

PROPERTY, PLANT AND EQUIPMENT



Current Accounting Practice

Property, plant and equipment are stated at cost, corresponding to the purchase price plus directly attributable costs of bringing the asset to working condition for its intended use or to production cost. Borrowing costs are also capitalized as part of the cost of the asset.

Maintenance and repair costs are recognized as an expense, except where they serve to increase productivity or to prolong the asset's useful life.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets. Special tools are depreciated over the estimated lives of the corresponding models.

Assets acquired under finance leases are recorded under "Property, Plant and Equipment" at their fair value at the inception of the lease and an obligation in the same amount is recorded as a liability. They are depreciated on a straight-line basis over their estimated useful lives. The classification of leases is based on the criteria applicable under US GAAP.

Investment grants are recognized as liabilities and written back to the income statement at the same pace as depreciation charged on the corresponding assets.

IFRS

Application of IAS 16 – Property, Plant and Equipment and IAS 17 – Leases results in the following changes in accounting practices:

- Borrowing costs are no longer included in the cost of property, plant and equipment, but recognized as an expense;
- Investment grants are recognized as a reduction in the cost of the corresponding assets;
- Certain leases currently accounted for as operating leases fulfill the criteria for classification as finance leases under IFRS;
- Incidental expenses that do not meet the definition of directly attributable costs are excluded from the cost of assets, and are recognized as an expense for the period in which they are incurred.

Property, plant and equipment continue to be stated at cost. They are not revalued.

Depreciation continues to be calculated by the straight-line method, on the basis of the asset's acquisition or production cost less its residual value, if any. In general, the Group's fixed assets have no residual value, except for rare cases such as rental vehicles. Depreciation periods continue to correspond to the assets' estimated useful lives.

Impact On The Group Accounts

In the opening IFRS balance sheet at January 1, 2004:

- Borrowing costs are eliminated from the net book value of the assets concerned and recorded as a deduction from retained earnings;
- Finance leases previously accounted for as operating leases are recognized as an asset and a liability. The impact on retained earnings is deemed immaterial;
- Net investment grants are reclassified as a reduction in the cost of the corresponding assets, with no impact on retained earnings;
- Incidental expenses that do not meet the definition of directly attributable costs are excluded from the net book value of the assets concerned and recorded as a deduction from retained earnings.

In the IFRS income statement, borrowing costs and incidental expenses that are not directly attributable costs are recognized as an expense in the period in which they are incurred.

Reclassifying certain operating leases as finance leases has no material impact on earnings in future periods.

The reclassification of certain operating leases and the change of method of accounting for borrowing costs have a positive impact on operating margin, offset by an equivalent negative impact on interest expense.