

FAURECIA SPECIAL TOOLS

Current Accounting Practice

Special tools are produced or purchased for the purpose of manufacturing, under a specific order, parts or modules. If the customer intends to acquire these special tools, their cost is recorded in inventory and revenue related to their sale is recognized according to the contract billing schedule.

Special tools that remain the property of Faurecia are recognized in property, plant and equipment.

IFRS

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

In the absence of any payment guarantee from the customer, special tools qualify as property, plant and equipment under IAS 16 – Property, Plant and Equipment and are accounted for as such. Depreciation is based on the units of production method, provided that accumulated depreciation at each year-end does not represent less than the amount that would be recognized if the asset was depreciated on a straight-line basis over three years.

If the contract includes a payment guarantee, the cost of special tools is recorded in inventory and the corresponding revenue is recognized upon the acceptance by the customer of each technical phase of construction.

Impact On The Group Accounts

In the opening IFRS balance sheet at January 1, 2004, special tools previously recognized in inventory for which there is no guarantee that the payments received from the customer will cover the total cost, are reclassified as property, plant and equipment.

In the IFRS income statement, the depreciation charge replaces the amount previously accounted for as an outward movement from inventory.