

FAURECIA RESEARCH AND DEVELOPMENT EXPENDITURE



Current Accounting Practice

Development expenditure on programs corresponding to specific customer orders are recognized in inventory and work-in-progress and the corresponding revenue is recognized based on the contract billing terms.

Other research and development expenditure are recognized as an expense in the period in which they are incurred.

IFRS

The revenue recognition criteria provided for in IAS 18 are not met in cases where development costs are paid in proportion to parts delivered to the customer, with their full recovery being subject to an unguaranteed minimum level of orders placed by the customer. Development work cannot be considered as having being sold under such circumstances.

In the absence of any payment guarantee from the customer, the costs incurred between the date when the customer accepts Faurecia's quote and the Start of Production of the parts or modules concerned shall be recognized as an intangible asset, in accordance with IAS 38. The intangible asset shall be amortized based on the quantity of parts delivered to the customer, provided that accumulated amortization at each year-end does not represent less than the amount that would be recognized if the asset were amortized on a straight-line basis over five years.

If the contract includes a payment guarantee, the development costs shall be recognized in inventory and work-in-progress and the corresponding revenue shall be recognized when the customer signs off on each technical phase.

Research expenditure shall be recognized as an expense, while other 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.

Impact On The Group Accounts

Development work ordered by a customer

Development work without any payment guarantee

In the opening IFRS balance sheet at January 1, 2004, development expenditure originally recognized in inventory for which there is no contractual payment guarantee will be reclassified as intangible assets.

In the IFRS income statement, the related amortization charge will replace the amount previously accounted for as an outward movement from inventory.

Development work with a payment guarantee

Effective from January 1, 2004, customer payments for development work undertaken on their behalf will be recognized in revenue when the customer signs off on each technical phase and not according to the contractual billing schedule as was the case under French GAAP.

Other development expenditure

In the opening IFRS balance sheet at January 1, 2004, development expenditure recognized as expenses in prior years that fulfill the criteria in IFRS for recognition in the balance sheet will be recognized as intangible assets at cost net of recalculated amortization, and as a positive adjustment to retained earnings.

Other research and development expenditure

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