

FINANCIAL ASSETS AND LIABILITIES

Financial assets include investments, accounts and notes receivable, short-term investments, including derivative instruments, and cash and cash equivalents.

Financial liabilities include borrowings, other financing and bank overdrafts, derivative instruments and accounts and notes payable.

The accounting treatment of finance receivables held by Banque PSA Finance and the effect of related interest rate hedges are dealt with in Fact Sheet 14 – Finance Receivables and Fact Sheet 15 – Interest Rate Hedges. The effect of changes in exchange rates on financial assets and liabilities is dealt with in Fact Sheet 13 – Foreign Currency Transactions.

This Fact Sheet only deals with financial assets and liabilities whose accounting treatment changes under IFRS.

Current Accounting Practice

Investment Securities

Investment securities consist solely of fixed income debt securities acquired with the intention of holding them to maturity. They are stated at their redemption value. Premiums and discounts are amortized to the income statement over the life of the securities.

Equity and Other Debt Securities

Equity and Other Debt securities that the Group intends to hold on a lasting basis are recorded under Receivables and Investment Securities and securities that are intended to be sold in the short-term are classified as Short-term Investments.

They are stated at cost, net of transaction expenses and accrued interest and are written down at year-end in the case of a permanent impairment in value.

Other Long-Term Receivables

Other long-term receivables are recorded under Receivables and Investment Securities. They include receivables from non-consolidated companies, loans under the French government housing scheme, and other loans and receivables. They are stated at nominal value and are written down at the year-end in the case of a permanent impairment in value. For loans under the French government housing scheme, which are issued at below market rates of interest, an allowance is booked for the difference between actual interest on the loans and the interest that would be earned on an equivalent loan at a market rate of interest.

Shares in non-consolidated companies

Shares in non-consolidated companies are stated at cost. They are written down at year-end in the case of a permanent impairment in value. Fair value is measured using the criteria that are most appropriate for the company concerned, which generally include equity in net assets, earnings outlook and, where applicable, the share price.

Borrowings

Borrowings are stated at cost and amortized based on the contractual interest rate. Premiums and discounts are amortized to the income statement over the life of the debt.

Derivative instruments

Changes in the fair value of derivative instruments designated as hedging instruments of current and forecasted transactions are not recognized in the balance sheet. Information about their market value at the year-end is disclosed in the notes to the consolidated financial statements.

IFRS

The accounting treatment of financial assets and liabilities is dealt with in IAS 39 – Financial Instruments: Recognition and Measurement. IAS 39 was endorsed by the European Commission on November 19, 2004, with the exception of certain provisions on the use of the full fair value option and on the application of hedge accounting to customer deposits in the accounts of retail banks. None of the provisions of IAS 39 that have not been endorsed by the European Commission apply to the Group.

Assets Held to Maturity

This category corresponds to the assets classified as **Investment Securities** in the Group's French GAAP accounts.

Loans and receivables

This category corresponds to other receivables and investment securities included in the caption **Receivables and Investment Securities** in the Group's French GAAP accounts. These assets are stated at amortized cost, measured by the effective yield method. Their carrying value includes the outstanding principal plus unamortized transaction costs, premiums or discounts. Their recoverable amount is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment losses are recorded in the income statement.

Assets Available For Sale

This category corresponds to **Shares in Non-consolidated Companies** and **Short-term Investments** in the French GAAP balance sheet, with the exception of fixed income securities on which the Group has entered into a fair value hedge.

For shares in non-consolidated companies, the Group considers that in the absence of an active market for the shares, historical cost is representative of fair value.

For all other available-for-sale assets, the Group considers that fair value corresponds to market value. Changes in fair value are recognized directly in equity. Where remeasurement at fair value results in the recognition of a loss in equity, if there is evidence that the asset is impaired, the cumulative loss is written off to the income statement.

Assets accounted for using the fair value option

In the interests of simplicity, fixed income securities hedged by interest rate swaps are accounted for using the **fair value option**, whereby changes in the fair value of the hedged securities are recognized directly in the income statement, together with the offsetting change in fair value of the swaps.

Borrowings and other financial liabilities

Borrowings and other financial liabilities, with the exception of derivative instruments, are stated at amortized cost measured by the effective interest rate method.

Fair value hedge accounting is applied to financial liabilities hedged by interest rate swaps. Under this method, financial liabilities are remeasured at fair value taking into account changes in interest rates. Changes in fair value due to interest rates are recognized directly in the income statement, together with the offsetting change in fair value of the swaps.

Derivative instruments

Derivative instruments are measured at fair value. Changes in the fair value of derivative instruments designated as hedging instruments in a fair value hedge of financial assets and liabilities are recognized in the income statement. In the case of derivative instruments designated as hedging instruments in cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognized directly in equity. Gains and losses recognized in equity are included in net profit or loss when the hedged item affects profit or loss.

Impact On The Group Accounts

Stockholders' equity in the opening IFRS balance sheet at January 1, 2004 is reduced or increased by the effects of remeasuring at fair value:

- Assets available for sale;
- Fixed income securities hedged by interest rate swaps accounted for using the fair value option;
- Liabilities designated as hedged instruments in interest rate fair value hedges;
- All derivative instruments.

Stockholders' equity is also reduced or increased by the cumulative effect of timing differences in the recognition of interest and transaction expenses between the amortized cost method (French GAAP) and the effective interest rate method (IFRS).

The fair value at December 31, 2003 of financial instruments used by the Group is disclosed in note 48 to the 2003 consolidated financial statements. In view of the Group's interest rate and currency hedging policies, the impact on opening stockholders' equity at January 1, 2004 of remeasuring fixed income securities and liabilities designated as hedged instruments in interest rates fair value hedging relationships, and all derivative instruments at fair value is immaterial. Remeasuring assets available for sale at fair value has a positive impact on opening stockholders' equity at January 1, 2004.

Future results will be increased or reduced by the effects of the ineffective portion of interest rate hedges and by the effects of applying the amortized cost method.