

Transition to IFRS

Main impacts on 2004 financial information

May 4, 2005



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- **Introduction**
- Financial highlights
- Standards which impact the financial statements
- Presentation of the consolidated financial statements
- Conclusion

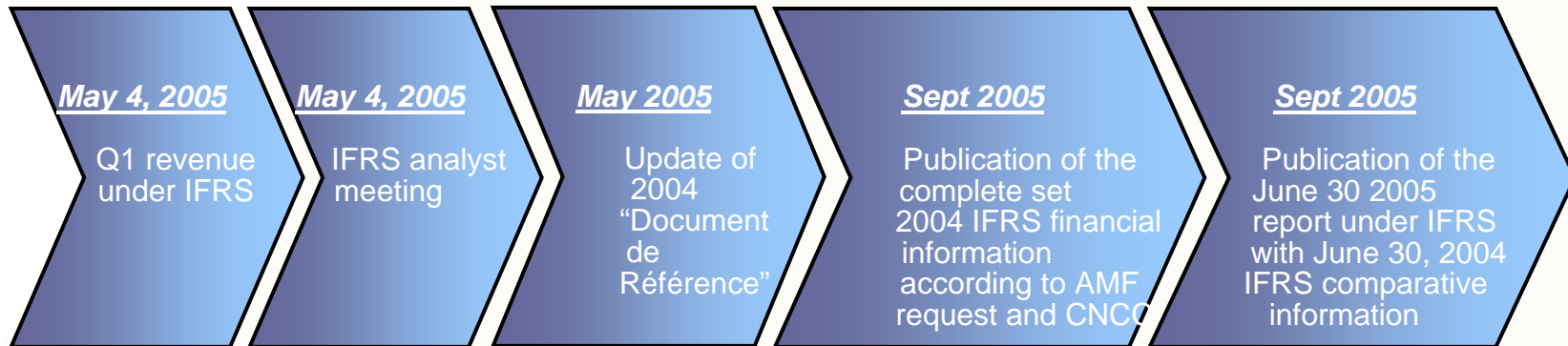
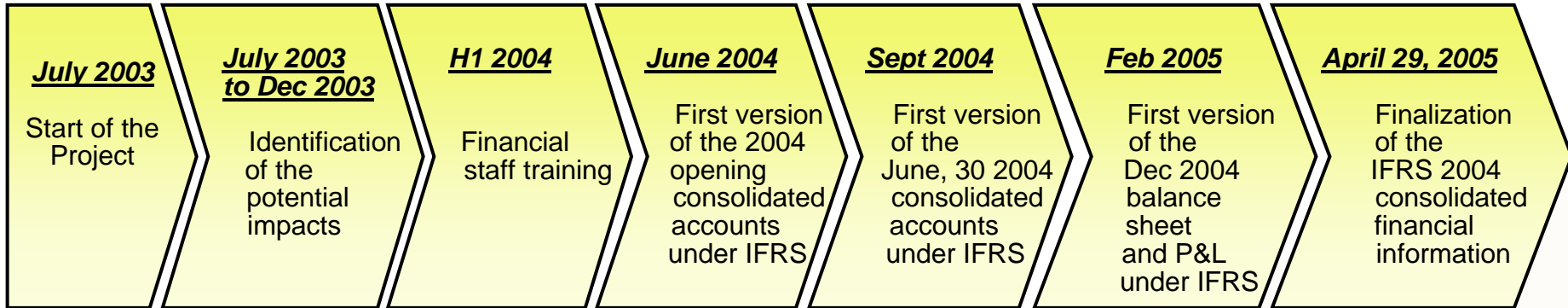
Introduction

- The 2004 financial information contained in this document has been prepared in accordance with the IFRS/IAS standards (and interpretations) existing as of December 31, 2004 and endorsed by the EU Commission and applied by Capgemini as detailed in this document
- With regards to the project accounting for the outsourcing contracts, Capgemini has adopted a prudent interpretation of the current IFRS pronouncements in terms of revenue recognition and gross margin determination. These interpretations are the result of discussions within the industry and recommendations from the Group's auditors. The impact of these interpretations on the outsourcing contracts is detailed in the section "IAS11/18"

Introduction (cont'd)

- The 2004 IFRS financial information has been examined by the Group audit committee
- Group auditors have conducted audit procedures on the 2004 IFRS financial information
- The 2004 IFRS financial information might be modified when the final 2005 accounts will be published as a result of Possible new pronouncements or interpretations issued in 2005

IFRS Project Agenda



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OPERATING INCOME RECONCILIATION

2004 OPERATING INCOME UNDER FRENCH GAAP	58	
- Pensions benefits	-13	
- Revenue recognition	-56	
- Net impact on carry-back receivable (*)	-3	
- Foreign Exchange gains / losses	-6	
- Goodwill reclassified as intangible assets - Amortization	-5	
- Other	2	
2004 INCOME FROM CURRENT OPERATIONS	-23	€81M
- Restructuring costs reclassification	-220	
- Goodwill amortization reclassified as impairment	-19	
- Stock Options	-4	
- Other (gain on disposal of activities, discounting of restructuring...)	-14	€257M
2004 OPERATING INCOME UNDER IFRS	-280	

(*) Relates to un-discounting of carry-back receivable

NET INCOME RECONCILIATION

NET INCOME UNDER FRENCH GAAP as of december 31, 2004	-359	
- Revenue recognition (IAS18)	-56	
- Pensions benefits (IAS19)	-19	
- Income tax (IAS12) (*)	-112	
- Goodwill amortization	26	
- Others (OCEANE, Stock Options...)	-14	
NET INCOME UNDER IAS/IFRS as of december 31, 2004	-534	

(*) Relates to the cancellation of the discounting impact recorded in French GAAP

Net Cash and Cash equivalents

(IN M€)	FRENCH 31/12/2004	OCEANE	CARRYBACK	WRITTEN PUT ON MINORITY INTERESTS	OTHER FINANCIAL OPERATIONS	IFRS 31/12/04
CASH AND CASH EQUIVALENT (I)	1 232				-	1 232
DEBT (II)	830	(52) (a)	112 (b)	51 (c)	5	946
NET CASH AND CASH EQUIVALENTS (I-II)	402	52	(112)	(51)	(5)	286

€116M

(a) Virtual debt reduction

(b) Virtual debt balanced by a tax receivable recorded under non current assets

(c) Virtual debt

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Standards with most significant impacts on the 2004 consolidated financial statements

IFRS 1

First-time adoption of IFRS

IFRS 2

Share-based payment

IFRS 3

Business Combinations

IAS 11/18

Revenue recognition

IAS 12

Income Taxes

IAS 17 – IFRIC 4

Leases

IAS 19

Employee Benefits

IAS 32-39

Financial Instruments

IAS 14

Segment reporting

First time adoption - IFRS 1

- Options adopted by the Group as at January 1st, 2004 :
 - Pension : Cumulated unrecognized actuarial gains and losses are booked against shareholders' equity for €12 M (fresh start)
 - Business combination : No restatement of business combination prior to January 1st, 2004
 - Stock-options : No restatement of stock-options plans issued before November 7, 2002
 - Financial Instruments (IAS 32/39) : applied as of January 1, 2004
 - Translation : Cumulative translation adjustments are transferred to other reserves

Share based payment - IFRS 2 - Stock Options

■ FRENCH GAAP

- Employee stock-options plans are recorded at the date of exercise of the option as capital increase

■ IFRS

- According to IFRS 2, stock options plans granted are to be accounted for as compensation over the vesting period
- Compensation is determined at fair value at grant date, using Black & Scholes Model, based on market conditions and on plan's terms and conditions

■ IMPACTS

- No impact on shareholders' equity
- 2004 net income negatively impacted €4 M

Business combinations - IFRS 3 - goodwill amortization

■ FRENCH GAAP

- Amortization of goodwill on a straight-line basis over a maximum of 40 years
- Market share can be recognized and is not amortized
- Market share and goodwill are subject to impairment test

■ IFRS

- Existing market shares as of January 1st, 2004 reclassified as goodwill
- Goodwill subject to impairment test

■ IMPACT

- 2004 net income positively impacted by € 26 M
- No impact on impairment test

Revenue recognition - IAS 11/18

■ FRENCH GAAP

- **Time and material** : revenue is recognized as services are rendered
- **Fixed price projects / contracts** : revenue is recognized as services are rendered using the percentage of completion method applied with some Group specific interpretation which lead to a more conservative revenue recognition
- **Outsourcing (AM, IM, BPO)** : revenue is most commonly recognized according to contract terms

Revenue recognition - IAS 11/18 (cont'd)

■ IFRS

- **Time and material** : no change
- **Fixed price projects / contracts** : no change except Group interpretation
- **Outsourcing (AM, IM, BPO)** : revenue is recognized according to the level of services rendered
 - Revenue is most commonly recognized on a straight-line basis over the life of the contract
 - Except when other methods (volume based, time and material) may be more relevant

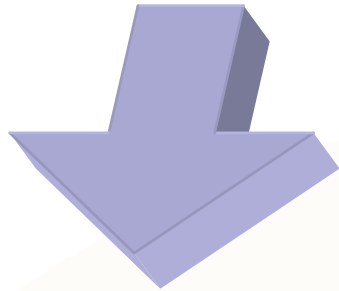
Revenue recognition - IAS 11/18 (cont'd)

- **IMPACTS**
- **Time and material** : no impact
- **Fixed price projects / contracts** : low impact (€-9 M on 2004 revenue, one time impact)
- **Outsourcing (AM, IM, BPO)** :
 - Decrease of H2 2004 revenue by €47 M

Time & Material / Fixed price project - Costs recognition

FRENCH GAAP

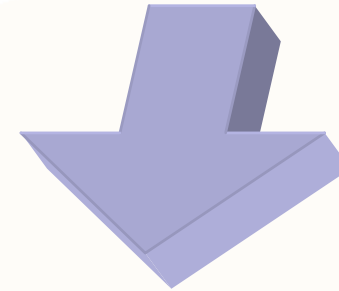
Time and Material/Fixed price project



Costs are recognized as incurred

IFRS

Time and Material/Fixed price project

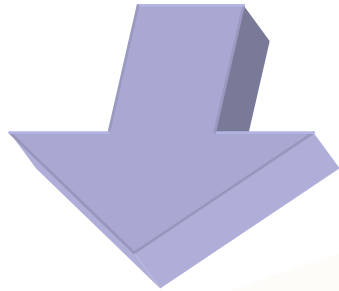


Costs are recognized as incurred

Outsourcing contracts - Costs recognition

FRENCH GAAP

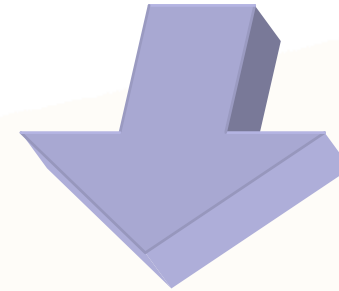
Outsourcing (AM, IM, BPO)



Matching of costs with revenue

IFRS

Outsourcing (AM, IM, BPO)



Costs are recognized as incurred, except :

- Bid costs can be capitalized to the extent they are to be reimbursed
- Transition / transformation costs can be capitalized up to the level of termination fees, exit costs deducted

Income tax - IAS 12 : DEFERRED TAX DISCOUNT

- **FRENCH GAAP**

- Long term deferred tax assets are discounted when the discounting effect is significant and when a calendar of realization dates has been validated

- **IFRS**

- IAS 12 : No discounting of deferred tax assets and liabilities

Income tax - IAS 12 : DEFERRED TAX DISCOUNT (cont'd)

■ IMPACTS

■ France

- Shareholders' equity increased by €114 M at January 1st 2004
- Impact on 2004 net income of €-26 M
- Consequently, French DTA equals €522 M as of December 31, 2004

■ North America

- Shareholders' equity increased by €104 M at January 1st 2004
- Impact on 2004 net income of €-86 M
- Consequently, North American DTA equals €119 M as of December 31, 2004

- No impact in other countries

Income tax - IAS 12 : CARRY BACK (*)

■ FRENCH GAAP

- Sale of tax carry-back receivables is considered as effective, and the receivables are derecognized from the balance sheet

■ IFRS

- Sale of tax carry-back receivables is not considered as effective
- The transaction is treated as a financing transaction and the receivables are maintained on the balance sheet

■ IMPACTS

- No impact on the shareholders' equity
- No impact on the net income
- Impact on Net cash and cash equivalents €-112 M at December 31, 2004

(*) Recognition of a tax Carry-Back receivable covered by IAS 18

Lease - IAS 17/IFRIC 4

- **FRENCH GAAP**

- When lease agreements transfer substantially all risks and rewards incident to ownership to Capgemini, leases are qualified as finance leases

- **IFRS**

- Same principles as French GAAP
- The contract review performed during the IFRS transition project based on more precise criteria have led to identify some additional leases which should have been qualified as finance leases under French GAAP

Lease - IAS 17/IFRIC 4 (cont'd)

■ IFRS (cont'd)

- These leases have been restated in the French GAAP consolidated balance sheet for the year ended December 31, 2004, leading to an impact of €65 M in tangible assets and financial debt
- IFRIC 4 : application has not been anticipated

■ IMPACTS

- No significant impacts considering the above statement

Employee Benefits - IAS 19 - Pension benefits

■ FRENCH GAAP

- Pension benefits (expense and liabilities) recorded according to local GAAPs
- UK pension plan :
 - according to SSAP 24 local rules, the deficit was calculated using a discounting rate based on the expected long-term rate of return of assets invested in equities

■ IFRS

- Harmonization of the recognition and measurement of the different pension-benefits : actuarial valuation according to the projected unit credit method
- IAS 19 implies to discount at bond average rate

Employee Benefits - IAS 19 – Pension benefits (cont'd)

■ IMPACTS

- Shareholders' equity is downsized by €279 M at January 1st, 2004, of which :
 - €267 M are related to UK, mainly due to the application of a lower discounting rate to the pension benefit obligation (bond rate vs equity rate)
 - €12 M are related to the “fresh start”
- 2004 net income negative impact of €19 M (of which €17 M related to UK) breaks down as follows :
 - Income from current operations : €-13 M
 - Financial result : €-6 M

Financial instruments - IAS 32 / 39 Convertible bond (OCEANE)

■ FRENCH GAAP

- The OCEANE was recorded in financial debt at par value
- Interest charge recorded at nominal coupon rate (2.5%)

■ IFRS

Balance Sheet :

- The OCEANE is “split” into debt and equity option components
- The debt component is equal to the present value of the future cash flows discounted using non-convertible debt rate at inception including credit spread
- The difference between the amount received and the value of the debt component at inception is recorded against shareholders' equity

Financial instruments - IAS 32 / 39 Convertible bond (OCEANE) (cont'd)

■ IFRS (cont'd)

Income Statement :

- Interest charge is recognized at 5.11% on the debt component against cash (for the coupon amount) and increase of debt component
- At maturity date, the debt component equals the par value of the OCEANE

■ IMPACTS

- Shareholders' equity increased by €57 M before tax, at January 1st, 2004 (equity option component)
- 2004 net financial result negatively impacted by €9 M

Financial instruments - IAS 32 / 39 – Written Put on Minority interests

■ FRENCH GAAP

Considered as off balance sheet commitment

■ IFRS

Fair value of the put has to be recognized as a financial debt

■ IMPACTS

- No impact on P&L
- No impact on shareholders' equity
- Impact on financial debt as of December 31, 2004 : €51 M

Segment reporting - IAS 14

- Options retained by the Group

PRIMARY SEGMENT

GEOGRAPHY

North America

UK & Ireland

Nordic countries

Benelux

Germany and Central
Europe

France

Southern Europe

Asia Pacific



SECONDARY SEGMENT

BUSINESS LINES

Consulting Services

Technology Services

Outsourcing Services

Local Professional
services

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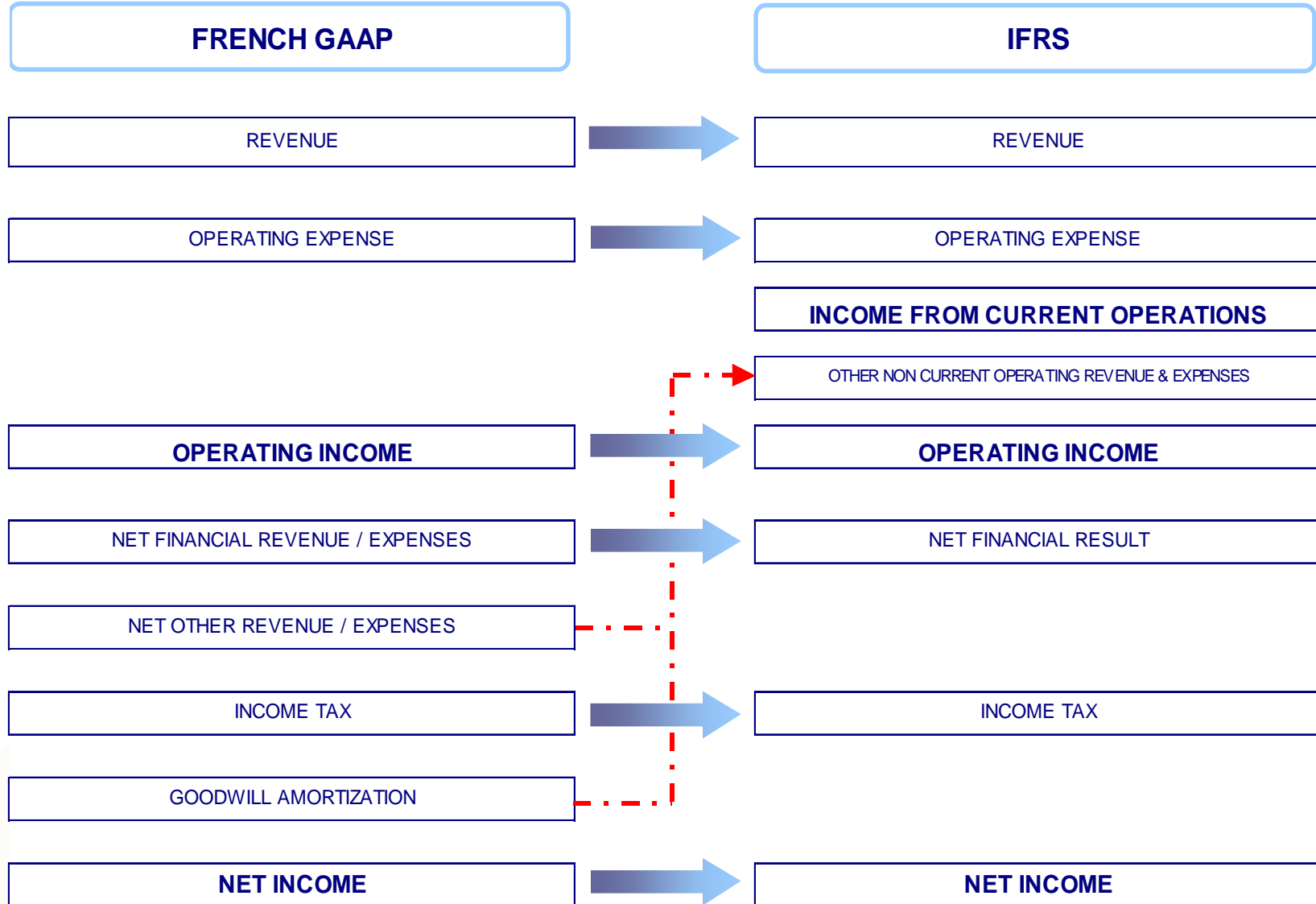
Presentation of the Income statement - IAS 1

- The Group follows the recommendation 2004-R02 of the French CNC
- P&L by function – significant nature of costs will be disclosed in the notes to the Financial Statements
- Gain and losses on disposal of non consolidated investments are reclassified in the financial result
- Foreign exchange gains and losses are reclassified according to the underlying items

Presentation of the Income statement - IAS 1 (cont'd)

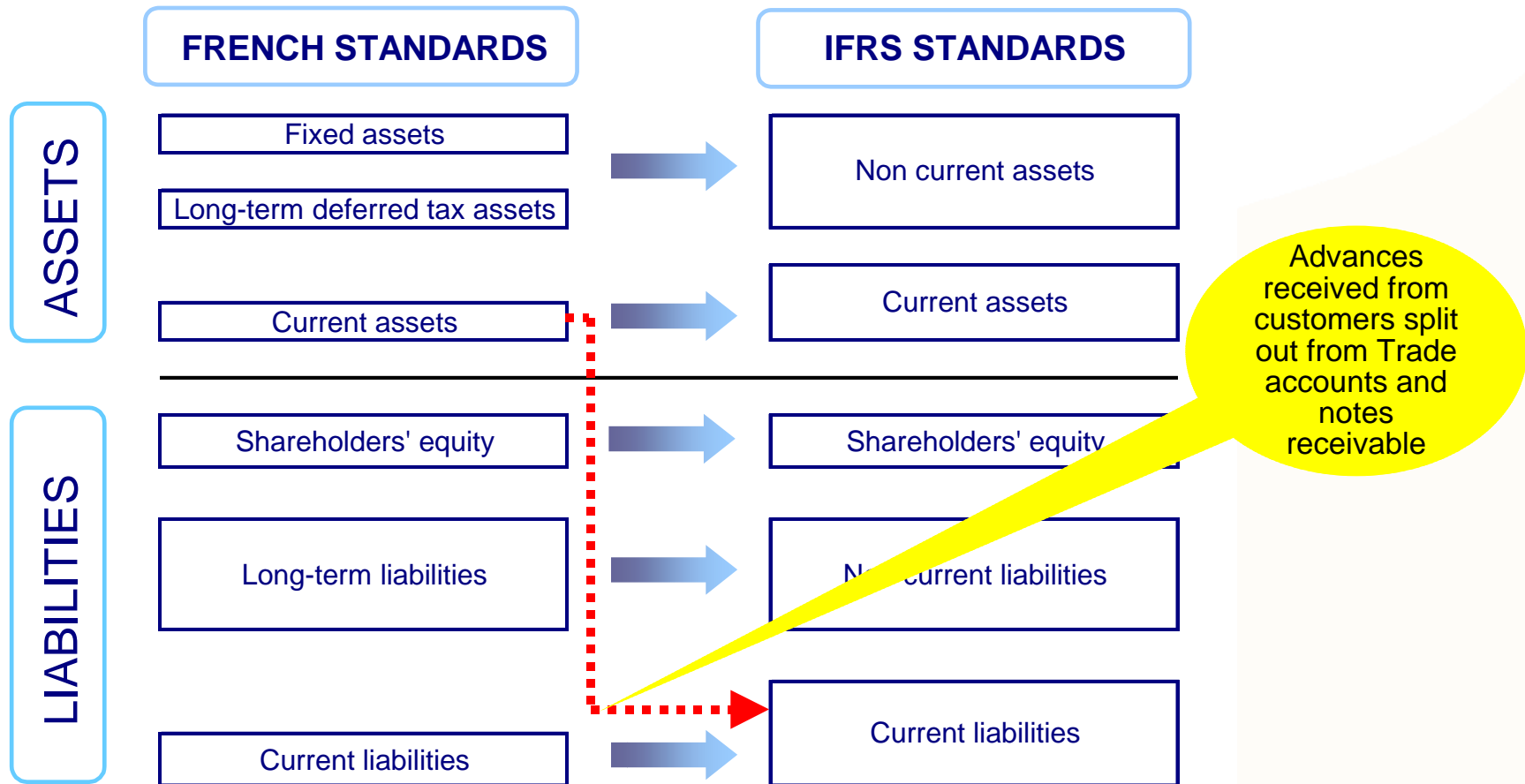
- “Other non current operating revenue/(expense)” under IFRS includes :
 - Capital gains and losses on disposals of consolidated activities
 - Restructuring charges
 - Impairment charges
 - Stock options expense

Presentation of the Income statement - IAS 1



Presentation of the balance sheet - IAS 1

- The Group follows the recommendation 2004-R02 of the French CNC



SHAREHOLDER'S EQUITY RECONCILIATION

SHAREHOLDERS' EQUITY under FRENCH GAAP as of January 1st, 2004	3 351	
- Revenue recognition (IAS18)	-9	
- Pensions benefits (IAS19)	-279	
- Income tax (IAS12)	218	
- OCEANE after tax (IAS 39)	33	
- Other standards	-7	
SHAREHOLDERS' EQUITY under IAS/IFRS as of January 1st, 2004	3 307	€44M

Balance sheet, opening: reclassification and restatement impacts

(in M€)	French 01/01/04	Reclass IAS 1	Restatements	IFRS 01/01/04
ASSETS				
Fixed assets	2 408	12	46	2 466
Other non-current assets	671	120	316	1 107
Current assets	2 952	228	-2	3 178
Total assets	6 031	360	360	6 751
LIABILITIES				
Shareholders' equity	3 351	0	-44	3 307
Long-term liabilities / Non current	980	46	390	1 416
Current liabilities	1 700	314	14	2 028
Total liabilities and shareholders' equity	6 031	360	360	6 751

SHAREHOLDER'S EQUITY RECONCILIATION

SHAREHOLDERS' EQUITY under FRENCH GAAP as of December 31, 2004	3 002	
- Revenue recognition (IAS18)	-62	
- Pensions benefits (IAS19)	-297	
- Income tax (IAS12)	106	
- Goodwill amortization	26	
- OCEANE after tax (IAS 39)	28	
- Other standards	-15	
SHAREHOLDERS' EQUITY under IAS/IFRS as of December 31, 2004	2 788	€214M

Balance sheet, closing: reclassification and restatement impacts

(in M€)	French 31/12/04	Reclass IAS 1	Restatements	IFRS 31/12/04
ASSETS				
Fixed assets	2 408	-1	76	2 483
Other non-current assets	558	108	242	908
Current assets	2 864	395	-14	3 245
Total assets	5 830	502	304	6 636
LIABILITIES				
Shareholders' equity (incl. Minority interests)	3 002	0	-214	2 788
Long-term liabilities / Non current	908	75	470	1 453
Current liabilities	1 920	427	48	2 395
Total liabilities and shareholders' equity	5 830	502	304	6 636

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Conclusions and guidance

- **Operational impact**
 - Prudent approach on outsourcing contracts
- **Ramp-up effect**
 - Stock Option
- **No impact on cash**



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