

# SALES WITH A BUYBACK COMMITMENT

## Current Accounting Practice

Direct new vehicle sales with a buyback commitment expiring within a maximum of three years are not recognized at the time of delivery but accounted for as operating leases.

The difference between the sale price and the buyback price is recognized on a straight-line basis over the leasing period, up to the amount of the total profit arising from the transaction (i.e. net of any loss on the sale of the vehicle in the used market). Any additional gain arising from the sale of the vehicle in the used car market is recognized upon the date of the used vehicle sale. If the total difference is a loss, an allowance is booked when the buyback contract is signed.

Sales with a buyback commitment are not addressed by French GAAP. This accounting practice is derived from US GAAP (EITF 95-1 – Revenue Recognition on Sales with a Guaranteed Minimum Resale Value).

## IFRS

Under IAS 18 – Revenue, sales with a buyback commitment cannot always be recognized as revenue because the significant risks and rewards of ownership of the goods are not necessarily transferred to the buyer.

Consequently, new vehicle sales with a buyback commitment are not recognized in revenue:

- Whatever the duration of the buyback commitment;
- Regardless of whether the transaction is a direct sale or a transaction financed by Banque PSA Finance and its subsidiaries.

The difference between the sale price and the buyback price is recognized as rental revenue on a straight-line basis over the duration of the buyback commitment. The vehicle is initially recognized at production cost in property, plant and equipment. Depreciation expense is calculated on the straight-line method, on the basis of the vehicle's cost, less its estimated residual value, corresponding to the anticipated resale price on the used vehicle market.

Any additional gain made on the final sale of the vehicle is recognized in the period when the vehicle is sold on the used car market.

## Impact On The Group Accounts

New vehicle sales fully recognized as revenues in prior periods, for which the buyback commitment is still in force as of January 1, 2004 are restated in the opening IFRS balance sheet.

Consequently, a portion of the margin recognized on vehicles sold with a buyback commitment prior to January 1, 2004 is recorded as a deduction from retained earnings. The restated net book value of the vehicles is recorded in property, plant and equipment and the revenue deferred is recognized as a long-term liability. The impact on the IFRS income statement is as follows:

- Reduction in consolidated net sales, because the sale of the new vehicle is replaced by rental revenue equal to the difference between the sale price of the new vehicle and the buyback price. This revenue is recognized over the duration of the buyback commitment;
- In operating margin, impact of any change from one balance sheet date to the next in the volume of vehicles sold with a buyback commitment.