

AUTOMOBILE DIVISION RESEARCH AND DEVELOPMENT EXPENDITURE



Current Accounting Practice

Research and development expenditure are recognized as expenses in the period in which they are incurred.

This accounting practice reflects the Group's policy of complying with US GAAP in all cases where they are compatible with French GAAP. Under French GAAP, research and development costs are generally included in operating expense, although applied research and development costs may be recognized as an intangible asset in certain specific cases. Under US GAAP all development costs are recognized as expenses.

IFRS

Under IAS 38, research expenditure shall be recognized as an expense, while development expenditure shall be recognized as an intangible asset if, and only if, the enterprise can demonstrate:

- Its intention to complete the intangible asset and use or sell it, as well as the availability of adequate technical, financial and other resources for this purpose;
- That it is probable that the future economic benefits that are attributable to the development expenditure will flow to the enterprise;
- That the cost of the asset can be measured reliably.

Development expenditure on vehicles, mechanical parts incurred between milestone 1 – styling decision (or milestone 0 – project launch for mechanical parts) and milestone 5 – start up of pre-series production shall be recognized in intangible assets. They shall be amortized from the Start of Production date, over 5 years for vehicles and 10 years for mechanical parts.

Development expenditure recognized as intangible assets in the opening IFRS balance sheet at January 1, 2004 shall include:

- All expenditure directly related to vehicle projects for which pre-series production of the final silhouette started after December 31, 1998;
- All expenditure directly related to engine and gearbox projects launched after December 31, 1998;
- The portion of qualifying development expenditure incurred by PSA Peugeot Citroën under a cooperation agreement that is not billed to the partner;
- All qualifying development expenditure billed to PSA Peugeot Citroën by its partners under cooperation agreements.

The cost of the intangible asset includes payroll costs of personnel directly assigned to the project, the cost of prototypes and the cost of external services related to the project. It does not include any overhead or indirect expense, such as rent, building depreciation and information system utilization costs.

All other research and development expenditure shall be recognized as an expense in the period in which they are incurred.

For each project, the value in use of development costs capitalized as intangible assets shall be measured together with the project related fixed assets. An impairment loss shall be recognized if the net book value of the tangible and intangible fixed assets related to the project exceeds the project's value in use. See Fact Sheet 5 – Impairment in Value of Long-Lived Assets.

Impact On The Group Accounts

In the opening IFRS balance sheet at January 1, 2004, the amount recognized as an intangible asset – and as an adjustment to opening retained earnings – corresponds to the cumulative amount of qualifying development expenditure incurred in prior years, net of accumulated amortization.