



Pernod Ricard

# IFRS

## Main impacts on Group consolidated financial statements



# Key points on the transition to IFRS

- Decrease in Group shareholders' equity (- € 500 m)
- Slight increase in financial debt (+5%)
- Significant increase in earnings per share



# Features of Pernod Ricard timetable

- Pernod Ricard's opening IFRS Balance Sheet will be as of **1 July 2004**, instead of 1 January 2004 for the majority of other CAC 40 Groups, due to a change in its year-end.
- Official accounts will be prepared in accordance with French GAAP until 30 June 2005 (one-off 18-month financial year).
- The accounts at 30 June 2005 will however include a certain amount of information concerning IFRS, most notably:
  - a detailed opening IFRS Balance Sheet,
  - a pro-forma Income Statement for the period 1 July 2004 to 30 June 2005.



# Impacts of IFRS on opening Balance Sheet

## Simplified IFRS Balance Sheet

(€ millions)	30/06/2004	IFRS		30/06/2004
	French GAAP	adjustments	reclassifications	IFRS
Fixed assets	3,162	(17)	13	3,157
Working capital requirement	2,047	(8)	(3)	2,036
Deferred tax, net	199	<b>(407)</b>	1	(207)
Provisions for contingencies	(464)	0	0	(463)
Financial instruments	0	(10)	0	(10)
<b>Net financial debt</b>	<b>(2,102)</b>	<b>(93)</b>	(11)	<b>(2,206)</b>
Minority interests	(28)	(1)	0	(29)
<b>Shareholders' equity</b>	<b>(2,814)</b>	<b>536</b>	<b>0</b>	<b>(2,278)</b>

*audited*



# Impacts of IFRS on opening Balance Sheet

## Breakdown of change in Group shareholders' equity

€ millions

**Group stockholders' equity at 30 June 2004 - French GAAP 2 814**

<b>IAS 12:</b> deferred taxes on brands	(384)
<b>IAS 32:</b> elimination of Pernod Ricard shares	(147)
<b>IAS 12:</b> other deferred taxes	(15)
<b>IAS 39:</b> fair market value for financial instruments (derivatives)	(10)
<b>IAS 36 / IFRS 1:</b> adjustments to fixed assets' values	(10)

<b>IAS 32:</b> accounting of OCEANE bonds 2002-2008	20
<b>IAS 39:</b> fair market value of equity holdings	5
Other adjustments (IAS 41 -agriculture, etc.)	5

**Group shareholders' equity at 1 July 2004 - IFRS 2 278**

*audited*

**(536)**  
**€ million**

**Near 20% reduction in Group shareholders' equity**  
**80% of IFRS impacts relate to deferred taxes on brands**



# Impacts of IFRS on opening Balance Sheet

## IAS 12: Deferred taxes on brands

-As mentioned in the 2003 Annual Report, IAS 12 introduces a difference from French GAAP regarding the calculation of deferred taxes on brands.

### -What is the purpose of deferred taxes?

Deferred taxes on brands represents the difference between the tax value of a brand (often nil, given that few brands are acquired individually), and its consolidated accounts book value derived from its acquisition. This deferred tax is realised in “cash” only when the brand is disposed of as an individual asset (and never pursuant to the disposal of the company owning the brand).

### -Why is this deferred taxed not accounted for in the existing French GAAP accounts?

French GAAP does not require the calculation of deferred taxes on a brand if it is not capable of being disposed individually (that is its disposal would only be realised through the sale of a company).

**In conclusion: this represents a new significant liability, whose probability of realisation is minimal, if not non existent.**



# Impacts of IFRS on opening Balance Sheet

## Financial debt transition French GAAP to IFRS

	€ millions
<b>Net financial debt at 30 June 2004 - French GAAP</b>	<b>2 102</b>
<b>IAS 32:</b> Adjustment of marketable securities (cash and cash equivalents) following the elimination of Pernod Ricard shares	127
<b>IAS 17:</b> Adjustment regarding operating leases reclassified as financial	10
<b>IAS 39:</b> Other net debt adjustments	2
<b>IAS 32:</b> Accounting of OCEANE bond 2002-2008	(35)
Miscellaneous	0
<b>Net financial debt at 1 July 2004 - IFRS</b> <i>audited</i>	<b>2 206</b>

104  
€ million

No major impact on the Group's financial debt (+5%). Two main impacts: (1) reclassification of Pernod Ricard shares (currently treated as marketable securities) and (2) treatment of OCEANE bonds under IAS 32.



# Assessment of impacts on Income Statement

## Methodology

-As a result of the change in its year-end, the first Pernod Ricard IFRS Income Statement to be audited will cover the financial period **1 July 2004 to 30 June 2005**. It is not possible at this time to provide the market with exact, audited Income Statement data.

-However, the main differences between French GAAP and IFRS are now known, enabling us to provide on an **information basis** those financial statement items for which we can anticipate and assess the magnitude of changes to come.

-These changes primarily concern Income Statement reclassifications, and to a lesser extent, adjustments to Group net profit.



# Assessment of impacts on Income Statement

## IAS 18: reclassifications of operating revenues and expenses

In essence, most of the Income Statement reclassifications can be traced to IAS 18 -Revenue recognition, with the main two being:

-A reclassification between **net sales and advertising and promotion expenses** in application of IAS 18 and US GAAP interpretations. The amounts subject to these reclassifications primarily concern payments made to retailers and wholesalers (product listing, aisle end display etc.)

-A reclassification between **net sales and cost of goods sold** regarding the treatment of certain import duties in Asia presently deducted from net sales excluding taxes and duties (net sales EDT). IAS requires that these duties be treated as cost of goods sold as they are not specifically re-billed to customers (as for example the Social Security stamp charges in France).



# Assessment of impacts on Income Statement

## IAS 18: quantitative impacts

	Determination of 2004 operating profit - French GAAP basis	Impacts of IAS 18 reclassifications		IFRS net impact on 2004 operating profit*
		Net sales / A&P costs	Net sales / Cost of goods sold	
2004 net sales (€ millions)	3 572	-6%	+5%	-1%
Cost of goods sold	-34%		-5%	-5%
<b>Gross profit</b>	<b>66%</b>	<b>-6%</b>	<b>0%</b>	<b>60%</b>
Advertising and promotion costs	-22%	+6%		-16%
Other operating expenses	-23%			-23%
<b>Operating profit</b>	<b>21%</b>	<b>0%</b>	<b>0%</b>	<b>21%</b>

Unaudited

- For net sales, two impacts virtually offset each other (1% reduction approximately)
- Gross profit margin decreases from 66% to approximately 60%
- A&P costs/net sales ratio decreases to about 16% from 22%
- Operating profit margin remains unchanged



# Assessment of impacts on Income Statement

## Other Income Statement reclassifications

The main Income Statement reclassifications are derived from IAS 1 – Presentation of Financial Statements:

-Reclassification of **net exceptional income**, which IFRS does not recognise as a subtotal item, as a component of the **operating profit**. In order to ensure continuity in the presentation of its accounts, Pernod Ricard will rename the current operating profit as an **IFRS business profit**, with this subtotal item incorporated as a component of the **IFRS operating profit**.

-Reclassification of a portion of the retirement benefits charges between **operating profit** and **net finance costs**. For the 2004 accounts, this reclassification results in an € 6 million increase in operating profit and a corresponding increase in net finance costs.

-Reclassifications between **net finance costs and operating profit** of customer discounts (some € 7 to 8 million per year recorded presently as finance costs to be reclassified as an offset to net sales per IFRS) and foreign exchange gains/losses on trade receivables and payables (presently treated as finance costs to be reclassified as operating profit per IFRS).



# Assessment of impacts on Income Statement

## Impacts on Group net profit

Magnitude of IFRS adjustments impacting on Group net profit	2004 Year	Possible evolution on future financial years
<b>Operating profit</b>		
Cost of stock options (IFRS 2)	(10)	between € 7 and 10 million per year for the next two financial year Market value of last plan: € 28 million
<b>Net finance costs</b>		
OCEANE bond finance costs (IAS 39)	(9)	approximately € 1 million increase per year until 2007 for the complementary IFRS charge
<b>Income tax</b>		
Income tax impacts	n/a	offset between income tax on financial costs and various IAS 12 adjustments
<b>Goodwill amortisation</b>		
Elimination of goodwill amortisation	15	permanent
<b>Impact of adjustments on Group net profit</b>	<b>(4)</b>	
<b>2004 Group net profit - French GAAP</b>	<b>487</b>	
<b>2004 Group net profit - IFRS</b>	<b>483</b>	

*Unaudited*

**-At this stage: limited impact on Group net profit**

**-Slight reduction anticipated due to an increasing number of stock option plans that have to be taken into account (the standard only applies to plans that were granted after 7 November 2002).**



# Calculation of EPS using IFRS

**Significant improvement of EPS (Group net profit): +8%**

Reduction in the number of shares used in calculating EPS pursuant to the cancellation in shareholders' equity of certain Pernod Ricard shares.

Earnings per share	French GAAP	IFRS	Change
Group net profit	487	483	-1%
<i>Number of shares in circulation</i>	70 127	70 127	
<i>Shares held by SIFA (Group proportion)</i>		(3 209)	
<i>Shares held for stock options</i>		(2 221)	
Number of shares used in calculating EPS	70 127	64 697	-8%
<b>Earnings per share</b>	<b>6,95</b>	<b>7,47</b>	<b>+8%</b>

Unaudited



# Appendix 1

## Detailed Balance Sheet

### ASSETS

(€ millions)	30/06/2004	IFRS		30/06/2004
	French GAAP	adjust-ments	reclassi-fications	IFRS
	Net value			Net value
<b>Fixed assets</b>				
Intangibles and acquisition goodwill	2 200	3	3	2 206
Property, plant and equipment	824	(8)	(4)	811
Biological assets	0	2	15	17
Financial investments and interests in associates	138	(14)	(1)	124
<b>Total fixed assets</b>	<b>3 162</b>	<b>(17)</b>	<b>13</b>	<b>3 157</b>
<b>Current assets</b>				
Financial instruments	0	16		16
Inventories and receivables	3 031	(0)	15	3 046
Deferred tax assets	320	15	(1)	334
Cash and cash equivalents	295	(128)	(1)	166
<b>Total current assets</b>	<b>3 646</b>	<b>(97)</b>	<b>14</b>	<b>3 563</b>
Prepaid expenses and accrued income	63	(11)	(10)	42
Bond repayment premiums	35	(35)		0
<b>Total assets</b>	<b>6 906</b>	<b>(161)</b>	<b>17</b>	<b>6 762</b>

### EQUITY AND LIABILITIES

(€ millions)	30/06/2004	IFRS		30/06/2004
	French GAAP	adjust-ments	reclassi-fications	IFRS
	Net value			Net value
<b>Group shareholders' equity</b>	<b>2 814</b>	<b>(536)</b>	<b>0</b>	<b>2 278</b>
<b>Minority interests</b>	<b>28</b>	<b>1</b>		<b>29</b>
Provisions for contingencies	464		(0)	463
Deferred tax liability	121	422	(1)	541
Convertible bonds	548	(64)		484
Financial debt	1 884	(6)	10	1 889
<b>Total financial debt</b>	<b>2 432</b>	<b>(70)</b>	<b>10</b>	<b>2 372</b>
Operating and other liabilities	1 042		9	1 050
Financial instruments		26		26
<b>Total other liabilities</b>	<b>1 042</b>	<b>26</b>	<b>9</b>	<b>1 076</b>
Accrued expenses and deferred revenues	6	(4)		2
<b>Total equity and liabilities</b>	<b>6 906</b>	<b>(162)</b>	<b>17</b>	<b>6 762</b>



# Appendix 2

## Main options retained on the Opening Balance Sheet

The main options retained within the framework of IFRS 1 (first time application of IFRS) are:

- Application of IAS 32 and IAS 39 starting 1 July 2004
- No restatement of business combinations realised before 1 July 2004 in accordance with IFRS 3
- Fixed assets: maintenance of historical cost (utilisation of fair market value option for a few cases representing insignificant amounts)
- Retirement benefits: no impact (Pernod Ricard applies IAS 19 since 2003)

