IND AS IMPLEMENTATION

PRELIMINARY IMPACT ASSESSMENT ON HUL FINANCIAL STATEMENTS

7th December, 2015

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CONTEXT

MCA notification dated 16.02.2015

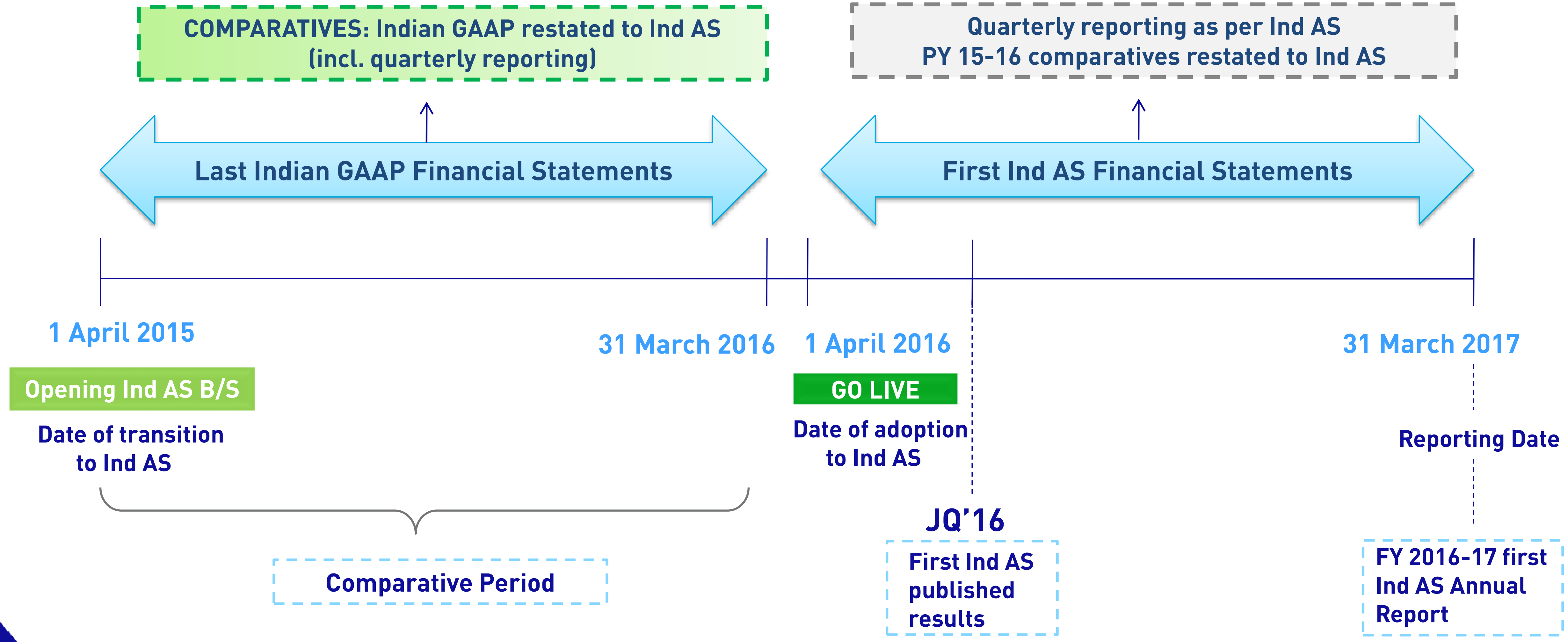
Companies having a net worth of Rs. 500 crores or more (as per the standalone financial statements as on 31st March, 2014) are required to comply with Ind AS in the preparation of their financial statements for accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending 31st March, 2016, or thereafter.

- The Company, its subsidiaries and joint venture will adopt Indian Accounting Standards (Ind AS) with effect from 1.04.2016 pursuance to the MCA (Ministry of Corporate Affairs) notification as the Company's net worth on 31.03.2014 exceeded Rs. 500 crores.

- The implementation of Ind AS is a major change process requiring substantial preparation and training effort for which the Company has established a project team and is dedicating considerable resources.

HUL is on track to complete its Ind AS transition

IND AS IMPLEMENTATION



SCOPE OF THE PRESENTATION

- This presentation has the objective to provide information on the expected impact of transition to Ind AS on the Company's reported equity and reported profit.

- Impacts contained herein are **preliminary** as full compliance with Ind AS effective as at **31.03.2017** is required. The financial information represents our **current best estimates** based on principles and regulations known to date and may be affected by business or other changes or by changes to Ind AS or the interpretation thereof published/notified hereafter**. As such, it should be treated with appropriate caution.**

- This release/communication presents the Company's **unaudited** draft opening Ind AS Balance Sheet as at 1.04.2015, the date of transition to Ind AS. Ind AS also requires to restate 2015-16 comparative information. The presentation includes the **unaudited** draft Ind AS restated Statement of Profit and Loss for JQ'15 to explain expected impact on reported profit.

- The Ind AS opening Balance Sheet and JQ'15 restated Statement of Profit and Loss relate to **standalone** financial statements only, based on the **exposure draft** of the **Ind AS – Compliant Schedule III** to Companies Act,2013.

- This presentation does not incorporate the disclosures as per SEBI circular CIR/CFD/CMD/15/2015 dated 30.11.2015.

KEY IND AS STANDARDS WITH AN IMPACT ON HUL

ON DRAFT IND AS OPENING B/S AND DRAFT JQ'15 IND AS RESTATED P/L

KEY IND AS STANDARDS WITH AN IMPACT ON HUL

Unilever

Ind AS 1	**:**	Presentation of Financial Statements
Ind AS 10	**:**	Events after Reporting Period
Ind AS 12	**:**	Income Taxes
Ind AS 18	**:**	Revenue *(exposure draft)*
Ind AS 19	**:**	Employee Benefits
Ind AS 28	**:**	Investment in Associates and Joint Ventures
Ind AS 37	**:**	Provisions, Contingent Liabilities and Contingent Assets
Ind AS 38	**:**	Intangible Assets
Ind AS 101	**:**	First-time Adoption of Indian Accounting Standards
Ind AS 102	**:**	Share-based Payment
Ind AS 108	**:**	Operating Segments
Ind AS 109	**:**	Financial Instruments

Ind AS 1 : Presentation of Financial Statements

- **New Components of Financial Statements**
  - Statement of Changes in Equity for the year.
  - 'Other Comprehensive Income' section in the Statement of Profit and Loss for the year.

- **Distinction between Financial and Non-Financial assets/liabilities**

  Illustrative examples of financial and non-financial assets/liabilities :

  - *Identified financial assets*
    - Investments
    - Trade receivables
  - *Identified non-financial assets*
    - Advances for raw material
    - Capital advances etc.
  - *Identified financial liabilities*
    - Security Deposits
    - Trade payables etc.
  - *Identified non-financial liabilities*
    - Statutory dues
    - Advances from customers

- **Other Changes** – The standard requires few other disclosures like capital management, sources of estimation uncertainty etc. in the financial statements of the Company.

OTHER COMPREHENSIVE INCOME (OCI)

- **Other comprehensive income comprises items of income and expense that are not recognised in profit or loss as required or permitted by other Ind AS.**
- OCI balance is presented in the **'Other Equity'** section of the Balance Sheet separately from retained earnings.

Components of Other Comprehensive Income for HUL mainly includes:

Items that cannot be reclassified to Profit or Loss:

- Remeasurements of defined benefit plans

Items that can be reclassified to Profit or Loss:

- Gains and losses on financial assets other than equity instruments measured at fair value through other comprehensive income

Ind AS mandates '**Single Statement**' approach which means that the Statement of Profit and Loss and Other Comprehensive Income are to be presented in a single statement with two sections.

Ind AS 10 : Events after Reporting Period

IGAAP	Ind AS
The Company **accounted** for a **provision** for **proposed final dividend** (including dividend distribution tax) relating to a given financial year in that year, even if the approval of that dividend by the shareholders took place after the balance sheet date.	The Company will **recognise** a liability for **final dividend** (including dividend distribution tax) in the period when the dividends are **approved by the shareholders**.

Impact

B/S

- The charge to retained earnings amounting to **Rs. 2,343.51cr** recognised for proposed final dividend and dividend distribution tax under IGAAP is reversed in the opening B/S.
- Significant decrease in % 'Return on Capital Employed' and 'Return on Net Worth' due to increase in capital employed/net worth as at the Balance Sheet date (approx. increase by 63% as on 1.04.2015).

Ind AS 12 : Income Taxes

IGAAP	Ind AS
Deferred taxes are recognised for the tax effect of timing differences between accounting income and taxable income for the year i.e., **income statement approach.**	**Deferred taxes** are recognised for future tax consequences of temporary differences between the carrying value of assets and liabilities in books and their respective tax base i.e., **balance sheet approach.**

Impact

B/S Reduction in deferred tax assets of **Rs. 47.83cr** with corresponding charge to retained earnings and OCI reserve of **Rs. 47.15cr** and **Rs. 0.68cr** respectively consequential to Ind AS adjustments.

P/L Recognition of additional deferred tax expense of **Rs. 4.70cr** in the profit and loss and a credit of **Rs. 0.34cr** in OCI consequential to Ind AS adjustments in JQ'15.

Ind AS 18: Revenue (exposure draft)

IGAAP	Ind AS
Under IGAAP, the Company accounted for revenue **net of trade discounts, sales taxes and excise duties**.	▪ **New Revenue Definition –**The Company will recognise revenue at the fair value of consideration received or receivable. Any sales incentive, discounts or rebates in any form, including cash discounts given to customers will be considered as selling price reductions and accounted as reduction from revenue. Under IGAAP, some of these costs were included in 'advertising and sales promotion' expenses. ▪ **Gross Vs Net Presentation –** Excise duty will not be netted from revenue and shown as a part of expenses.

Impact

P/L

- Net revenue increase by **Rs. 328.91cr**, or 4.06% of JQ'15 'revenue from operations'.
  - Increase in revenue due to excise duty grossing up: Rs. 584.57cr
  - Decrease in revenue due to reclassification from advertising and sales promotion: Rs. 255.66cr
- Increase in 'cost of material consumed' due to inclusion of excise duty.
- Impact on quarterly published results w.r.t excise duty presentation based on SEBI format for Ind AS compliant companies to be assessed.
- No impact on profit.
- GST could also have implications once effective.

Ind AS 19 : Employee Benefits

IGAAP	Ind AS
The Company recognised the investment in the *HURB Trust as non-current investment at cost of Rs. 350cr as it did **not qualify** as 'plan asset' under AS 15 on employee benefits.	*HURB trust **qualifies** and will be recognised as a 'plan asset' under Ind AS 19.
The interest cost on defined benefit liability and expected return on plan assets is recognised as **employee benefit expenses.**	The Company may adopt an accounting policy choice to recognise the net interest cost on net defined benefit liabilities as **finance cost.**
Actuarial gains/losses is recognised an **'exceptional item'** in profit and loss.	**Remeasurement** of the net defined benefit liability/(asset) will be recognised in '**Other Comprehensive Income'.**

Impact

B/S

- Reduction in non-current investment by **Rs. 350cr** due to reclassification of HURB trust as 'plan asset', <u>netted off against the provision for employee benefits.</u>

P/L

- <u>Increase in finance cost</u> in JQ'15 due to reclassification of net interest cost of **Rs. 3.47cr** from employee benefit expense. No impact on profit.
- No impact taken in profit on account of reclassification of actuarial gain/loss to OCI in JQ'15.

*HURB - Hindustan Unilever Limited Securitisation of Retirement Benefit Trust

Ind AS 28 : Investments in Associates and Joint Ventures

Unilever

IGAAP	Ind AS
The Company used '**proportionate consolidation**' method to account for its joint venture, Kimberly Clark Lever Private Limited in its consolidated financial statements.	The Company will account for its joint venture, Kimberly Clark Lever Private Limited using the '**equity method**' in its consolidated financial statements.

Impact

B/S

- **No line-by-line proportionate consolidation** in the consolidated financial statements. Investment in JV will appear as a single line item at cost plus HUL's share in the profit or loss post acquisition.
- **No impact on HUL's standalone financial statements**. Investment in JV will continue to be accounted at cost less impairment loss.

Ind AS 37 : Provisions, Contingent Liabilities and Contingent Assets

Unilever

IGAAP	Ind AS
The Company recognised **provisions** at an **undiscounted** value as current IGAAP principles explicitly prohibit discounting.	▪ The Company will **discount provisions** to their present value where the effect of time value of money is material. ▪ The increase in the provision due to the passage of time will be recognised as a **finance cost** resulting in higher interest cost.

Impact

B/S Impact of discounting of long term provisions and other non-current liabilities amounting to **Rs.18.70cr** and **Rs.18.92cr** has been reduced from long term provisions and other non-current liabilities respectively and with a corresponding increase in retained earnings.

P/L Increase in finance cost by **Rs. 2.87cr** in JQ'15 due to unwinding of discount of the long term provisions and other non-current liabilities.

Ind AS 38: Intangible Assets

IGAAP	Ind AS
The useful life of an intangible asset **cannot be indefinite** under IGAAP principles. The Company amortised brand/trademark on a straight line basis at 25% amortisation rate.	The useful of an intangible asset like brand/trademark **can be indefinite**. Not required to be amortised and only tested for impairment.
The Company amortised **goodwill** on a straight line basis at 25% **amortisation** rate.	Goodwill arising on business combination **cannot be amortised** and is only tested for impairment.

Impact

B/S

P/L

- **No impact** on Ind AS opening B/S and JQ'15 P/L.
- Any brand/trademark having indefinite useful life or goodwill arising from future transactions will not be amortised and only tested for impairment.

Ind AS 101: First-time Adoption of Indian Accounting Standards

The standard setting out how to adopt Ind AS for the first time – first time adoption rules, exemptions and options

General Principle

Full retrospective application of Ind AS in preparation of opening Ind AS B/S as at the date of transition i.e., **1.04.2015**

leading to

- Recognise assets and liabilities as required by Ind AS.
- Derecognise assets and liabilities not permitted by Ind AS.
- Reclassify assets, liabilities or components of equity in accordance with Ind AS.
- Measure all assets and liabilities in accordance with Ind AS.
- Consider mandatory and **optional exemptions** from retrospective application.

All impacts against equity

The Company may elect to apply the following optional exemptions in preparation of its Ind AS opening Balance Sheet:

Ind AS 101: First-time Adoption of Indian Accounting Standards

Business Combinations	The Company may opt to apply Ind AS 103 'Business Combinations' prospectively from the date of transition. Acquisitions occurred prior to 1.04.2015 may not been restated.
Deemed Cost	The Company may elect to measure all its property, plant and equipment and intangible assets at the Previous GAAP (IGAAP) carrying amount as its deemed cost on the date of transition.
Investment in subsidiaries, associates and JV	The Company may elect to measure its investments in subsidiaries, joint ventures and associates at the Previous GAAP (IGAAP) carrying amount as its deemed cost on the date of transition.
Share-based Payment	The Company may elect not to apply Ind AS 102, 'Share-based Payment' to grants that have vested prior to the date of transition.

Ind AS 102: Share-based Payment

IGAAP	Ind AS
The Company accounted for equity settled stock options under the **'intrinsic value'** method and made fair value disclosures.	The Company will account for equity settled stock options using the **'fair value'** method. Under this method, compensation cost for the employees' stock options will be recognized based on the fair value at the date of grant in accordance with the Black Scholes model.

Impact

B/S The reduction in employee compensation cost for the unvested options as on the date of transition based on fair value method amounted to **Rs. 2.22cr** which has been credited to retained earnings.

P/L The reduction in employee compensation cost for JQ'15 based on fair value method amounted to **Rs. 0.41cr** credited to employee benefit expense.

Ind AS 108: Operating Segments

IGAAP	Ind AS
▪ **RISK AND RETURN APPROACH :** Identification of two sets of segments—one based on related products and services, and the other on geographical areas based on the 'risks and returns' approach. ▪ Currently, the segments reported are **soaps and detergents, personal products, beverages, packaged foods and others.**	▪ **MANAGEMENT APPROACH :** Identification based on the manner in which the entity's 'Chief Operating Decision Maker' (**CODM**) reviews the business components regularly to make decisions about allocating resources to segments and in assessing their performance. ▪ Segments need to be consistent with the internal organization structure and internal reporting used for decision making by CODM.

Impact

- No financial impact on the financial statements as this is a **disclosure related** standard.
- The company is assessing and evaluating the impact of the CODM approach as required by this standard on its segments reported currently.

Ind AS 109: Financial instruments

IGAAP	Ind AS
The Company currently accounts for current investments at **lower of cost and fair value**.	▪ The Company will account for its investments (i.e., treasury bills, government securities and mutual funds) at **fair value**. ▪ The investments will be classified as either Fair Value through the Profit or Loss (FVTPL) or Fair Value through the Other Comprehensive Income (FVOCI) depending on the nature of investment.

Impact

B/S

The impact of fair valuation of the Company's investments as on the date of transition has resulted a gain of **Rs. 91.99cr** credited to retained earnings and **Rs. 1.88cr** credited to OCI reserve.

P/L

Increase/(decrease) in 'other income' and 'other comprehensive income' by **Rs. 14.35cr** and **Rs. (0.97)cr** respectively on account of fair valuation gain/(loss) on the Company's investments for JQ'15.

DRAFT IND AS OPENING BALANCE SHEET (STANDALONE)

BASED ON IND AS – COMPLIANT SCHEDULE III TO COMPANIES ACT, 2013 (EXPOSURE DRAFT)

HUL DRAFT IND AS OPENING B/S AS ON 1.04.2015 (UNAUDITED)

Rs. crores

	Reclass Indian GAAP	Ind AS Adjustments	IND AS
EQUITY AND LIABILITIES			
Equity			
Equity share capital	216.35	-	216.35
Other equity	3,508.43	2,431.66	5,940.09
Non-current liabilities			
Financial liablities - Other financial liabilities	18.05	-	18.05
Long-term provisions	828.59	(365.26)	463.33
Other non-current liabilities	152.07	(18.92)	133.15
Current liabilities			
Financial liablities			
Trade payables	5,252.30	-	5,252.30
Other financial liabilities	206.31	1.74	208.05
Other current liabilities	778.30	-	778.30
Short-term provisions	2,539.14	(2350.84)	188.30
Liabilities for current tax (net)	134.52	-	134.52
Total Equity and Liabilities	13,634.06	(301.62)	13,332.44
ASSETS			
Non-current assets			
Property, plant and equipment	2,435.50	-	2,435.50
Capital work-in-progress	479.01	-	479.01
Intangible assets	22.03	-	22.03
Financial assets			
Non-current investments	654.11	(350.00)	304.11
Long-term loans and advances	179.77	-	179.77
Others	142.24	-	142.24
Deferred tax assets (net)	195.96	(47.83)	148.13
Other non-current assets	9.00	-	9.00
Current assets			
Inventories	2,602.68	-	2,602.68
Financial assets			
Current investments	4,386.09	93.87	4,479.96
Trade receivables	782.94	-	782.94
Cash and cash equivalents	720.73	0.60	721.33
Short-term loans and advances	288.19	-	288.19
Others	94.39	1.74	96.13
Assets for current tax (net)	252.46	-	252.46
Other current assets	379.58	-	379.58
Non-current assets classified as held for sale	9.38	-	9.38
Total Assets	13,634.06	(301.62)	13,332.44

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Key adjustments

1 HURB (management pension and medical benefits) trust investment being netted against provision for employee benefits -Ind AS 19.

2 Fair value gains recognised on investments - Ind AS 109.

3
- Reversal of proposed dividend and tax thereon (Rs. 2,343.51 cr) – Ind AS 10
- Consequential impact of Ind AS adjustments recognised in other equity. (Rs. 88.15 cr)

Note : The adjustments have been explained in detail in the impact analysis slides.

DRAFT IND AS RESTATED JQ'15 P/L (STANDALONE)

BASED ON IND AS – COMPLIANT SCHEDULE III TO COMPANIES ACT, 2013 (EXPOSURE DRAFT)

HUL DRAFT IND AS JQ'15 RESTATED P/L (UNAUDITED)

Rs. crores

	IGAAP	IND AS adjustment	IND AS
Revenue From Operations	8,105.13	328.91	8,434.04
Other Income	108.61	14.35	122.96
TOTAL REVENUE	8,213.74	343.26	8,557.00
EXPENSES			
Cost of materials consumed	2,837.78	584.57	3,422.35
Purchases of stock-in-trade	1,022.24	-	1,022.24
Changes in inventories of finished goods, stock-in-trade and work-in-progress	41.97	-	41.97
Employee benefits expense	363.50	(5.58)	357.92
Finance costs	0.07	6.34	6.41
Depreciation and amortisation expense	74.93	-	74.93
Other expenses	2,333.21	(255.66)	2,077.55
TOTAL EXPENSES	6,673.70	329.67	7,003.37
Profit before exceptional items and tax	1,540.04	13.59	1,553.63
Exceptional Items	9.76	-	9.76
Profit/(loss) before tax	1,549.80	13.59	1,563.39
Tax expense			-
Current tax	(491.49)	-	(491.49)
Deferred tax (charge)/credit	0.83	(4.70)	(3.87)
PROFIT FOR THE PERIOD (A)	1,059.14	8.89	1,068.03
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to Profit or Loss			
Remeasurements of net defined benefit plans		-	-
Income tax relating to items that will not be reclassified to Profit or Loss			
Remeasurements of net defined benefit plans (tax)		-	-
Items that will be reclassified to Profit or Loss			
Debt instruments through other comprehensive income		(0.97)	(0.97)
Income tax relating to items that will be reclassified to Profit or Loss			
Debt instruments through other comprehensive income (tax)		0.34	0.34
OTHER COMPREHENSIVE INCOME FOR THE PERIOD (B)		(0.63)	(0.63)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (A+B)	1,059.14	8.26	1,067.40

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Key adjustments

1 Increase in revenue due to excise duty reclassification to cost of material consumed (Rs. 584.57 cr) – Ind AS 18

2 Reclassification of a portion of 'Advertising & Sales Promotion' expenses and netting from revenue. (Rs. 255.66 cr) – Ind AS 18

3 Reclassification of net interest cost on plan liabilities from employee benefit expenses to finance cost – Ind AS 19

Note : The adjustments have been explained in detail in the impact analysis slides.

Preliminary Impact Summary

	IGAAP JQ'15	Ind AS (restated) JQ'15	△ Change
Net Sales	7,973 cr	8,302 cr	+ 329 cr
PBIT	1,431 cr	1,437 cr	+ 6 cr
Net Profit	1,059 cr	1,068 cr	+ 9 cr
PBIT margin (%)	17.95 %	17.31 %	- 64 bps
Net Profit margin (%)	13.28 %	12.86 %	- 42 bps
* A&P % Sales	14.46 %	10.80 %	- 3.66%

Ind AS has a positive impact on the absolute PBIT but negative impact on % PBIT as the revenue base is not comparable due to grossing up of excise duty under Ind AS.

NOTE:

- **The above impact summary has been prepared based on the exposure draft of Ind AS – Compliant Schedule III to the Companies Act,2013.**
- **The same is subject to change in law/standards/interpretations and SEBI guidelines on the format of publishing quarterly published results.**

* A&P – Advertising and promotion

THANK YOU