK

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ UK	- 2.5	-	+ 4.3

## 4. Summary

*in million €*

	Shareholders' Equity at 31/12/2004	Debt at 31/12/2004	Net profit/loss at 31/12/2004
❖ French standards	136.5	111.7	(56.4)
❖ Revaluation of leasehold rights and other	+ 139.6		- 1.4
❖ Revaluation of land & buildings	+ 60.3		- 0.6
❖ Review of amort. of intangible assets	+ 1.0		+ 0
❖ Restatement of fixed asset acquisition costs	+ 11.6		+ 0.1
❖ Restatement of lease financing contracts	+ 4.5	+ 51.4	+ 1.1
❖ Review of fixed asset amortization periods	+ 21.0		+ 1.8
❖ Fixed asset impairment test	- 13.8		- 3.6
❖ Stocks	+ 4.1		+ 4.1
❖ Deferred taxes	- 84.4		- 1.5
❖ Other adjustments	+ 4.1	- 0.1	+ 7.0
❖ IFRS	284.7	163.0	(49.3)