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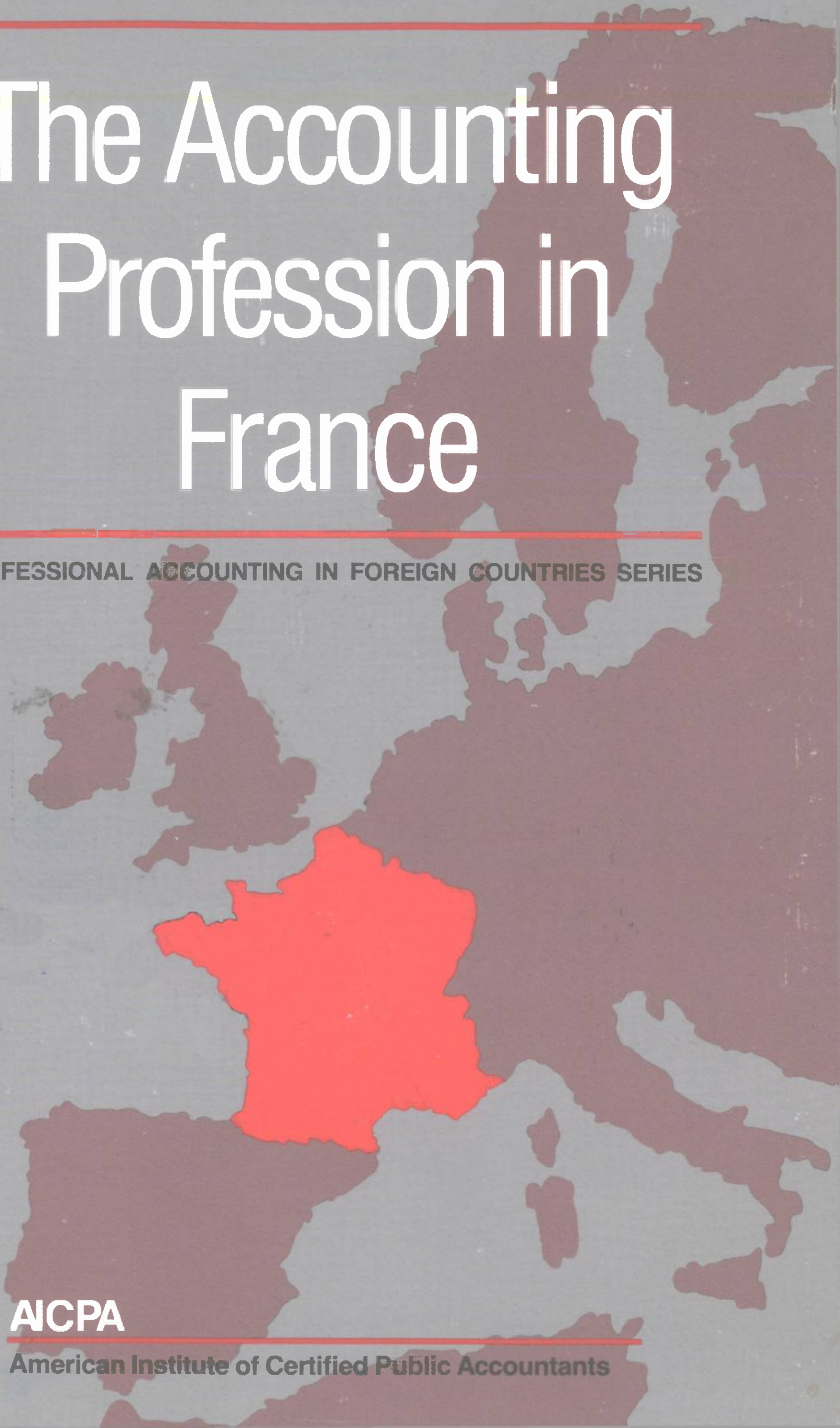
The Accounting Profession in France

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



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The Accounting Profession in France
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
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NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

The International Practice Committee gratefully acknowledges the contributions made to the development of this series by former committee chairman Harvey D. Moskowitz; former committee members Dale D. Baker, R. Harry Beattie, J. Stanley Blumin, Campbell E. Corfe, Perry D. Harbour, W. Edward Hastings, Konrad W. Kubin, Walter F. O'Connor, W. C. Brian Peoples, Bruce D. Robertson, Martin Rotheim, and Anthony L. Smith; and former staff aide James F. Flynn. The committee would also like to acknowledge the fine editorial efforts of Carrie Vaccaro and Gene Smith and the production work of Robert DiCorcia, David Chipps and Lorraine Adriansen.

The Accounting Profession in France

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of January 1, 1988. Changes after this date in the standards of either the United States or France may alter the comparisons detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in France. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing French auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in France but is designed instead to focus primarily on differences from those of the United States.

John Graves
Director
Technical Information Division

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1

The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The accounting profession's position in France is notable because of its legal organization into the following two main bodies:

- The *Compagnie Nationale des Commissaires aux Comptes* or CNCC (National Institute of Statutory Auditors) is the professional body of official statutory auditors and is under the authority of the *Garde des Sceaux* (Ministry of Justice).
- The *Ordre des Experts-Comptables et des Comptables Agréés* or OECCA (Order of Accounting Experts and Qualified Accountants) includes all qualified independent accountants. The OECCA has both regional chapters and a national committee and is organized under the Ministry of Economics and Finance. Members of the OECCA are *experts-comptables* or *comptables agréés*. Presently, however, the qualification of *comptable agréé* is being phased out. Accountants working in industry cannot practice as *experts-comptables*.

2. The primary responsibility of a *commissaire aux comptes* (statutory auditor) is to certify the regularity and correctness of the financial statements. Their duties are defined by law (*La Loi Sur Les Sociétés Commerciales* of July 24, 1966, as amended), and they are appointed for a six-year period by the Court of Appeals (*Cour d'Appel*), in each jurisdiction. Although most of the *commis-*

saires aux comptes are *experts-comptables,* they cannot serve in both capacities for the same company.

3. A statutory auditor is generally an individual, but it can also be a firm, which may be in the form of any type of company (*Société Anonyme* or SA, *Société à Responsabilité Limitée* or SaRL or professional civil company). For the firm to qualify as a statutory auditor, three-fourths of the capital and three-fourths of the shareholders and functions of the company must be controlled by statutory auditors. In addition to *experts-comptables,* statutory auditors may include members of other professions, such as lawyers and engineers.

4. All statutory auditors are included on the official list located in the principal town of each Court of Appeals district. A statutory auditor may practice anywhere within French territory.

5. An *expert-comptable* (the equivalent of a certified public accountant with a notable exception that he or she cannot perform a statutory audit unless qualified as a *commissaire aux comptes*) provides accounting, special auditing (for example, acquisition audits), taxation, financial, and general business services (including legal). His duties are based on a contractual agreement with his client. The *expert-comptable* may also act as a statutory auditor when listed as a *commissaire aux comptes.* Members of the OECCA generally are individuals but may also be accounting firms in which the majority of the shares is held by *experts-comptables* acting in their own name or as a corporate body. *Experts-comptables* are licensed by the OECCA.

Foreign Reciprocity

6. Accountants qualified in foreign countries may be authorized to practice in France as described in paragraphs 7 and 8.

Admission to the List (Tableau de l'Ordre) of Experts-Comptables

7. The following countries have signed a reciprocity agreement with France: Switzerland, Laos and some French-speaking African countries (Congo, Senegal, Gabon, Republic of Centrafric, Chad, Togo, and Algeria). Nationals of an European Economic Community (EEC) member country may be registered provided

they have a sufficient knowledge of French law, rules of ethics, and French language as determined by a special committee in France.

8. Other accountants may be granted an extraordinary revocable authorization to practice in France by the OECCA, without admission to the list of *experts-comptables,* provided that sufficient knowledge of French law, rules of ethics, and French language is demonstrated.

Admission to the Official List of Commissaires aux Comptes

9. Nationals of an EEC member country or any other foreign country that allows French nationals to carry out the functions of *commissaires aux comptes* in their country may be registered provided they meet the minimum age requirement of twenty-five years old, are of good moral character, and reside in a region of jurisdiction that enables them to be registered on the official list of *commissaires aux comptes,* and have—

a. A foreign diploma considered to be equivalent to that of *commissaire aux comptes* or *expert-comptable.*
b. At least two years of auditing practice that required knowledge of French law and auditing regulations.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

10. The main bodies responsible for issuing standards are described in paragraphs 11 through 15.

Conseil National de la Comptabilité or CNC (National Accounting Board)

11. The CNC is responsible for proposing solutions to theoretical or practical accounting problems. In addition to designing and updating the French general Chart of Accounts (*Plan comptable général* or PCG) and professional Charts of Accounts (*Plans comptables professionnels*), the CNC advises on proposed accounting

rules and recommendations made by the OECCA and other international accounting committees.

Commission des Operations de Bourse (COB)

12. The COB, comparable to the SEC in the United States, supervises the public issuance and trading of securities and the operations of the Stock Exchange.

Ordre des Experts-Comptables et des Comptables Agrees (OECCA) and Compagnie Nationale des Commissaires aux Comptes (CNCC)

13. The OECCA and the CNCC represent the French accounting profession in dealing with other international accounting bodies, such as the International Accounting Standards Committee (IASC), the International Federation of Accountants (IFAC), and the *Fédération des Experts Comptables Européens.*

14. The OECCA issues recommendations on accounting, auditing, and disclosure matters. The ethical rules and the organization of the *Ordre* are defined in the members' handbook (*Encyclopédie permanente*). Recommendations issued by the OECCA can be found in appendix B.

15. The CNCC issues standards (*normes*) and guidelines on auditing matters. A list of publications of the CNCC can be found in appendix A. Its main publications are the following:

a. *Normes et commentaires des normes*—includes all relevant information related to statutory audit requirements

b. *Encyclopédie des contrôles comptables*—reports on more detailed and practical auditing matters (specialized guides by activities)

c. *Notes d'information*—booklets that deal with particular aspects of auditing: reporting (*rapport général* and *rapport spécial*), evaluation of internal control, direct confirmation, physical inventory observation, analytical review, and procedures for detecting whether a company may soon be in financial difficulty, going-concern principles, legal controls, and legal forecasts documentation

d. *Etudes juridiques*—deals with legal aspects of the statutory audit of the *commissaire aux comptes*

e. *Bulletin des commissaires aux comptes*—provides practical advice on actual accounting and auditing problems and solutions as well as notification of disciplinary action taken against statutory auditors.

Ethics Requirements

16. The French accounting profession's ethical standards include principles established by law and the professional bodies. Ethical standards that apply to *experts-comptables* require that members of the *Ordre*—

a. Consult with the previous *expert-comptable* before accepting a new client.

b. Do not engage in other business transactions beyond the scope of their professional duties.

c. Do not advertise their services.

d. Do not perform any salaried work, except—
- In a professional teaching capacity.
- For another *commissaire aux comptes* or *expert-comptable.*

e. Insure against liability for professional negligence.

f. Do not charge fees contingent on financial results.

17. In addition, some ethics requirements specifically apply to both *commissaires aux comptes* and *experts-comptables.* For example, they may not—

a. Be a director or an officer of their clients.

b. Receive any money from their audit client except for audit work.

c. Have any family connections with the directors of their clients.

18. The *commissaire aux comptes* and *expert-comptable* should not be in a position that is likely to impair his or her judgment or independence; for example, an *expert-comptable* giving management advice to a company could not be its *commissaire aux comptes.*

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

19. Qualification as an *expert-comptable* is the most common way of entering the profession. Apart from basic requirements

of personal integrity and age (twenty-five years), the requirements include the following:

a. A graduate degree
b. Four or five years of study with the completion of a number of examinations in all relevant subjects
c. Three years of training
d. Passing the final examination

20. To become a listed "commissaire aux comptes," the candidate must be—

a. A minimum of twenty-five years of age.
b. An *expert-comptable,* or to pass successfully the *commissaire aux comptes* examination after having completed training for at least two years with a practitioner approved by the Regional Council. Persons with fifteen years of relevant experience are exempt from this training period.
c. Domiciled within the Regional Council's jurisdiction.
d. Of high moral standards and possess character references deemed sufficient by the Regional Council.
e. Of French nationality (refer to the discussion of foreign reciprocity in paragraph 6).

Rights of Membership

21. Membership of the *Ordre* is restricted to *experts-comptables* or *comptables agréés* working in public practice. Such membership is lost when members enter industry.

Number of Members

22. The following is the approximate number of members in each of the major public accounting organizations as of April 1987:

Members of the *Ordre des experts-comptables:*

Experts-comptables	8,072
Comptables agréés	2,459
Experts-comptables stagiaires	6,735
Accounting firms	3,854

Members of the *Compagnie Nationale des Commissaires aux Comptes:*

Commissaires aux comptes	8,969 individuals and 704 firms
Commissaires aux comptes stagiaires	465 members

CPE Requirements

23. To maintain the high standard of competence required by the profession, each practicing member must devote an amount of time each year to improving his or her own training as well as that of their subordinates.

Peer Review

24. *Commissaires aux comptes* are required to undergo a form of regular peer review generally conducted by other statutory auditors nominated on a voluntary basis by the Regional Council. The peer review inspection deals with—

a. Compliance with statutory regulations and professional ethics.

b. Compliance with regulations relating to the performance of audits.

For listed companies, a special peer review program is applied in cooperation with the *Commission des Opérations de Bourse* (COB), aimed at monitoring the quality of the statutory auditor's work.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

25. The Company law of July 24, 1966, requires that most companies must have statutory audits. The role of the *commissaire aux comptes,* as defined by Article 228 of this law, is as follows:

a. *Certification*—The *commissaire aux comptes* shall certify that the annual financial statements, which are management's responsibility, are *réguliers et sincères* (requirements of regularity and truth) and give an *image fidèle* (a fair presentation) of the results of the operations for the accounting period as well as of the financial position and assets of the business at year end.

b. *Verification of information given to shareholders*—The *commissaire aux comptes* verifies the "truth" of the information given in—
   - The President or Chairman of the Board's letter to shareholders (management report).
   - The reports and, more generally, in any release addressed to the shareholders.

c. *Verification of statutory requirements*—The *commissaire aux comptes* is charged with insuring that the shareholders receive equal treatment. He or she checks compliance with provisions relating to directors' nominee shares; reports on any irregularities or inaccuracies that he or she may have found in the performance of his or her duties, on acquisitions of investments in other companies, on the remuneration of highest paid employees, on management compensation or expenses disallowed for income tax purposes; and he or she informs the shareholders, by means of a special report at the annual general meeting, of any agreement that may exist between the company and any of its directors, or between the company and any other company having a director in common, except when these agreements relate to usual transactions with normal terms.

d. *Going concern evaluation*—The March 1, 1984, law (entitled *For the Prevention and Amicable Settlement of the Difficulties Experienced by a Business* or *Troubled Company Law*) has significantly increased the role of the *commissaire aux comptes* in establishing an early warning procedure whereby events that might impair a company's existence as a going concern are noted by the *commissaire aux comptes,* and explanations must be provided by the management. If the *commissaire aux comptes* is not satisfied with the explanations, these matters must be discussed at a board of director's meeting and the company's labor management or employee committee must be informed. If no action is taken by the company to improve a rapidly deteriorating financial situation, the *commissaire aux comptes* must present a special report at the next shareholders' meeting. This report must also be communicated to the labor management or employee committee.

e. *Violation of company law*—The *commissaire aux comptes* must report to the public prosecutor any violation of the law (misdemeanor) that comes to his attention. Failure to report a violation may result in criminal sanctions against the *commissaire aux comptes.*

f. *Review of forecasts*—As a result of the *Troubled Company Law,* for those companies having 300 or more employees (including employees of 50 percent or more owned subsidiaries) or annual revenues of at least FF 120 million, management must prepare the following:

   - For each semi-annual period—a statement of immediately disposable assets (excluding inventories) and liabilities that are due as of the date of the statement. The statement must be prepared within four months of the end of the current period.
   - For each year—a statement of changes in financial position (within four months of the end of the current year); a

financing plan (within four months of the end of the current year); and a profit forecast, to be revised, if necessary, at the end of the first six months and prepared within four months of the end of the current year.

These documents must be discussed in the written reports from the board of directors. They must be communicated to the labor management committee and to the *commissaire aux comptes,* who must ensure that the assumptions are reasonable.

Entities Required to Be Audited

26. The obligation to have a statutory audit by a *commissaire aux comptes* applies mainly to the following types of companies:

- Corporations (*Société Anonymes* or SA) and limited partnerships with shares (*société en commandite par actions*)
- Lending institutions
- Economic interest groups (*Groupement d'Intérêt Économique* or GIE) issuing bonds or with 100 or more employees
- Agricultural cooperatives with revenues of at least FF 500,000

27. In addition, statutory audits are required by entities that meet two of the following three criteria: (1) total assets are FF 10 million; (2) revenues are FF 20 million; and (3) the average number of employees is 50. Such entities are the following:

a. General or limited partnerships (*société en nom collectif où en commandite simple*)
b. Limited liability company (*Société à Responsabilité Limiteé* or SaRL)
c. Cooperatives (other than agricultural)
d. Associations and civil companies, when they conduct commercial activities
e. Governmental bodies, when they conduct industrial or commercial activities and do not use governmental accounting

Appointment and Qualifications of Statutory Auditors

28. If the company is raising money from the public, the *commissaire aux comptes* and his deputy auditor (*suppléant*) are

appointed at the company's first general meeting; if the company does not raise money from the public (for example, it is privately owned) they are appointed in the company's articles of incorporation. Subsequent appointments or reappointments are made, in both cases, at ordinary shareholders' meetings.

Number of Commissaires aux Comptes

29. Most companies are required to have only one *commissaire aux comptes*. However, two *commissaires aux comptes* must be appointed for—

a. Companies that are required to prepare consolidated financial statements. The law of January 3, 1985, which harmonizes French accounting practice with the EEC Seventh Directive on Consolidated Financial Statements, requires publicly traded companies and governmental bodies over a certain size to produce consolidated financial statements for fiscal years beginning after December 31, 1985. Other companies, with the exception of those heading up smaller groups, will be required to produce consolidated financial statements for fiscal years beginning after December 31, 1989.

b. Lending institutions.

Length of Term of Office

30. The standard term of office for *commissaires aux comptes* is six years. They can be re-elected indefinitely. The *Compagnie Regionale des Commissaires aux Comptes* and the COB, in the case of a public company, must be informed of appointments and dismissals. The names of the *commissaires aux comptes* must be inserted in a legal journal (*Journal d'annonces légales*) to notify the public.

Failure to Appoint a Commissaire aux Comptes

31. Any shareholder's resolution is void when it is reached without the proper appointment of a *commissaire aux comptes* or based upon the report of a *commissaire aux comptes* improperly appointed or improperly remaining in office. In addition, the chairman or the members of the board of directors of a *Société Anonyme* are criminally liable when they fail to provide for the

appointment of the *commissaire aux comptes* of the company or fail to give him notice of any shareholders' meeting.

Dismissal of a Commissaire aux Comptes

32. One or more shareholders representing at least one-tenth of the company's capital, the board of directors, the labor management committee, the Court (*Ministère public*) and, in public companies, the COB, may ask for a change of the *commissaire aux comptes*. If such be the case, a new *commissaire aux comptes* may be appointed by the Court until the next general shareholders' meeting. The former *commissaire aux comptes* is entitled to appeal any attempt at removal to the Court.

Professional Fees

33. For larger companies, such as those with total assets, operating income and revenues (excluding Value Added Tax or VAT) of more than FF 800 million, public companies, insurance companies, lending institutions, investment companies, and certain types of real estate development companies, fees are determined by mutual agreement between the parties.

34. For other companies, the number of hours is determined according to rules issued by the CNCC and based on the size of the company. However, hourly fees are determined by mutual agreement.

35. Litigation relating to disputed fees falls under the jurisdiction of the discipline committee within the *Compagnie Nationale des Commissaires aux Comptes* (CNCC).

Auditing and Reporting Responsibilities

Powers of Investigation

36. *Commissaires aux comptes* are entitled to inspect at the company's place of business all documents that they think are necessary in the performance of their duties. They may also obtain any such information as they require for the purposes of their work from third parties who have carried out operations on behalf of the company. However, this right to information does not extend to documents, contracts, and any records held

and owned by third parties, unless authorized by a Court decision. Information cannot be withheld from *commissaires aux comptes* on the grounds of professional secrecy, except by officers of the law.

Organization of Audit Work

37. For the purpose of carrying out their audit work, the *commissaires aux comptes* may be assisted by experts or colleagues of their choice, whose names must be given to the company.

38. Where two or more *commissaires aux comptes* are appointed, each may carry out their audit work separately. In effect, they are sharing audit responsibility and must also write a common report. If a disagreement between the *commissaires aux comptes* occurs, the report should express their separate opinions. Disagreements, however, seldom occur.

39. Any report or document issued by a firm of *commissaires aux comptes* covering the performance of the statutory audit assignment should include, in addition to the firm's signature, either the signature of the *commissaire aux comptes* or the engagement partner.

Professional Confidentiality

40. *Commissaires aux comptes,* as well as any experts or colleagues who assist in the audit assignment, are bound by the principle of professional secrecy regarding all information obtained in the course of their work.

Liability of Commissaires aux Comptes

41. In terms of civil liability *commissaires aux comptes* are liable to both the company and to third parties for negligence in discharging their duties. However, they are not liable for information or disclosure of facts relating to potential going-concern problems provided they have acted in good faith. They are not liable for any improper acts committed by the directors or management, except when they were aware of such acts and failed to disclose them to the shareholders in their report to the general meeting.

42. Regarding criminal liability, *commissaires aux comptes* are liable for punishment by imprisonment, fines or both in the following circumstances:

- They knowingly accepted, exercised, or kept the position of *commissaire aux comptes* for a company when they were not independent from that company.
- They knowingly gave or confirmed false information regarding the financial position of the company or failed to report to the shareholders irregularities and errors of which they had knowledge.
- They refused to attend a meeting of the labor management committee or willfully obstructed the functioning of such a committee.
- They divulged information concerning the affairs of their clients to anyone who did not have the legal right to examine their working papers.
- They conspired with a director in the commission of an illegal act.
- They represented debenture bond holders.
- They failed to mention in their report the acquisition by the company of an investment of more than 5 percent, 10 percent, 20 percent, 33⅓ percent or 50 percent in another company.
- They failed to disclose to the public prosecutor any misdemeanor relating to a violation of law, of which they had obtained knowledge during the performance of their duties.
- They exercised the function of *commissaire aux comptes* while engaging in certain legally proscribed activities.

Filing of Reports

43. Two kinds of reports—reports to management and reports to shareholders—must be prepared by the *commissaire aux comptes* after completion of the statutory audit.

Reports to Management

44. Under Article 230 of the Company Law of 1966, statutory auditors should report to the directors, orally or in writing—

a. The procedures that they carried out, including the scope of their testing.

b. The balance sheet categories and other accounting documents that, in their opinion, require changes, together with any relevant comments necessary to highlight disclosures not included in the financial statements (and that were not required to be disclosed) relating to accounting policies adopted by the company.

c. Any irregularities or errors they found.

d. The conclusions on the above matters and the effect of any audit adjustments on the results of the current accounting period as compared with the results of the previous period.

45. Although the *commissaire aux comptes* is not required to attend, he or she must be invited to the meeting of the board of directors held immediately before the annual general meeting to discuss his or her report. If the report recommends modifications to the financial statements that are not accepted by the directors, the report to the shareholders must be qualified.

Reports to Shareholders

46. The reports to shareholders take the form of a *general report* or a *special report.*

General Report

47. The general report includes the opinion of the *commissaire aux comptes* on the financial statements and on the accuracy and compliance of the information contained in the report of the directors (senior management or owner) to the annual general shareholders' meeting. The opinion can take the form of an unqualified opinion (*certification sans resérve*), a qualified opinion (*certification avec resérves*), or an adverse opinion or disclaimer of opinion (*refus de certifier*).

48. In case of a fraudulent balance sheet, the *commissaire aux comptes* must warn the public prosecutor. Under law, the general report must specifically mention the following:

a. Reasons for giving a qualified opinion

b. Irregularities or inaccuracies discovered

c. Effects of changing accounting principles

d. Acquisitions of 5 percent, 10 percent, 20 percent, 33⅓ percent or 50 percent or more of the capital of companies registered in France and certain other information regarding acquisitions or mutual investments

e. Names of individuals or legal entities holding more than 5 percent, 10 percent, 20 percent, 33⅓ percent or 50 percent of the company's share capital and the changes in equity during the period (required if the company is a corporation or a limited partnership with shares)
f. Names of companies under the company's control
g. Violation of the principal of equality among shareholders
h. Violation of the provisions relative to directors' qualifying shares
i. Illegal acts committed by directors or executives
j. General expenses disallowed for tax purposes.

49. If the report of the directors (or the *gérants*) does not contain all the information required by the company law, the *commissaire aux comptes* must provide the missing information in his or her report.

Special Report

50. The special report discloses agreements between the company and its directors or general managers, members of its management committee or supervisory board, or its managing directors, or between the company and other companies or enterprises in which these individuals have an interest. The *commissaire aux comptes* does not express any opinion on this information.

51. Both the general and special reports are addressed to the shareholders and copies are sent to the labor management committee. The *commissaire aux comptes* must be invited to the annual shareholders' meeting, and he or she generally does attend.

52. For SAs and limited partnerships with shares, additional documents are presented by the directors at the annual general shareholders' meeting. These documents, which require prior verification by the *commissaire aux comptes* (although no report is issued), contain the following:

a. Statistics for the last five years (including sales, net income and other information similar to U.S. selected financial data) *b.* A schedule indicating the worldwide amount of remuneration of either the ten highest paid employees of the company, if the corporation has over 200 employees, or the five highest paid, if the total number of employees is 200 or less

53. Within one month after their approval at the annual shareholders' meeting, the annual financial statements, the report of the board of directors, a general report of resolution submitted to the shareholders to allocate profits to dividends or reserves, and the subsequently approved shareholder resolution are filed with the clerk of the Commercial Court. The special report is not filed with the clerk.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

54. In September 1987, the CNCC issued new standards concerning audit engagements. These standards will be applicable for the audit of financial statements for years beginning January 1, 1988.

55. The standards reflect the views of the profession regarding the auditor's performance of engagements with reasonable due care. They are supplemented by *Comments* intended to facilitate the implementation of the standards by describing their application and background.

56. The standards should be applied by all auditors. However, compliance with the Comments is not mandatory. In addition, the CNCC issues guidelines (*notes d'information*) and specialized industry audit guides for statutory auditors.

General Standards

57. The general principles included within the standards are similar to U.S. practice. They specify—

- The scope of the engagement as determined by the law.
- That company management is responsible for preparing the financial statements, supervising the efficiency of the various departments of the company and monitoring staff activity.

- That the statutory auditor is bound to show due care.
- That the statutory auditor should not make management decisions, although he or she may render advisory services.
- That the statutory auditor can carry out his or her work at various times during the year.
- That professional judgment is an essential element of the statutory auditor's work.
- That the statutory auditor can delegate some of his or her work but retains responsibility for the audit opinion.

Code of Conduct

58. The standards of professional behavior define principles for independence, expertise, work quality, confidentiality, and acceptance and retention of engagements.

Standards of Fieldwork

Planning the Engagement

59. The statutory auditor should have an overall knowledge of the company that will assist in the performance of the engagement and help evaluate significant systems and areas. The purpose of this approach is to identify the risks that could have a significant impact on the financial statements, enabling the auditor to—

- Determine the nature and scope of the work, after considering materiality.
- Perform the engagement in an efficient and timely manner.

Evaluation of Internal Control

60. The statutory auditor should evaluate the significant internal control systems to identify the internal controls he or she intends to rely upon and the risks of error in processing accounting information. The statutory auditor should then develop an appropriate audit program.

Obtaining Evidence

61. In the course of the engagement, the statutory auditor should obtain sufficient relevant information to provide a reasonable basis for an opinion on the financial statements. In this

respect, he or she can apply different audit procedures, including transaction tests, inventory observation, direct confirmation, analytical review, and so on.

Delegating and Supervising

62. The statutory auditor delegates much of the detailed work to assistants. To fulfill his or her professional responsibilities, the auditor must supervise the work delegated to ensure that it has been performed as intended and supports the audit opinion.

File Documentation

63. Working papers are set up in order to document the work carried out and to support the statutory auditor's report. Moreover, they help to better organize and control the engagement as well as provide evidence that the audit included such tests and procedures as were considered necessary.

Relying on the Work of Internal Auditors

64. In order to determine whether to rely on the work carried out by internal auditors, the statutory auditor should—

- Evaluate the internal audit function within the company.
- Make appropriate tests of the internal auditor's work and determine that the conclusions reached are in compliance with the objectives of the audit engagement.
- Maintain sufficient documentation of their work.

Relying on the Work of the Expert-Comptable

65. The statutory auditor should determine the nature of the *expert-comptable*'s work. He or she should estimate to what extent it can be relied on to serve the objectives of the statutory audit engagement.

Relying on Work Performed by Other Auditors

66. The statutory auditors of the parent company bear sole responsibility for reporting that the consolidated financial statements give a true and fair view of the net assets, the financial position and the results of operations of companies within the

group. They should examine the reports issued by the statutory auditors of other group companies. If they consider it necessary, they should review the other auditors' work or even perform tests themselves at the subsidiary level.

Coordinating Work Between Joint Statutory Auditors

67. When a company has to prepare consolidated financial statements, joint statutory auditors are required. Joint statutory auditors are jointly responsible for the opinion on the statutory and consolidated financial statements, and should work together in planning the engagement and formulating their opinions.

Applying Audit Procedures to Small Companies

68. Although the auditor's objectives remain the same whether a company is large or small, the auditor should consider the special characteristics of the small company.

Standards of Reporting

69. Under the new standards, two separate reports are required to be issued for SAs and SaRLs. The new standard form of an unqualified report, effective for engagements performed on financial statements for 1987 and subsequent years, is as follows:

> In accordance with my appointment as statutory auditor by your Annual General Meeting of . . . , I hereby present my report on:
>
> - The audit of company X's financial statements
> - Other specific legal controls and disclosure, for the year ended . . .

70. An example of a report on the financial statements follows:

> I have audited the financial statements by carrying out such auditing procedures as I have considered necessary in accordance with the standards of the profession.
>
> On the basis of the audit, in my opinion, the financial statements give a true and fair view of the result of the operations together with the assets and liabilities of the company for the year then ended.

71. Significant uncertainties or departures from generally accepted accounting principles, not affecting the overall fairness of the accounts, require a qualified opinion. However, the specific wording indicating the qualification (*with the reservation*) will not make this distinction. If the departure from generally accepted accounting principles or the uncertainty affects the overall fairness, an adverse opinion or a disclaimer of opinion, respectively, will be expressed.

72. If the continuation of the company as a going concern is in doubt, the auditor should qualify or disclaim an opinion.

73. Following is an example of a report on other specific legal controls:

> I have also performed procedures with respect to certain specific information required by law in accordance with the standards of the profession.
>
> I have no comments to make on the accounting information provided in the Director's report or on other documents presented to the shareholders in compliance with the financial statements.

74. The following features of the report should be noted:

a. The report of the statutory auditor is mainly intended for the shareholders of the company, but is also submitted to the public.

b. Adherence to generally accepted auditing standards, accounting principles and the law is not explicitly referred to, but it is implied.

c. The report can be signed either in the engagement partner's name or in the firm's name.

d. The second part of the report should include comments from the auditor with respect to—

- The adequacy of information presented to the shareholders.
- Failure to comply with legal statutory regulations.
- Other specific information required by law. In addition to auditing the statutory and consolidated financial statements, if any, the statutory auditor should verify certain documents or elements. Paragraph 75 lists those documents or elements

that must be verified for all companies. Paragraph 76 discusses the additional documents or elements to be verified for companies with a share capital.

75. The following list of documents or elements must be verified for all companies.

Document or Element	*Source of Requirement*	*Auditor's Procedures*
Annual and consolidated management report	art. L228 §3	All required disclosures should conform with the annual and consolidated financial statements
Other documents provided to shareholders with the financial statements	art. L228 §3	All required disclosures should conform with the annual and consolidated financial statements
Equal treatment of shareholders	art. L228 §4	Test of compliance with the requirement
Description of investments in subsidiaries	art. L356	Tests of the information in the management report
Disclosure of changes in accounting methods	art. L341	Assess adequacy of disclosure in the notes to the financial statements and in the management report
Documents relating to *Troubled Company* legislation	art. L340-2 art. L340-3	Limited review of the documents[1]

[1] A limited review comprises an analytical review of the information and obtaining, through discussion with the management of the company, any additional information the auditor considers necessary.

Agreements between the company and its directors	art. L103, 105; L145, 147; L50	Tests of terms of the agreements

76. The following list of documents or elements must be verified for companies with a share capital.

Document or Element	*Source of Requirement*	*Auditor's Procedures*
Remuneration of highest paid employees	art. L168, 4	Tests and confirmation of amounts
Contribution expense and detailed listing of contributions	art. L168, 5	Tests and confirmation of amounts
Directors' nominee shares	art. L97	Tests of ownership and of the number of shares held
Shareholder listing	art. L356-3	Tests of information in the management report
Disallowed deductions	CGI art. 223	Tests of information in the management report and assessment of fiscal risk
Semi-annual information	art. L341-1 §3	Limited review[2]

[2] See note 1 on page 23.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

77. Statutory accounting principles are derived both from the Code of Commerce and from comments on the *Plan Comptable Général* (General Chart of Accounts). These texts are the result of the *harmonization* process of French principles with those of the other EEC member countries, as required by the EEC Fourth Directive. The *plan comptable général* (PCG) does not apply to banks and insurance companies. The amendment to the Fourth Directive concerning banks was approved on December 31, 1986. However, as of January 1, 1988, it has not been incorporated into French law; although a specific bank chart of accounts is presently under study. For insurance companies, the harmonization process has not yet been completed. French consolidation rules conform with the EEC regulations contained in the Seventh Directive relating to consolidated financial statements. Some of these rules differ from those applicable to preparation of separate company financial statements (for example, LIFO accounting for inventories is permitted for consolidated financial statements but not for separate company financial statements, and deferred tax accounting is required in consolidated statements but is not permitted in separate company statements).

78. Interpretations of law may be found in publications issued by the *Conseil National de la Comptabilité* (National Accounting Board), the *Commission des Opérations de Bourse,* the *Compagnie Nationale des Commissaires aux Comptes* and the *Ordre des Experts-Comptables et des Comptables Agréés.*

79. The Code of Commerce and the *Plan Comptable Général* incorporate the fundamental principles of conservatism, evaluation of potential going-concern problems, matching of costs and revenues, and consistency (changes in accounting policy are not allowed, unless necessitated by an adaptation to significant modifications in operating conditions or prompted by a desire to reflect a more sincere image, similar to U.S. accounting practice). Offsetting of assets and liabilities or revenue and expenses is not allowed unless the right of offset exists.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

80. The annual financial statements must be sufficiently detailed to satisfy the requirement of fair presentation (*image fidèle*). The statements must be prepared in the French language, using French currency. Following are two situations when, to give fair presentation, generally accepted accounting principles may be supplemented or, in rare instances, disregarded:

a. When the application of such principles is insufficient for fair presentation as required by law, supplementary information should be given in the notes.

b. In exceptional cases, the application of generally accepted accounting principles may result in a misleading presentation. The situation should be described and justified in the notes, together with an indication of its effects.

Types of Statements Prepared

81. Under the *Plan Comptable Général,* the basic financial statements include an income statement (*compte de résultat*), a balance sheet (*bilan*), and notes to the financial statements (*annexe*). Comparative figures for the prior year must be shown.

82. The basic statements may be prepared according to one of the three accounting systems provided by the *Plan Comptable Général,* which include—

a. A simplified system (*système abrége*) requiring presentation of the minimum number of accounts necessary to provide meaningful information. This system applies to small businesses meeting two out of three criteria defined by law (total assets FF 1.5 million or less, sales FF 3 million or less and average number of permanent employees of ten or less).

b. A basic system (*système de base*), requiring presentation of more accounts than the *système abrége* and mandatory for all businesses other than small businesses meeting the aforementioned criteria.

c. An optional expanded system (*système développe*). The information required is more detailed than in the two other systems and includes a statement of changes in financial position.

83. A statement of changes in financial position (*tableau de financement*) is not required. However, in the framework of the *early warning* procedure, some companies meeting certain size tests must prepare, for internal use only, a statement of changes in financial position (together with other financial documents).

84. The income statement (*compte de résultat*) discloses the following three main classifications:

- Trading transactions (such as operating income and operating charges, including prior year items)
- Financial transactions (including provisions against declining market values of investments, debenture issue expenses, etc.)
- Unusual, extraordinary and non-operating transactions (including the accounting entries recorded as a result of significant differences between financial reporting and tax treatment, such as additional depreciation expenses and special provisions—the corresponding accounting entry is an adjustment to special reserves)

85. In addition, tax provisions must be shown separately. Deferred taxes are provided for only in consolidated financial statements. Revenues (net of VAT) must be analyzed in the notes according to activity and geographical sources. Cost of sales may be disclosed in the notes, as an alternative to income statement disclosure.

86. The balance sheet (*bilan*) would disclose the following separately:

- Fixed assets (subdivided between intangible, tangible and financial assets, such as marketable equity securities)
- Current assets (classifying inventory and other current assets separately)
- Capital (distinguishing between contributed capital and retained earnings)
- Provisions for losses and expenses
- Debt (subdivided between financial, commercial and other)
- Prepaid and accrual accounts, such as prepaid expenses and deferred revenue.

87. Analyses of fixed assets and depreciation, schedules of current and noncurrent assets and liabilities and analyses of reserves (segregated between legal and other reserves) are to be included in the notes to the financial statements (*annexe*). The notes should contain information not included in the balance sheet or income statement and deemed significant to give a true and fair view (*image fidèle*) of the operating results and financial position of the company.

88. Disclosures that are required by law include—

a. Accounting principles and methods used.

b. Methods used for calculating depreciation, determining allowance for doubtful accounts, method of inventory valuation, and disclosure of the calculated amounts of the provisions for reserves. Separate disclosure should be made of amounts recorded for tax purposes.

c. Explanations of why comparison is difficult between the current and prior year's financial statements and restatement of prior year's information, if appropriate, to make such comparisons meaningful. Disclosure should be made as to why restatement was made.

d. Changes in noncurrent assets during the year.

e. Nature, amount and accounting treatment of translation differences.

f. In instances of asset revaluation, the methods used for calculating revalued amounts; the balance sheet and income statement accounts affected, including the amounts of revaluation; and the tax treatment of changes in the revaluation surplus.

g. Receivables and payables classified according to maturity, segregating receivables between current and noncurrent. The amount of payables should be shown for those due in less than one year, more than one year but less than five years, and more than five years.

h. For all payables, an indication of the amount covered by mortgages or other liens.

i. Amount of financial commitments, by category, noting separately those relating to senior management, subsidiaries, investees and other affiliated companies.

j. For current assets (primarily inventories), the difference between carrying value and market value at year end.

k. List of subsidiaries and investees, disclosing for each, the percentage held directly or indirectly, the amount of stockholders' equity and the net income for the latest fiscal year.

l. Number and par value of the company's shares, by category, indicating amounts issued or canceled during the year.

m. Participating or preferred shares, including number and par value of rights attached.

n. Name of any parent company that includes the company in its own consolidated financial statements.

o. Proportion of noncurrent financial assets, receivables, liabilities, financial income and financial expenses relating to affiliated companies.

p. Amount of commitments for pensions and additional retirement payments, indicating separately those for which provisions have been made and those relating to senior management.

q. Amount of advances and loans to senior management indicating terms and the amount of repayments made during the year.

r. Supplementary information when the application of accounting principles is insufficient for fair presentation as required by law.

s. Reasons for nonapplication of accounting principles that may result in a misleading presentation and the effects on the financial statements.

t. Description and justification of changes in presentation of annual financial statements and valuation methods.

u. Reasons for significant adjustments to the allowance for doubtful accounts provided for in the prior period.

v. Comments on the elements of intangible assets.

w. Reasons for amortizing research and development cost over a period of more than five years (the maximum period generally allowed by law). Amortization over a longer period is allowed when economic or technical conditions justify it.

x. Methods used for amortizing redemption premium on loans.

y. Explanation of deferred income and expenses.

z. Lease obligations.

89. In addition, the information in the list below, when significant, should be disclosed for companies that meet two of the following three criteria: total assets greater than FF 5 million, sales over FF 10 million, and an average number of permanent employees greater than fifty.

a. Remuneration of board of directors, the supervisory board and the management board

b. For each category of convertible and exchangeable bonds and similar borrowings, the number, par value and rights attached

c. Analysis of the income tax charge between extraordinary items and other items, with an indication of the method used for making the allocation

d. Analysis of sales by geographical area and sector of activity

e. Analysis, by category, of the number of employees

f. Extent to which net income has been affected by tax adjustments recorded for financial purposes and their effect on shareholders' equity; for example, additional depreciation recorded equal to the excess of tax over book depreciation

g. Deferred taxes on timing differences, even though deferred taxes are only recorded when consolidated financial statements are prepared

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Valuation Principles

90. Financial statements are based on the historical cost convention. However, revaluation to current value of property, plant and equipment and investments is permitted. The surplus or deficit arising on revaluation must be transferred to a separate reserve account in stockholders' equity. An appraisal increase cannot be used to absorb operating losses or be distributed in the form of dividends. Current income tax at the normal rate, recorded on the income statement, is provided on the unrealized surplus on revaluation.

Revenue and Cost Recognition

91. Revenue is recognized when earned, and realization is reasonably assured. Costs are recorded when incurred.

Consolidation

92. To harmonize French accounting practice with the EEC Seventh Directive on consolidated financial statements, as noted in paragraph 29, the law of January 3, 1985 requires publicly traded companies to produce consolidated financial statements for fiscal years beginning in 1986. Other companies, except for very small ones, will be required to prepare consolidated financial statements for fiscal years beginning January 1, 1990, and after. Before that date, there is no obligation to prepare consolidated financial statements, but an increasing number of companies have voluntarily prepared them. Since 1971, no French company is allowed to raise funds in the public market without issuing consolidated statements.

93. The method of accounting for subsidiaries depends on the following particular circumstances:

a. Full consolidation (*intégration globale*) of the group's dependent companies is ordinarily required. Dependent companies are those companies under the long-term control of the parent company (either directly or indirectly). This control results from any of the following—

- Holding a majority of the voting rights.
- The power to appoint more than half of the members of the administrative, management or supervisory body (this power is presumed when 40 percent of the voting rights are held).
- The ability to exercise dominant influence over a company pursuant to contractual rights (such as a company dependent upon the parent as its sole supplier of raw materials).

b. The equity method (*mise en équivalence*) applies to shareholdings of 20 to 50 percent and must be applied in consolidated statements. Investments of 20 to 50 percent are carried at cost in the statutory financial statements.

c. In proportional consolidation, which applies to joint ventures, the percentage of shareholding is applied to each line of the balance sheet and the income statement, and is included in the consolidated financial statements in proportion to the ownership interest.

94. The law provides for some instances when an entity need not be consolidated, although control is present. For example, an entity is not required to be included in consolidated statements when, in management's opinion, long-term restrictions could substantially hinder the parent's control over the assets or management of that entity. In addition, consolidation is not required when—

a. The shares of the entity are held for resale.

b. The entities are not material.

c. The information necessary for the preparation of consolidated statements cannot be obtained without disproportionate expense or undue delay.

Business Combinations

95. The purchase method of accounting (similar to U.S. generally accepted accounting principles) for a business combination involving the acquisition of a majority of another company's stock is used in France.

96. However, pooling of interests accounting is not acceptable in France. A merger (*fusion*) involves the liquidation of the absorbed company and is treated similarly to a purchase transaction. A merger can take two forms—one company can absorb one or more companies that will then cease to exist, or two or more companies can combine to form an entirely new company that will be the sole survivor of the transaction. In a merger, the shareholders of the absorbed company receive shares issued by the acquirer. The acquirer receives the assets and liabilities of the absorbed company. Regardless of the actual date of the merger, all are generally deemed to take place at the beginning of the accounting year. Other forms of business combinations are *scission* (a subdivision of existing companies) and *fusion-scission* (companies transfer a part of their assets to new or already existing companies).

97. Following are the accounting consequences of a merger:

a. Values, which may not be greater than current values, are assigned to the assets of the absorbed company and constitute the new basis for subsequent depreciation. Liabilities are, when necessary, revalued (for example, if previously stated incorrectly). Goodwill (*fonds de commerce*), the excess of the value of the new shares issued to acquire the company over the value of the net assets acquired, may arise and is amortized over a five- to twenty-year period. (The Fourth Directive states five years, and although the French law implementing the Directive does not refer to a specific time period, French practice may extend this period to twenty years.)

b. The excess of the value of the net assets acquired over the share capital issued by the acquiring company (*prime de fusion*) is treated as additional paid-in capital that may be used to offset deficits of the activities transferred or to absorb costs incurred in the combination.

98. Business combinations may have favorable tax implications under the following conditions:

a. No tax is payable on the capital gains on the revaluation of nondepreciable assets until the assets are sold by the absorbing company. At that time, tax is paid on the difference between the sales price and the absorbed company's carrying value. The estimated taxes payable are not reflected in the valuation of the asset at the time of combination.

b. The surplus resulting from the revaluation of depreciable assets is taxable at normal rates with payment spread over five years.

99. The statutory auditors must report to the shareholders on the method of effecting the combination and, in particular, the valuation of assets of the acquired company. When the absorbing company is an SA, a limited partnership with shares, or an SaRL, it is mandatory that an expert, *commissaire aux apports,* on the valuation of the net assets acquired, be appointed by the courts. They must report on the value of the land, property, plant and equipment and other assets and certify that the value of net assets acquired in the combination is at least equal to the capital increase.

Related Party Transactions

100. The French definition of related party transactions is more restrictive than that used in U.S. GAAP because usual transactions concluded under normal conditions are normally excluded. Disclosure of related party transactions in the *commissaire aux compte*'s special report to the shareholders is required of all contracts between the company and its directors, or parties related to the directors. (See paragraph 50 for comments on contents of special reports.)

Accounting for Contingencies

101. A loss must be accrued when it becomes probable and its amount can reasonably be estimated. Disclosure is required when there is at least a reasonable possibility that a loss may have been incurred.

Inflation Accounting

102. France has not yet developed a compulsory system of inflation accounting. The January 3, 1985, law on consolidated financial statements permits the presentation of supplemental consolidated financial statements adjusted for the effects of inflation using either the general purchasing power or current-cost method.

103. Companies may provide reserves in the statutory accounts only that are deductible for tax purposes, and that compensate

for the adverse effects of price increases, which are described below:

a. *Reserve for price fluctuations* (*provision pour fluctuation des cours*) is a tax-free reserve that may be created by companies that process certain raw materials (such as crude oil, cotton, aluminum, gold, silver) whose prices are determined on international markets. The maximum reserve amount is recalculated annually according to an official cost index published for each raw material. No deferred tax effect is recognized in the financial statements. Any decrease in the reserve is subject to taxation at the normal rates in the year in which the change takes place.
b. *Reserve for increased cost of inventories* (*provision pour hausse de prix*) is calculated as the increase in the cost of inventories (current year end less prior year end) in excess of 10 percent of the book value of inventories at the beginning of the current or previous year and is deductible in the current year. However, this reserve must be added back to taxable profits within six years.

104. Reserves provided in the statutory accounts to support tax deductions (such as reserves for inventory price increases and accelerated depreciation) must be reversed in the consolidated accounts. In consolidation, these reserves represent timing differences and result in deferred taxes.

105. Inflation has periodically been acute, and companies have been required to revalue all assets according to a general price index. The latest revaluation was in 1976–1977 when assets were revalued, tax-free, to market value and the surplus included in a revaluation reserve. Other revaluations are usually carried out for tax reasons. These revaluations are taxable and are made to absorb *losses carried forward,* the benefit of which is lost after a five-year period.

For Consolidated Financial Statements

106. Tangible fixed assets and investments may be revalued only when all elements of both the assets and the liabilities of *all* consolidated companies are revalued according to a common criteria. However, the assets of companies in hyper-inflationary

countries may be revalued even when the assets of other companies in the consolidated group are not revalued.

Presentation of Assets

107. There is no strict segregation of current and noncurrent assets on the balance sheet because headings are classified by nature rather than by liquidity. The distinction between current and noncurrent is only provided in the notes. However, noncurrent assets are shown primarily in the upper part of the balance sheet, which includes intangible assets, fixed assets, and financial assets (for example, investment in subsidiaries and loans related to investments, other loans and other investments, including, if any, the current portion thereof).

Receivables

108. As with all current assets, receivables are valued at the lower of cost or net realizable value. A provision for doubtful accounts may be set up provided it covers specific items and can be substantiated. General reserves calculated as a percentage of the total receivables or sales are generally not tax deductible but are allowable for financial statement purposes.

109. In exceptional circumstances, receivables may be stated at their present value. However, different positions have been expressed by professional bodies, and the question is still under study.

Inventories

110. Inventories are categorized as raw materials and consumables, work in progress, and finished goods. Inventories are included at the lower of cost or net realizable value. Tax regulations require the use of the FIFO method of determining cost, but a moving average cost method is also acceptable. LIFO is not permitted in financial statements (unless consolidated) or for tax purposes. The basis of valuation of inventories should be disclosed in the notes to the financial statements.

111. Inventory cost includes the purchase price of raw materials, direct production costs, and a reasonable proportion of overhead. Financial costs, research and development costs, com-

mercial costs, administrative costs, and warehousing costs are normally excluded except when the production cycle is more than one year.

Long-Term Contracts

112. Long-term contracts should be valued at cost. Any foreseeable losses on these contracts should be accrued. Profits may be accounted for under either the percentage-of-completion method or the completed-contract method with the completed-contract method being the predominant practice.

Fixed Assets

113. Fixed assets are stated at historical cost plus incidental costs, such as installation or reinstallation costs, repairs, and improvements prior to use.

114. Depreciation is calculated over the useful life of the assets. Depreciation of assets may be calculated using either the straight-line method or the declining-balance method (if tax rules permit its use, and for purchases of new assets having a useful life of at least three years). Other asset valuation provisions (*provisions pour dépréciation*) may also be made if there is reason to believe that an exceptional diminution in value of the asset has occurred.

115. Additional depreciation based on standard asset lives, as defined by the tax authorities, is charged to profit and loss for tax purposes in the statutory accounts only. However, because this does not correspond to the depreciation of assets over their useful economic lives, the additional depreciation is not deducted from the gross book amount of the fixed assets but instead is classified under special reserves (*provisions règlementeés*) in shareholders' equity. For the same reason, depreciation beyond normal requirements is shown on the statement of income as an exceptional item.

116. Fixed assets are presented on the balance sheet at their gross value less accumulated depreciation and amortization. The notes to the accounts disclose—

a. Methods used for calculating depreciation and provisions.

b. Amounts of depreciation and provisions, by category of fixed assets, noting separately those booked for tax purposes.

Depreciation expense for the period is shown separately on the income statement.

Capitalization of Interest Costs

117. Interest expense may be capitalized if it relates to borrowings incurred during the construction period to finance the construction or the manufacture of fixed assets or inventory, when the production cycle is longer than twelve months. For tax purposes, interest must be expensed as incurred.

Intangible Assets for Statutory Accounts and Consolidated Financial Statements

118. Intangible assets consist of organization costs, capitalized research and development, favorable leases, royalties, patents, licenses, trademarks and similar rights (including software costs and goodwill). Intangible assets are amortized over periods similar to fixed assets, although goodwill (*fonds de commerce*) is amortized over a five- to twenty-year period. For tax purposes, goodwill, trademarks, and leasehold rights cannot be amortized.

119. Financial statement disclosure requirements are similar to those for fixed assets.

Financial Leases

120. Statutory accounting in France does not permit capitalization of leased assets. All leases are treated as operating leases unless an option to purchase is exercised, at which time it is accounted for as an acquisition at the actual exercise price. The notes should disclose the following:

a. The fair value of the asset at the inception of the lease
b. The amount of rentals paid under financial leases, separately presenting on the income statement real estate and other leases
c. The current year's depreciation and accumulated depreciation calculated on a pro-forma basis assuming the asset had been purchased at the inception of the lease

d. The present value of rental commitments payable under financial leases analyzed between real estate and other leases indicating amounts payable: within one year; between years one and five; and amounts due after five years.

121. Capitalization of leases in consolidated statements is permissible if criteria similar to that in U.S. GAAP are met. Lease capitalization, however, is rarely done in France.

Liabilities

122. Liabilities are classified by function and the notion of current and noncurrent liabilities is not used. The distinction between long- and short-term is only provided in the notes and detailed as less than one year, more than one year and less than five years, and more than five years.

Notes Payable

123. The total amount of notes payable included in the balance sheet under different headings should be disclosed. Moreover, the amount covered by mortgages or other liens on assets should be disclosed for all headings.

Transfers to Reserves

124. Five percent of net income must be transferred annually to legal reserves until the reserve reaches a maximum of 10 percent of capital. This is presented as a charge to retained earnings in the statement of stockholders' equity.

Research and Development Costs

125. Generally, research and development costs must be expensed but they may be capitalized and amortized if the costs incurred are applied to a specific product or process and the marketability of the product or process is substantially assured. Capitalized research and development costs should be amortized over a period not exceeding five years. A longer period may be adopted in exceptional cases, but should not exceed the estimated economic life of the related product.

Extraordinary Items

126. Extraordinary items consist mainly of items outside the normal course of business that are unusual in nature and size and are not expected to recur in the foreseeable future. Regardless of the treatment of extraordinary items in the financial statements, there is a general obligation to disclose any information not included in the income statement and deemed significant to an understanding of the operating results of the business.

127. Disposal of a segment of a business must be accounted for according to the economic reasons that made it necessary. Costs of disposal, including estimated losses, should be treated as an extraordinary item in the income statement. Disclosure is required of the gain or loss on disposal of the segment, the financial conditions surrounding the disposal, and its operations to date.

Pensions

128. Retirement benefit plans in France are essentially compulsory state-sponsored plans based on an allocation principle under which contributions are collected from companies and then re-distributed to retirees. A certain number of companies have also developed their own defined benefit plans.

129. Following are the pension accounting rules:

a. Yearly contributions payable to the plan are charged to expense as accrued.

b. Future pension commitments may be recognized as a liability although there is no obligation for such recognition in law. Professional bodies (mainly OECCA and COB) have issued recommendations requiring that pension costs be recognized for eligible employees over the term of employment. Different actuarial methods of calculation are allowed, and each company may decide on the method adopted. The pension provision is not deductible for tax purposes.

c. Disclosure in the notes to the financial statements is required of the amount of pension commitments and additional retirement payments relating to retirement of members or associates of the staff or of members of the board of management. The total amount of retirement costs provided must be shown separately.

Income Taxes

130. Income taxes are accounted for on the accrual basis. There is ordinarily little difference between income or loss as determined for statutory accounting purposes and tax purposes. Timing differences generally arise because certain charges or provisions are disallowed as a deduction in determining taxable income (for example, reserves for accrued vacation pay are not tax deductible until paid and unrealized translation gains are not recognized for book purposes but included in taxable income). Deferred taxes on timing differences are not recorded (unless consolidated financial statements are prepared) but are disclosed in the notes to the financial statements. Disclosures must also include an analysis of the income tax provision between usual items (such as current or normal) and extraordinary items, and an indication of the extent to which net income and shareholders' equity have been affected by those entries that have been recorded for financial statement purposes as a result of the related tax treatment (additional depreciation and special reserves).

131. Comprehensive deferred tax accounting is required in consolidated financial statements under the law of January 3, 1985, although not permitted in the statutory accounts.

132. For income tax purposes, operating losses may be carried forward to offset income in the five succeeding years, except that operating losses resulting from depreciation may be carried forward indefinitely. The effect of the loss carryforward is included in the determination of net income in the period when utilized.

133. Operating losses of a given fiscal year may be offset against undistributed taxable profits of the three preceding years. Any resulting tax refund is treated as a credit, to be offset against the corporate income tax of the next ten years, and then any remaining credit may be reimbursed in cash. The tax effects of this credit are included in financial reporting income in the period realized.

Foreign Currency Translation

134. Foreign currency transactions are transactions denominated in a currency other than the entity's functional currency. The accounting for foreign currency transactions in France, which are not settled at year end, is as follows:

- Unlike U.S. accounting, if there is an unrealized profit from the difference between the rate applied when the transaction was recorded and the rate at year end, no profit is recorded in the income statement. This unrealized profit remains on the balance sheet in a translation difference account. It should be noted that for tax purposes, this profit must be recognized.
- If there is an unrealized loss, a translation difference asset must be provided, unless the company is able to hedge certain transactions. When unrealized profit and loss are in the same currency at the same maturity date, the translation adjustments may be offset, and thus no provision is needed. If there are no hedge items, then, in addition to the recognition of an asset, the unrealized loss is recognized in the income statement and a corresponding provision recorded on the balance sheet.

135. Translation of financial statements prepared in foreign currencies include—

> *Statutory accounts.* Investments in subsidiaries and other affiliates are generally stated at cost in the financial statements of the parent company and are converted to French francs at the date of the original investment. The operations of foreign branches denominated in foreign currencies may be measured either in French francs, using the rate of exchange at the transaction date (in this case, the French franc, meaning the reporting currency, is the functional currency); or in the local currency, with translation at year end using the current rate (in this case the local currency is the functional currency).

The PCG encourages companies to use the first alternative above, and although this method is the most commonly used, both methods enjoy widespread usage. The PCG does not provide clear guidance for the translation of the income statement, nor for the accounting treatment of translation differences (PCG, page II-12 and page II-121). Practice is mixed, with both closing and average exchange rates used for the translation of the income statement. Practice is similarly mixed for the accounting treatment of translation differences, with such differences recorded either as a component of income or of equity. However, if a company prepares consolidated financial statements, it will commonly use the same accounting treatment in its statutory accounts as it uses for the consolidated financial statements.

Consolidated financial statements. The PCG permits both the temporal (as prescribed in FASB Statement No. 8) and the current-rate methods of foreign currency translation. The methods are as follows:

Items	Temporal Method	Current-Rate Method
Balance sheet		
Nonmonetary items	HR	CR
Monetary items	CR	CR
Equity	HR	HR
Income statement		
Depreciation or provisions	AR or HR	CR or AR
Other expenses	AR	CR or AR
Income	AR	CR or AR

Legend
HR = Historical rate
CR = Current rate
AR = Average rate

The PCG permits subsidiaries located in hyper-inflationary countries to use an alternative method.

136. The temporal method is considered more appropriate when the foreign entity's operations are an extension of the parent company's operations, and the current-rate method is more appropriate when a foreign entity is economically and financially independent of the parent company and other consolidated subsidiaries. However, companies may select either method regardless of their specific circumstances.

137. In most circumstances, using the temporal method for consolidated financial statements will produce the same results as when the French franc is both the reporting and the functional currency for translating statutory accounts. Similarly, using the

current-rate method for consolidated financial statements corresponds to a situation when the local currency is the functional currency and the French franc is the reporting currency for statutory accounts purposes.

138. When the temporal method is used, the translation difference is recorded in the income statement; when the current-rate method is used, the translation difference is reported in stockholders' equity in a specific account called *translation difference.*

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

Comparison With U.S. Corporate Entities

139. The same forms of business organizations existing in the United States are found in France though the rules that apply to the conduct of each business may be different. Corporate entities are principally governed by the law of July 24, 1966, and the decree of March 23, 1967, as amended.

140. Following are the most common forms of corporate entities in France:

a. The *Société Anonyme* or SA (corporation) in which the shareholders' liability is limited to their required capital contribution. The SA's shares are freely transferable and negotiable. All SAs must have at least seven shareholders who may be either French or foreign individuals or legal entities. There is no legal maximum number of shareholders. The share capital must be greater than FF 250,000, or FF 1,500,000, if use is made of the public capital market either by being quoted on stock exchanges or by using financial institutions for the placing of shares.

b. The *Société à Responsabilité Limitée* or SaRL (limited liability company) has the attributes of both a partnership and corporation. It has limited liability (similar to a corporation) and limitations on interest-share ownership (similar to a partnership). The associates of a SaRL can be held personally liable for the company's debts in excess of their capital investment only if they agree to be personally liable (by giving a guarantee). A SaRL must have a minimum of two but not more than fifty members. Minimum capital is FF 50,000.

c. The *Société en Commandite par Actions* or SCA (limited partnership with shares) in which shares are transferable similar to that of SAs. It has two classes of partners: general partners (*commandites*) who are jointly and severally liable, and limited partners (*commanditaires*) who have only a limited responsibility.

Frequency of Shareholders' Meetings

141. There are two types of general meetings—ordinary and extraordinary. At least one ordinary meeting must be held annually, no later than six months after the end of the fiscal year, to approve the financial statements. The agenda of an ordinary general meeting contains matters such as the election of directors, and the election of statutory auditors every six years.

142. An extraordinary meeting must be called for capital increases or reductions, changes in the articles of incorporation, and approval of mergers and similar transactions.

Liabilities of Incorporators, Shareholders and Board Members

143. A shareholder is only liable for any amount unpaid on his or her shares. Directors are at risk for—

a. Civil liability in cases of violation of legal or regulatory duties, violation of a clause in the articles of association, or breach of the management's duty of care. The 1966 law permits the tribunal to allocate a different proportion of damages to different directors depending on their degree of fault.

b. Criminal liability when they knowingly distribute illegal dividends, use fraudulent accounting records, knowingly publish an inaccurate balance sheet to defraud shareholders, appropriate corporate funds for their own use, or use their powers contrary to the interest of the company or to benefit another company in which they have an economic interest.

Legal Reserves

144. Under the 1966 law (until a maximum 10 percent of the share capital is legally reserved), 5 percent of each year's profit, less losses carried forward, must be retained in legal reserve. Share premium from issuing shares for cash (*primes d'emission*) or arising by the issue of shares in absorbing another business (*primes de fusion*) may be used to allocate legal reserves.

Branch of a Foreign Company

145. A branch of a foreign enterprise is not recognized under French law as a separate legal entity. It is subject to income tax on the results of its operations in France. It is managed by one or more managers (*gérants*), whose powers are defined by the foreign head office.

146. A subsidiary may be organized as a French corporation having a separate legal identity, and therefore, subject to the same legal and tax treatments as any domestic French company. To create a branch in France, it is necessary to—

a. Obtain an authorization of direct investment from the Treasury Department. Two types of procedures apply according to the origin of the investor. Members of EEC countries benefit from simplified formalities.

b. File with the clerk of the Commercial Court two copies, translated into French, of the articles of incorporation of the foreign-head-office-company.

c. File the following documents with the Commercial Register:
   - A commercial lease or a valid proof of address
   - Commercial cards (giving the right to exercise a merchant activity) for the chairman of the board of directors of the non-EEC foreign-head-office-company and for the manager of the branch, if he or she is not an EEC national (nationals of EEC countries do not need a commercial card)
   - Declaration to tax and other authorities

147. No minimum capital is required to create a branch. However, before delivering the authorization of direct investment,

the Treasury checks that the amount of invested capital is sufficient to cover the branch's capital expenditure and operating expenses for between three and six months.

148. Accounting requirements are those applicable to SaRLs, and no statutory audit is required (except for branches conducting banking activities).

Partnership Entities

149. A partnership is a legal entity under French law. In the absence of a contrary provision in the articles of incorporation, partners have the power to incur liabilities on behalf of the other partners, to manage the partnership, and to dissolve it. In addition to the normal basis for dissolution of a company, a partnership will be dissolved upon the death, incapacity, or bankruptcy of a partner, unless otherwise provided in the articles of incorporation.

150. Requirements for maintaining books and records and for designating a statutory auditor are similar to those applicable to SaRLs. Following are the two basic types of partnerships:

a. A *Société en Nom Collectif* (SNC) is a general partnership in which all partners are jointly and severally liable for an unlimited time for the debts and obligations of the partnership. Profits and losses of a SNC are shared in accordance with the partnership agreement.

b. A *Société en Commandite Simple* (SCS) is a limited partnership without shares in which there are two classes of partners: general partners (*commandites*) and limited partners (*commanditaires*). In the SCS, limited partners' interests may only be transferred with the consent of all partners.

Other Forms of Business Organization

Entreprise Individuelle

151. In an *entreprise individuelle* (sole proprietorship), the business is managed under the sole responsibility of an individual who is personally liable for business debts to the extent of all his business and personal assets.

Entreprise Unipersonnelle

152. *Entreprise unipersonnelle à responsabilité limitée* or EURL (individual limited liability company) was created by a law issued in July 1985 to limit the risks encountered by individual businessmen when they practice as sole proprietors. The EURL generally follows normal SaRL rules.

Groupement d'Intérêt Économique

153. A *groupement d'intérêt économique* or GIE (economic interest grouping) is essentially a means of consolidating certain services and equipment among enterprises for economic reasons (such as research activities, market studies, common advertising campaign). Members of a GIE are jointly and severally liable for its debts. Its activities must be limited to the same general line of business as its members or an extension of their business activity.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON THE STOCK EXCHANGE

154. The requirements for public sales and listing securities on the stock exchange are mainly contained in the recommendations issued by the *Commission des Opérations de Bourse.*

Registration Requirements for Public Sale

155. A public sale of securities (*offre publique de vente*) may only concern already quoted securities. The following conditions must be fulfilled:

a. Prior approval must have been obtained from the brokers' professional association. This association examines the conditions of the offer (that must represent at least 10 percent of the share capital and have a value of at least FF 5 million, *or* 5 percent of the share capital and a value of FF 10 million) and, in certain instances, may also ask for some guarantees by the offerer.

b. Preparation of a prospectus (*note d'information*) must be approved by the COB. It includes all relevant information and financial information (financial statements, significant financial information, operating results, and consolidated statements) of the last five years. This information should be examined by the company's statutory auditor.

156. Once approval is granted, the same rules regarding publicity apply as previously stated.

Requirements for Listing Securities on the Stock Exchange

157. In order for securities to qualify to be quoted on the French Stock Exchange, a company must file a request with both the *Commission des Opérations de Bourse* and the brokers' professional association (*Chambre syndicale des agents de change*). To qualify, the company must show that it is both profitable and expanding, and of sufficient interest to the public. The company must offer to the public at least 25 percent of its share capital, representing at least 80,000 shares.

158. The following documents must be prepared:

a. For filing with the brokers' professional association, the company must provide information on the economic and financial activities of the company, details (form and value) of the proposed shares, and a copy of the articles of association of the company. The brokers' professional association examines the proposed listing and submits its conclusions to the COB.

b. For filing with the COB, an admission request (*demande d'admission*) the company must provide the required details (number, origin, price, etc.) of the proposed shares and a draft prospectus including all information relating to the operation, the issuer, its activity, its board of directors, direction and control, and its recent history and forecasts. Historical financial information must also be included, showing the financial statements of the last three years, a summary of significant financial information and results of operations of the last five years. Consolidated information must also be presented. Financial information, including financial statements, must be examined by the company's statutory auditors.

159. The COB may approve listing of the shares on the quoted market, on the Unlisted Securities Market (*USM* or *second marché*) or on the over-the-counter market. Medium size companies that do not comply with requirements to be quoted on the stock exchange may ask to be quoted on the Unlisted Securities Market. They must offer to the public at least 10 percent of their share capital and arrange to comply, within a three-year period, with certain requirements regarding quality of reporting. These requirements also apply to companies that have securities listed on the over-the-counter market.

160. Once approval has been received, the company publishes a notice of sale in the *Bulletin d'Annonces Legal Obligatoires* (BALO), announcing the availability of the prospectus. All prospective buyers must have the opportunity to obtain the prospectus.

161. Press releases and press conferences may be organized to publicize the offering. However, no information may be given at these meetings unless already contained in the prospectus.

Filing of Annual Financial Reports and Other Significant Information

162. Publicly-traded companies must publish in the *Bulletin d'Annonces Legales Obligatoires*—

a. Within forty-five days of the end of each quarter, the total revenues (excluding VAT) for that quarter and for each of the preceding quarters of the year and the corresponding figures for the preceding year. Consolidated revenues must be presented.

b. Within four months of the end of the first six months, a summarized income statement (*tableau d'activité et de résultat*) together with a management report on the operations of the first six months.

c. Within four months of the year end and at least fifteen days before the annual shareholders' meeting—
   - An unaudited draft of the annual financial statements.
   - The proposed resolution for allocation of the profits between dividends, legal and other reserves.
   - Consolidated financial statements (when available).

d. Within forty-five days of the shareholders' meeting and in case of changes in the information previously published—
- Final annual and consolidated financial statements.
- Opinion of the statutory auditors.
- Final allocation of profits approved by the shareholders. If no changes are made, the announcement must indicate that the financial statements were approved together with the opinion given by the *commissaire aux comptes.*

163. This information is also required for subsidiaries with total assets of over FF 20 million or investments with a market value of over FF 2 million.

TAXES

Principal Types

There are four types of taxes in France.

Taxes on Income

164. Taxes on income comprise—

a. Corporate income tax based on taxable profit of companies established in France. A standard rate of 42 percent applies as of January 1, 1988 (45 percent in 1987; 50 percent in 1986). Reduced rates of 15 percent and 25 percent are applicable to long-term capital gains.

b. Personal income tax, the calculation of which is based on a system of brackets (*tranches*) with rates ranging from 0 to 56 percent for 1987 revenues.

Taxes on Transactions

165. Taxes on transactions comprise—

a. VAT (sales tax), which varies from 5.5 percent to 33.33 percent according to the nature of the item to which it applies.

b. Registration taxes paid on transactions such as formation, reorganization of companies, or transfer of real estate property. The basic rate is 11.4 percent to which local taxes are added. A reduced rate of 1 percent or a fixed fee may apply to special transactions.

c. Insurance tax, which is payable by the insurer on insurance contracts with rates ranging from 0.25 percent to 30 percent.

d. Inheritance taxes (*droits de succession*), which are payable based on the value of a person's estate having taxable value in France. Tax rates are progressive and based on the relationship of the beneficiary to the decedent.

e. Customs duties and taxes.

Payroll Taxes

166. Payroll taxes are paid by employers and are generally based on gross wages and salaries. They include—

a. Salary tax (*taxe sur les salaires*), which only applies if the value added tax is not applicable.

b. Apprenticeship tax (*taxe d'apprentissage*), with a rate of 0.6 percent.

c. Employee training tax (*taxe de formation professionnelle*) at a rate of 1.1 percent.

c. Housing construction tax (*taxe de construction*) at a rate of 0.9 percent.

d. Social Security, pension and unemployment contributions, which are paid to different governmental agencies.

Local Government Taxes

167. Local government taxes vary according to the revenue requirements of the local authorities (region, department or municipality). The principal local government tax is the business tax (*taxe professionnelle*). Its amount is based on the rental value of fixed business assets (for example, property, plant and equipment) and total amount of wages paid.

Tax Returns

168. Corporation tax is paid in installments during the year based on the previous year's taxable income and adjusted after the tax return is filed. The annual corporate income tax return is the sole responsibility of the taxpayer who may use outside

assistance for preparation. The corporate income tax return must be filed within three months following the close of each fiscal year.

169. The same set of financial statements is used for accounting and tax requirements.

APPENDIX A

Publications of the *Compagnie Nationale des Commissaires aux Comptes*

The following translated publications relating to auditing have been issued:

Members' handbook

- *Normes et commentaires des normes.* Basic information for the conduct of the audit.
- *Encyclopédie des contrôles comptables.* Best current practice concerning all aspects of auditing.
- *Études juridiques.* Legal aspects of the audit of the *commissaires aux comptes.*

Notes d'informations

- General report (1985)
- Special report (1982)
- Evaluation of internal control (1984)
- Direct confirmation (1984)
- Inventory observation (1984)
- Early warning procedure (1985)
- Analytical review (1986)
- Going-concern principle (1987)
- Legal controls (1987)
- Legal forecasts documentation (1987)

Standards (contained in the *Normes et commentaires des normes*)

Summary

Introduction	*General Features of Engagements*
Chapter 1	*Code of Duties and Professional Care*
Chapter 2	*Statutory Audit Standards*
Chapter 3	*Specific Aspects Standards*
Chapter 4	*Other Legal Engagement Standards*

APPENDIX B

Publications of the *Ordre des Experts-Comptables et des Comptables Agréés*

Following are the three types of translated recommendations issued by the OECCA:

Accounting Principles

Number	Title	Issued
1.01	*Provisions and Reserves* (superseded in 1986)	1965
1.02	*Accounting for VAT* (superseded in 1985)	1966
1.03	*Depreciation of Fixed Assets**	1967
1.04	*Accounting for Capital Loss and Capital Gain* (superseded in 1985)	1967
1.05	*Accounting Information to be Prepared* (superseded in 1985)	1968
1.06	*Accounting for Commitments**	1968
1.07	*Statement of Changes in Financial Position**	1969
1.08	*Year-End Inventory**	1969
1.09	*Matching of Costs and Revenues**	1969
1.10	*Accounting for Bank Loans**	1971
1.11	*Losses on Long-Term Contracts*	1981
1.12	*Post Balance Sheet Events*	1982
1.13	*Accounting for Receivables With No Interest Cost**	1982
1.14	*Accounting for Business Combinations*	1984
1.15	*Changes in Accounting Principles*	1984

* The publication is under review, which means its application to financial data is suspended and thus it is no longer compulsory. It has not, as yet, been formally superseded.

1.16	*Accounting for Pension Costs and Other Similar Advantages in the Employer's Financial Statements*	1985
1.17	*Reporting on Forecasts*	1985
1.18	*Provisions*	1986
1.19	*Matching of Financial Costs and Revenues*	1987
1.20	*Accounting for Income Tax*	1987

Engagements

Number	*Title*	*Issued*
	Accounting Work	
21.01	*Preparation of the Financial Statements by the External Accountant*	1984
21.02	*Due Care in Preparing the Financial Statements*	1984
21.03	*Engagement Letter and Terms and Conditions of Engagements*	1984
21.04	*Reporting on the Work Carried Out*	1984
21.05	*Characteristics of Accounting Work in an EDP Environment*	1985
	Contractual Auditing	
22.01	*Contractual Auditing Standards**	1966
22.02	*Auditing of Stocks and Work in Progress**	1979
22.03	*Direct Confirmation**	1970
22.04	*Auditing of Investments**	1975
22.05	*Auditing of Consolidated Accounts**	1973
22.06	*Auditing of Business Combinations**	1973
22.07	*EDP Auditing:* *1—General Principles* *2—Effect of an EDP Environment on the Study and Evaluation on the Internal Control System* *3—Computer-Assisted Audit Techniques*	1985
22.08	*Materiality**	1976
22.09	*Audit of Overheads* (superseded in 1985)	1978
22.10	*Confirmation Request to Banks*	1979

* See note on page 57.

Number	*Title*	*Issued*
	EDP	
23.01	*Control of EDP Sub-contracts*	1984
23.02	*Attendance at EDP Implementation:* *1—Participation of the External Accountant* *2—Engagement Letter* *3—Due Care* *4—Reporting on Work Carried Out*	1984
23.03	*Evaluation of EDP Systems:* *1—Participation of the External Accountant* *2—Engagement Letter* *3—Due Care* *4—Reporting on Work Carried Out*	1985
	Other Engagements	
24.01	*Relations with Labor Management Board*	1986
24.02	*Control of Forecasts*	1986

Professional Behavior

Number	*Title*	*Issued*
3.01	*General Principles*	1985
3.02	*Advertisement Guidelines*	1986
3.03	*Working Files of the External Accountant*	1987

APPENDIX C

Illustrative Joint Auditors' Report and Consolidated Financial Statements

The following financial statements are taken from the 1986 annual report of the Compagnie de Saint-Gobain. The statements presented are not intended to include all information that French law requires. The statements do not reflect the new auditing standards, which are applicable for audits of years beginning January 1, 1988.

JOINT AUDITORS' REPORT

We have examined the consolidated balance sheets of Compagnie de Saint-Gobain and its subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of income and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Compagnie de Saint-Gobain and its subsidiaries at December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for the years ended, in conformity with accounting principles formulated by the International Accounting Standards Committee consistently applied.

BEFEC, MULQUIN & ASSOCIÉS
INTERNATIONALLY BDO
Statutory Auditors
Represented by:
Paul-Carlos Mulquin
Ramon Gonzalez

GONZAGUE LAURAS
Statutory Auditor

Paris, May 21, 1987

PETITEAU SCACCHI & ASSOCIÉS
MEMBER OF PRICE WATERHOUSE
Statutory Auditors
Represented by:
Gérard Petiteau
Joël Romei

PRICE WATERHOUSE
LONDON

CONSOLIDATED STATEMENTS OF INCOME
At December 31
(in thousands of French francs)

	1986	*1985*
Net sales	77,724,404	67,888,275
Cost of sales, selling, general and administrative expenses	(67,961,588)	(59,355,466)
Gross margin before depreciation	9,762,816	8,532,809
Depreciation and amortization (Note 11)	(3,517,214)	(3,142,510)
Other provisions (Note 3)	(657,525)	(379,785)
Interest and other financial charges, net (Note 4)	(1,725,485)	(2,166,281)
Net profits on exchange (Note 5)	54,845	285,806
Operating income	3,917,437	3,130,039
Reorganization and other costs (Note 6)	(991,062)	(1,316,835)
Dividend income	97,134	87,010
Profit on sale of non-current assets (Note 7)	9,656	534,577
Exceptional items (Note 8)	235,881	—
Provision for income taxes (Note 9)	(1,342,792)	(963,896)
Net operating income from consolidated companies	1,926,254	1,470,895
Group's share in net results of associated companies (Note 13)	124,033	52,778
Net income before minority interests	2,050,287	1,523,673
Minority interests in consolidated companies	(599,640)	(771,099)
Net income before remuneration of non-voting participating securities	1,450,647	752,574

	1986	*1985*
Remuneration of non-voting participating securities (Note 17)	(189,942)	(205,045)
Net income after remuneration of non-voting participating securities	**1,260,705**	**547,529**
Earnings per share after remuneration of non-voting participating securities	31.65	15.28

CONSOLIDATED BALANCE SHEETS
Assets at December 31
(in thousands of French francs)

	1986	*1985*
Fixed assets (Note 11)		
Property, plant and equipment	44,397,377	42,294,267
Less depreciation	(25,478,584)	(23,575,494)
	18,918,793	18,718,773
Goodwill, deferred charges and other assets		
Goodwill (Note 12)	43,681	1,491,571
Other intangible assets	142,994	110,517
Deferred charges (Note 10)	373,797	491,885
Deposits, long-term loans receivable and amounts receivable from the State	1,464,673	1,241,107
	2,025,145	3,335,080
Investments		
Investments in associated companies (Note 13)	193,094	1,321,862
Trade investments	2,484,985	1,601,583
	2,678,079	2,923,445
Total non-current assets	23,622,017	24,977,298
Inventories and work in progress (Note 15)		
Work in progress	9,346,944	10,498,150
Inventories	9,508,876	9,518,234
	18,855,820	20,016,384
Current assets		
Trade accounts receivable	15,365,771	16,118,289
Trade bills receivable	3,107,279	2,739,629
Other accounts receivable	5,829,005	5,361,120
Short-term loans	1,693,733	2,016,935
Marketable securities (Note 16)	6,737,955	1,965,633
Bank balances and cash	2,735,620	2,998,864
	35,469,363	31,200,470
Total current assets	54,325,183	51,216,854
Total assets	**77,947,200**	**76,194,152**

CONSOLIDATED BALANCE SHEETS
Liabilities and Shareholders' Equity at December 31
(in thousands of French francs)

	1986	*1985*
Shareholders' equity		
Share capital	4,383,628	3,583,628
Share premium	2,269,639	669,639
Non-voting participating securities (Note 17)	1,842,313	1,677,511
Translation adjustments	(2,360,676)	(1,804,043)
Retained earnings	6,582,041	5,469,724
Net equity (Group)	12,716,945	9,596,459
Minority interests	3,984,600	3,711,044
Total net equity	16,701,545	13,307,503
Deferred taxes and other provisions		
Deferred taxes	370,771	110,776
Provisions for pensions (Note 18)	1,427,954	1,256,324
Other provisions	4,734,661	3,826,101
	6,533,386	5,193,201
Long-term debt (Note 19)		
Bond indebtedness	2,672,667	2,148,753
Other debt due after more than one year	11,281,841	12,607,458
	13,954,508	14,756,211
Total long-term debt and shareholders' equity	37,189,439	33,256,915
Current liabilities		
Advances and progress payments	11,222,077	11,439,030
Trade accounts payable	6,486,448	7,598,509
Trade bills payable	3,180,200	2,428,487
Other accounts payable and accrued liabilities	10,275,347	9,914,197
Short-term debt	4,030,808	7,401,486
Bank overdrafts	5,562,881	4,155,528
Total current liabilities	40,757,761	42,937,237
Total liabilities and shareholders' equity	**77,947,200**	**76,194,152**

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(in thousands of French francs)

RESOURCES	*1986*	*1985*
Resources from operations		
Net operating income	1,926,254	1,470,895
Gains on disposal of long-term assets	(9,656)	(534,577)
Exceptional items (Note 8)	(235,881)	—
	1,680,717	936,318
Depreciation and amortization (Note 21)	3,616,999	3,202,378
Dividends from associated companies	65,050	50,560
Resources from operations	5,362,766	4,189,256
Sales of long-term assets		
Property, plant and equipment	526,692	432,882
Investments	2,718,529	735,100
	3,245,221	1,167,982
Other sources		
Issue of non-voting participating securities in French francs (Note 17)	34,688	49,050
Issue of non-voting participating securities in Ecu (Note 17)	130,114	149,337
Issue of investment certificates	2,400,000	—
Minority interests in share capital increases of subsidiaries	87,166	180,425
Provision for impairment in value of investments (Note 3)	91,485	81,784
Increase in deferred taxes, provisions for pensions and other provisions	964,556	662,369
Increase in long-term debt	—	529,115
	3,708,009	1,652,080
Total resources	**12,315,996**	**7,009,318**

USES	*1986*	*1985*
Expenditure on long-term assets		
Property, plant and equipment (Note 11)	3,838,435	4,116,028
Investments in consolidated and associated companies	347,930	294,140
Investments in unconsolidated companies	495,172	358,383
	4,681,537	4,768,551
Other uses		
Dividends paid	93,174	60,922
Payment to Caisse Nationale de l'Industrie	55,214	39,142
Remuneration of non-voting participating securities in French francs (Note 17)	96,832	124,297
Remuneration of non-voting participating securities in Ecu (Note 17)	93,110	80,748
Minority interests in dividends paid by subsidiaries	152,697	116,433
Increase in intangible assets and deferred charges	50,344	136,769
Increase in deposits, long-term loans receivable, State	355,029	122,034
Decrease in long-term debt	1,142,029	—
	2,038,429	680,345
Effect of changes in the composition of the consolidated Group	**(446,778)**	**145,671**
Net effect on working capital of exchange rate fluctuations	**755,003**	**1,575,205**
Changes in working capital		
Increase (decrease) in inventories	(1,160,564)	8,423,553
Increase in other current assets	4,268,893	7,426,928
(Increase) decrease in current liabilities	2,179,476	(16,010,935)
	5,287,805	(160,454)
Total uses	**12,315,996**	**7,009,318**

CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of French francs, except for numbers of shares)

	Number of shares		*Capital*						
	Ordinary shares	*Investment certificates*	*Ordinary shares*	*Investment certificates*	*Non-voting participating securities (Note 17)*	*Share premium*	*Translation adjustments*	*Retained earnings*	*Share-holders' equity*
Balance at December 31, 1984	35,836,280	**	3,583,628	—	1,479,124	669,639	9,783	5,022,259	10,764,433
Issue of non-voting participating securities in French francs	—	—	—	—	49,050	—	—	—	49,050
Issue of non-voting participating securities in Ecu	—	—	—	—	149,337	—	—	—	149,337
Net income for 1985 before remuneration of non-voting participating securities	—	—	—	—	—	—	—	752,574	752,574
Dividends paid	—	—	—	—	—	—	—	(60,922)	(60,922)
Payment to Caisse Nationale de l'Industrie	—	—	—	—	—	—	—	(39,142)	(39,142)
Remuneration of non-voting participating securities in French francs	—	—	—	—	—	—	—	(124,297)	(124,297)
Remuneration of non-voting participating securities in Ecu	—	—	—	—	—	—	—	(80,748)	(80,748)
Translation adjustments for the year	—	—	—	—	—	—	(1,813,826)	—	(1,813,826)
Balance at December 31, 1985	35,836,280	—	3,583,628	—	1,677,511	669,639	(1,804,043)	5,469,724	9,596,459

Issue of investment certificates	(1,000,000)	9,000,000	(100,000)	900,000	—	1,600,000	—	—	2,400,000
Issue of non-voting participating securities in French francs	—	—	—	—	34,688	—	—	—	34,688
Issue of non-voting participating securities in Ecu	—	—	—	—	130,114	—	—	—	130,114
Net income for 1986 before remuneration of non-voting participating securities	—	—	—	—	—	—	—	1,450,647	1,450,647
Dividends paid	—	—	—	—	—	—	—	(93,174)	(93,174)
Payment to Caisse Nationale de l'Industrie	—	—	—	—	—	—	—	(55,214)	(55,214)
Remuneration of non-voting participating securities in French francs	—	—	—	—	—	—	—	(96,832)	(96,832)
Remuneration of non-voting participating securities in Ecu	—	—	—	—	—	—	—	(93,110)	(93,110)
Translation adjustments for the year	—	—	—	—	—	—	(556,633)	—	(556,633)
Balance at December 31, 1986	34,836,280	9,000,000	3,483,628	900,000**	1,842,313	2,269,639	(2,360,676)	6,582,041	12,716,945

** 8,000,000 investment certificates were issued on June 27, 1986 and at the same time 8,000,000 voting certificates were created. A further 1,000,000 investment certificates were obtained by splitting 1,000,000 ordinary shares into investment certificates and voting certificates.
In respect of 1986, a dividend of FF 351 million will be paid in 1987.

NET SALES
(in millions of French francs)

	1986			1985		
	Sales by area or division	*Sales to other group areas or divisions*	*Net sales*	*Sales by area or division*	*Sales to other group areas or divisions*	*Net sales*
By geographical area						
France	45,924	(795)	45,129	35,044	(682)	34,362
Germany	10,264	(369)	9,895	9,227	(346)	8,881
USA	8,217	—	8,217	10,764	—	10,764
Other countries	14,976	(492)	14,484	14,370	(489)	13,881
	79,381	**(1,656)**	**77,725**	**69,405**	**(1,517)**	**67,888**
By division						
Flat Glass	9,705	(4)	9,701	9,349	(2)	9,347
Insulation	10,232	(60)	10,172	10,620	(69)	10,551
Fibre-Reinforcements	2,433	(48)	2,385	2,252	(40)	2,212
Containers	6,982	(24)	6,958	7,227	(33)	7,194
Fibre-Cement	5,135	—	5,135	6,666	(6)	6,660
Pipe & Machinery	9,688	(284)	9,404	9,502	(98)	9,404
Industrial Ceramics	1,627	(118)	1,509	1,394	(111)	1,283
Paper-Wood	7,890	(50)	7,840	7,849	(52)	7,797
Contracting & Services	24,659	(38)	24,621	13,473	(33)	13,440
	78,351	**(626)**	**77,725**	**68,332**	**(444)**	**67,888**

OPERATING INCOME
(in millions of French francs)

	1986	*1985*
By geographical area		
France	686	161
Germany	408	78
USA	678	679
Other countries	2,145	2,212
	3,917	**3,130**
By division		
Flat Glass	1,213	784
Insulation	1,129	524
Fibre-Reinforcements	133	169
Containers	746	739
Fibre-Cement	413	710
Pipe & Machinery	480	155
Industrial Ceramics	281	248
Paper-Wood	223	63
Contracting & Services	(399)	(133)
Other	(302)	(129)
	3,917	**3,130**

NET OPERATING INCOME
(in millions of French francs)

	1986	*1985*
By geographical area		
France	(87)	(502)
Germany	238	18
USA	361	401
Other countries	1,414	1,554
	1,926	**1,471**
By division		
Flat Glass	758	372
Insulation	525	(145)
Fibre-Reinforcements	81	102
Containers	370	309
Fibre-Cement	204	450
Pipe & Machinery	213	83
Industrial Ceramics	168	143
Paper-Wood	23	(42)
Contracting & Services	(532)	(264)
Other	116	463
	1,926	**1,471**

NET INCOME BEFORE MINORITY INTERESTS
(in millions of French francs)

	1986	*1985*
By geographical area		
France	37	(461)
Germany	238	18
USA	361	401
Other countries	1,414	1,566
	2,050	**1,524**
By division		
Flat Glass	758	372
Insulation	525	(133)
Fibre-Reinforcements	81	102
Containers	370	309
Fibre-Cement	204	450
Pipe & Machinery	213	83
Industrial Ceramics	168	143
Paper-Wood	23	(42)
Contracting & Services	(408)	(223)
Other	116	463
	2,050	**1,524**

NET INCOME
(before remuneration of non-voting participating securities)
(in millions of French francs)

	1986	*1985*
By geographical area		
France	42	(464)
Germany	229	27
USA	203	228
Other countries	977	962
	1,451	**753**
By division		
Flat Glass	606	139
Insulation	352	(275)
Fibre-Reinforcements	73	92
Containers	228	200
Fibre-Cement	88	257
Pipe & Machinery	189	6
Industrial Ceramics	137	117
Paper-Wood	12	(62)
Contracting & Services	(382)	(205)
Other	148	484
	1,451	**753**

DEPRECIATION AND AMORTIZATION
(in millions of French francs)

	1986	1985
By geographical area		
France	1,652	1,236
Germany	483	460
USA	429	473
Other countries	953	973
	3,517	**3,142**
By division		
Flat Glass	800	822
Insulation	591	555
Fibre-Reinforcements	204	162
Containers	320	313
Fibre-Cement	206	269
Pipe & Machinery	341	335
Industrial Ceramics	53	48
Paper-Wood	298	250
Contracting & Services	701	367
Other	3	21
	3,517	**3,142**

RESOURCES FROM OPERATIONS
(in millions of French francs)

	1986	1985
By geographical area		
France	1,470	578
Germany	700	262
USA	811	873
Other countries	2,382	2,476
	5,363	**4,189**
By division		
Flat Glass	1,540	1,098
Insulation	1,150	447
Fibre-Reinforcements	286	269
Containers	719	671
Fibre-Cement	468	734
Pipe & Machinery	561	218
Industrial Ceramics	219	194
Paper-Wood	336	204
Contracting & Services	(40)	70
Other	124	284
	5,363	**4,189**

CAPITAL EXPENDITURE ON PLANT AND EQUIPMENT
(in millions of French francs)

	1986	*1985*
By geographical area		
France	2,034	1,709
Germany	558	642
USA	295	748
Other countries	951	1,017
	3,838	**4,116**
By division		
Flat Glass	649	833
Insulation	549	753
Fibre-Reinforcements	244	353
Containers	441	527
Fibre-Cement	209	296
Pipe & Machinery	505	433
Industrial Ceramics	80	64
Paper-Wood	366	497
Contracting & Services	791	348
Other	4	12
	3,838	**4,116**

TOTAL INVESTMENT OUTLAY
(in millions of French francs)

	1986	*1985*
By geographical area		
France	2,523	2,086
Germany	704	746
USA	353	748
Other countries	1,102	1,189
	4,682	**4,769**

NET ASSETS EMPLOYED
(in millions of French francs)

	1986	*1985*
By geographical area		
France	5,852	3,221
Germany	1,037	892
USA	1,960	2,131
Other countries	3,868	3,353
	12,717	**9,597**

IDENTIFIABLE ASSETS
(in millions of French francs)

	1986	*1985*
By geographical area		
France	51,144	49,381
Germany	8,345	7,066
USA	5,391	5,983
Other countries	13,067	13,764
	77,947	**76,194**
By division		
Flat Glass	11,065	9,517
Insulation	7,428	7,024
Fibre-Reinforcements	2,468	2,244
Containers	4,968	4,936
Fibre-Cement	3,458	3,762
Pipe & Machinery	7,042	6,464
Industrial Ceramics	1,262	854
Paper-Wood	4,970	5,232
Contracting & Services	26,553	29,341
Other	8,733	6,820
	77,947	**76,194**

ACCOUNTING PRINCIPLES AND POLICIES

General

The Group's consolidated financial statements are prepared in accordance with international accounting principles formulated by the International Accounting Standards Committee. These principles, as applied by the Group, are similar to the accounting principles generally accepted in the United States of America, except for the method of translating the accounts of subsidiaries operating in highly inflationary countries.

The accounts of Group companies have been restated before the consolidation process to conform with these principles.

The accounting principles will be modified in 1988 to conform with the new French legislation concerning consolidated financial statements (law dated January 3, 1985 and the related decrees dated February 17, 1986 and December 9, 1986).

Principles of Consolidation

The consolidated financial statements include the accounts of all significant subsidiaries controlled directly or indirectly by Compagnie de Saint-Gobain.

Associated companies are those in which the Group is in a position to exercise significant influence and holds between 20 percent and 50 percent of the equity. These are carried at cost plus the Group's share of their undistributed net income since acquisition less amortization of goodwill.

Goodwill, representing the difference between the purchase price of consolidated subsidiaries and the underlying net assets of such companies at their date of acquisition, is amortized by equal annual installments, generally over 25 years.

Translation of Foreign Company Accounts

Balance sheet items are translated using year-end exchange rates. Fixed assets and investments of subsidiaries operating in highly inflationary countries (countries whose cumulative rate of inflation over three years amounts to at least 100%: Brazil, Argentina and Mexico) are included at revalued cost using indices in accordance with local laws. The Group's share in the revaluation less related deferred income taxes is shown under "Translation adjustments" in Shareholders' Equity.

The net financing in foreign currencies (other than local currencies) of capital expenditure made by subsidiaries operating in highly inflationary countries is translated directly into French francs for the purpose of determining differences on exchange.

Income and expenditure items are translated using average exchange rates ruling during each year. The effects of inflation are eliminated from interest income of companies operating in highly inflationary countries.

The Group's share in translation gains and losses and related deferred income taxes is deferred under the caption "Translation adjustments" in Shareholders' Equity until such time as the foreign investments to which they relate are sold or liquidated.

Deferred Charges

Deferred charges include start-up costs for major projects which are deferred and amortized over 5 years.

Fixed Assets and Depreciation

Property, plant and equipment are stated at cost except for the fixed assets of subsidiaries operating in highly inflationary countries which are revalued in accordance with the provisions of local laws.

Assets acquired under finance leasing agreements are capitalized on the basis of the present value of future rents.

Depreciation of fixed assets is based on estimated useful lives using the straight-line method.

Investment grants relating to acquisitions of fixed assets are deferred and credited to income over the estimated useful lives of the relevant assets.

Inventories

Inventories are stated at the lower of cost and estimated net realizable value.

Sales and Cost of Sales

Sales and related costs are recorded upon shipment except for long-term construction contracts.

Long-Term Construction Contracts

Long-term construction contracts, which are mainly in the Contracting and Services Division, are accounted for on the completed contract basis. Provisions are made for all known losses.

Research and Development Expenses

Research and development expenses are charged to income when incurred.

Interest Charges

All interest charges are expensed as incurred except for charges incurred during the construction of significant assets, which are capitalized.

Income Taxes

Provision for deferred income taxes is made using the deferral method in respect of timing differences between income reported for financial and tax purposes. The principal items which give rise to these differences are depreciation, certain accruals and allowances.

Deferred tax debits arising in a tax loss position are restricted to amounts receivable by Compagnie de Saint-Gobain in connection with its consolidated tax assessments.

Tax credits for investments and research expenditure in France and other countries are included in income as a reduction of the charge for income taxes in the year in which the credits become available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Changes in the Composition of the Consolidated Group

The Group has continued to apply the same rules in determining the companies which are consolidated. Due to the development of the Group, certain companies are or are not consolidated for various reasons such as acquisition, disposal or internal reorganization.

The 1986 consolidated financial statements include the accounts of the following recently acquired companies: Vitrofil (Italy), Luitpoldhütte (Germany), Savoie Réfractaires (France), as well as those of the new company Gullfiber AB (Sweden) formed with the assignment of the insulation activity of the former Gullfiber company, and Saint-Gobain Italiano Auto (Italy) formed in 1986 in order to incorporate Fabbrica Pisana's plant in Savigliano.

Other minor modifications occurred within the composition of the consolidated group Société Générale d'Entreprises.

A.C.C., Comap, S.N.B.P. (France) and Wanit GmbH (Germany) are no longer consolidated as they have been sold. The accounts of Aedilitas (France), Rezag and Schalke (Germany) are not consolidated following internal reorganizations in these companies.

In July 1986 the Group announced its intention to reduce its holding in Compagnie Générale des Eaux and therefore stopped accounting for its investment as an associated company with effect from July 1, 1986. At December 31, 1986 the Group's holding has been reduced to 8.82%.

2. Research and Development

Research and development costs, including the depreciation of fixed assets used in research, amount to FF 996 million and FF 970 million for the years 1986 and 1985.

3. Other Provisions

Other provisions charged to income are as follows:

(in millions of French francs)	*1986*	*1985*
Accrued charges	444	244
Provision for impairment of investments	91	82
Provision for employees' profit sharing	92	41
Other provisions	30	13
	657	**380**

4. Interest and Other Financial Charges (Net)

Interest and other financial charges are as follows:

(in millions of French francs)	*1986*	*1985*
Financial charges	2,854	3,469
Interest income	(1,114)	(1,260)
Interest capitalized	(15)	(43)
	1,725	**2,166**

The effect of the capitalization of interest expense on the Group's 1986 consolidated net income is approximately FF 8 million (1985—FF 31 million).

5. Profit and Losses on Exchange

In 1985, exchange profits were mainly due to the effect of the decline of the US dollar and its impact on the Group's borrowings in Brazil and in France. In 1986 the exchange profits mainly concern Brazil as most of the Group's borrowings in US dollars in France have been repaid.

6. Reorganization and Other Costs

These expenses include principally the costs arising on the disposal of loss-making activities and personnel reductions.

(in millions of French francs)	*1986*	*1985*
France	747	833
Other countries	244	484
	991	**1,317**

In 1986 these amounts mainly relate to reorganization costs in French companies: Société Générale d'Entreprises Group, Pont-à-Mousson, Everite, Verreries de Saint-Gobain and Isover Saint-Gobain and the foreign companies Vicasa and Cristaleria Española.

7. Sale of Non-current Assets

In 1985, the profits on the sale of non-current assets mainly related to the sale of the investment in Elster AG (profit of FF 189 million) and the disposal on the "Second Marché" of part of the holdings in SEPR and Saint-Gobain Emballage, which gave rise to profits of FF 161 million and FF 88 million, respectively.

8. Exceptional Items

Exceptional items are represented by profits resulting from agreements made in July 1986 with Compagnie Générale des Eaux (CGE) and goodwill relating to Société Générale d'Entreprises which was written off because of the trend of its results. The analysis of exceptional items is as follows:

(in millions of French francs)	
Profit on the sale of part of the investment in CGE	1,169
Profit on sales of investments in certain companies in the Contracting and Services Division to CGE	435
Goodwill relating to SGE written off	(1,368)
	236

9. Provision for Income Taxes

Under an agreement, Compagnie de Saint-Gobain is assessed for income tax purposes on its consolidated fiscal income. The current agreement covers the years 1984 to 1988. As a result of this agreement, the Group's share of the aggregate amount of income taxes paid by Group companies is taken into account when determining consolidated fiscal income. The provision for income taxes is as follows:

(in millions of French francs)	*1986*	*1985*
Taxes currently payable	1,068	868
Deferred taxes and utilization of tax losses	275	96
	1,343	**964**

Due to the effects of the consolidated tax agreement most of the taxes currently payable concern foreign subsidiaries.

10. Deferred Charges

Unamortized start-up costs included in deferred charges concern mainly the company Brasileira de Cristal (FF 90 million and FF 178 million at December 31, 1986 and 1985, respectively).

11. Fixed Assets

Movements during the year are as follows:

(in millions of French francs)	December 31, 1985	Changes in the composition of the Group	Additions	Disposals	Transfers	Translation adjustment	Depreciation charge	December 31, 1986
Land	923	8	23	(49)	4	8	—	917
Buildings	8,183	92	207	(238)	174	67	—	8,485
Machinery and equipment	31,800	(32)	1,612	(1,716)	1,824	(10)	—	33,478
Construction in progress	1,388	213	1,996	(64)	(2,002)	(14)	—	1,517
	42,294	281	3,838	(2,067)	—	51	—	44,397
Depreciation	(23,575)	36	—	1,478	—	(102)	(3,315)	(25,478)
Net book value	18,719	317	3,838	(589)	—	(51)	(3,315)	18,919

Depreciation for the year includes exceptional depreciation of certain fixed assets of FF 99 million (note 21).

The estimated useful lives of fixed assets for depreciation purposes are summarized below:

Major factories and offices	40 years
Other buildings	15–25 years
Production machinery and equipment	5–16 years
Vehicles	4 years
Furniture, fixtures and office equipment	5–16 years

The depreciation charge is analyzed as follows:

(in millions of French francs)	1986	1985
Property, plant and equipment	3,216	2,903
Deferred charges	120	133
Goodwill and other intangible assets	181	106
	3,517	**3,142**

12. Goodwill

The movement during 1986 is analyzed as follows:
(in millions of French francs)

At January 1, 1986	1,492
Acquisitions (mainly Vitrofil)	119
Disposals	(41)
Sundry	7
Amortization for the year	(165)
Exceptional amortization (Société Générale d'Entreprises)	(1,368)
At December 31, 1986	**44**

13. Associated Companies

In 1986 the principal associated company is Cofiroute which is held by the group Société Générale d'Entreprises.

The Group now wholly owns the Insulation activities hived off by Gullfiber in 1986 and the new subsidiary is consolidated.

As from July 1, 1986 Compagnie Générale des Eaux is no longer accounted for as an associated company (note 1).

Significant financial data relating to Cofiroute is summarized below:
(in millions of French francs)

Net sales	1,483
Net assets	609
Group's investment in the company	173
Net income	198
Group's share of net income	47

In 1986 the Group's share in the net income of associated companies is as follows:
(in millions of French francs)

Saint-Gobain's share in the net income of companies accounted for as associates by Société Générale d'Entreprises (principally Cofiroute)	54
Saint-Gobain's share in the estimated net income of Compagnie Générale des Eaux for the six months ended June 30, 1986	70
	124

In 1985 the Group's share in the net income of associated companies was as follows:
(in millions of French francs)

Compagnie Générale des Eaux	110
Gullfiber AB	12
Société Générale d'Entreprises (note 14)	(72)
Associated companies within the group Société Générale d'Entreprises (note 14)	3
	53

14. Accounting Treatment of Société Générale d'Entreprises

As in previous years, the consolidated financial statements of SGE have been restated in order to comply with accounting principles and policies used by the Saint-Gobain Group.

(in millions of French francs)	*Net deficit at December 31, 1985*	*Loss 1986*	*Disposal of treasury stock*	*Translation adjustments*	*Net deficit at December 31, 1986*
Amounts published by the SGE group	(266)	(87)	13	(49)	(389)
(a) Restatement of long-term construction contracts onto the completed-contracts basis from the percentage-of-completion method used by SGE	(321)	(9)	—	1	(329)
(b) Revaluation of fixed assets	50	(4)	—	—	46
(c) Cancellation of gains on sale and rental of properties	—	(155)	—	—	(155)
(d) Exceptional items (additional gains on disposals to Compagnie Générale des Eaux)	—	121	—	—	121
(e) Net effect of deferred taxes and minority interests on the above	61	2	—	1	64
Restated amounts for the purpose of the consolidation of Compagnie de Saint-Gobain	(476)	(132)	13	(47)	(642)

Until October 18, 1985, the date on which the Group acquired a majority holding, SGE was accounted for as an associated company and accordingly Saint-Gobain recorded its share of the net losses of SGE. Since October 1985, SGE has been consolidated by the Group and 100% of the loss has been charged by the Group in view of the net deficit of SGE.

(Continued on next page.)

14. Accounting Treatment of Société Générale d'Entreprises *(cont.)*

For information purposes the following table compares significant income statement data for 1986 with that which would have resulted in 1985 if Saint-Gobain had acquired a majority holding on January 1, 1985.

(in millions of French francs)	*1986*	*1985*
Net sales	77,724	81,252
Gross margin before depreciation	9,763	8,987
Depreciation charge	3,517	3,515
Interest and other financial charges, net	1,725	2,440
Operating income	3,917	2,919
Group's share in net results of associated companies	124	136
Net income before minority interests	2,050	1,353

15. Inventories

(in millions of French francs)	*1986*	*1985*
Work in progress		
Work in progress	9,763	10,666
Less provisions	(416)	(168)
	9,347	**10,498**
Inventories		
Goods for resale	541	513
Raw materials and supplies	3,514	3,476
Semi-finished products	901	892
Finished products	5,032	5,221
Packaging materials	82	75
	10,070	10,177
Less provisions	(561)	(659)
	9,509	**9,518**
	18,856	**20,016**

16. Marketable Securities

Marketable securities are mainly represented by short-term placements made by Compagnie de Saint-Gobain recorded at cost which is slightly lower than market value at December 31, 1986.

17. Non-Voting Participating Securities

Non-Voting participating securities in French francs.

The Group issued 700,000 non-voting participating securities in French francs in 1983 for FF 700 million. Each security carries a coupon which gives the holder the right to subscribe to a new non-voting participating security each year until January 1988. In 1986, 34,688 securities were subscribed for an amount of FF 34.7 million. In 1985, 49,050 securities were subscribed for an amount of FF 49 million and 92,908 securities were subscribed in 1984 for an amount of FF 93 million.

The remuneration of the 876,646 non-voting participating securities for 1986 amounts to FF 96.8 million which, as in 1985, is the maximum remuneration provided for in the prospectus (participation in results and fixed-interest element equal to 125 percent of the average rate of interest on bonds, TMO). In 1985, the remuneration of the 841,958 securities issued at that time amounted to FF 124 million.

Non-voting participating securities in Ecu.

The Group issued 100,000 non-voting participating securities in Ecu in 1984 for an amount of Ecu 100 million (FF 686 million), which were fully subscribed during that year. Each of the securities carries a coupon which gives the holder the right to subscribe to a new non-voting participating security of the same nominal value up to February 9, 1987. In 1986, 19,286 securities were subscribed for an amount of Ecu 19.3 million (FF 130.1 million). In 1985, 21,971 securities were subscribed for an amount of Ecu 22 million (FF 149.3 million).

The remuneration of these securities up to February 10, 1985 was based on TMOE, increased by 0.20 percentage point, and for the period February 11, 1985 to August 10, 1985 on the basis of Libor Ecu increased by 0.375 percentage point. Since August 11, 1985, the remuneration of these securities comprises a fixed interest element of 7.5 percent per annum applied to 60 percent of the nominal value of the security and a variable amount on the remaining 40 percent based on the consolidated net income of the previous year within the limits fixed in the prospectus.

The remuneration of these securities in 1986 amounted to Ecu 13.8 million (FF 93.1 million) and in 1985 to Ecu 12 million (FF 81 million).

The non-voting participating securities are not redeemable.

18. Pensions

The Group's employees receive pensions on retirement under pension plans in accordance with applicable laws and customs in the respective countries where the Group operates. To a large extent, the direct pension obligations of Group companies are in addition to and closely coordinated with national pension plans, to which the companies and the employees contribute.

The Group's policy is to progressively build up the provisions for past service costs as follows:

In France, certain Group companies have pension obligations. These obligations amount to FF 1,398 million calculated in accordance with an actuarial method by an insurance company with whom the Group entered into an agreement in 1985. The charge recorded in the year of FF 106 million represents amounts paid to the insurance company based on a period of 20 years. Retirement indemnities are accounted for on a cash basis.

In Germany, the past service liability is being set up over a period of 25 years since 1976 and in Spain over 20 years since 1983. The amount remaining to be set up totals FF 497 million.

In the USA, the assets of the pension funds (FF 607 million) are in excess of the obligations of the companies (FF 358 million).

19. Long-Term Debt

(in millions of French francs)	*1986*
Due for payment 1988	2,681
Due for payment 1989	2,067
Due for payment 1990	1,876
Due for payment 1991	1,479
Due for payment 1992	1,259
Due for payment 1993–1997	1,589
Due for payment after 1997	975
Unspecified	2,028
	13,954

(in millions of French francs)	*1986*
French francs	8,256
Ecu	989
Deutsche marks	2,285
US dollars	956
Italian lire	622
Belgian francs	359
Spanish pesetas	197
Other currencies	290
	13,954

Long-term debts include FF 295 million in respect of property, plant and equipment acquired under finance leasing agreements.

Long-term debts are secured by charges on various non-current assets for a total amount of FF 2,420 million at December 31, 1986 as follows:

—Mortgages	FF 1,278 million
—Investments pledged	FF 1,142 million

Rates of interest on these debts vary between 6 percent and 14 percent per annum, the weighted average being approximately 10.5 percent.

20. Contingent Liabilities, Commitments and Pledges

Contingent liabilities, commitments and pledges are as follows:

(in millions of French francs)	*1986*
Guarantees given on contracts in the Contracting and Services Division	6,670
Pension commitments (note 18)	1,895
Mortgages and investments pledged as security	2,420
Discounted notes receivable	672
Other commitments given	6,816
Foreign currency operations	2,881
Pledges received	(3,395)
	17,959

21. Consolidated Statements of Changes in Financial Position

Resources from operations consist of net operating income for the year (excluding gains or losses on disposal of property, plant, equipment and investments and exceptional items), depreciation and amortization, and dividends received from associated companies.

Other sources and uses of funds are presented after eliminating the effects of exchange rate fluctuations. Dividends paid by consolidated subsidiaries to minority interests are shown separately.

Depreciation and amortization under resources from operations includes in 1986 the charge for the year of FF 3,517 million (FF 3,142 million in 1985) and exceptional depreciation of certain fixed assets of FF 99 million (FF 60 million in 1985), classified under "reorganization and other costs" in the statement of income.

22. Employees

The average number of employees during 1986 was 142,351 and their remuneration for the year amounted to FF 21,550 million including social security contributions.

23. Directors' Remuneration

Directors' remuneration from Compagnie de Saint-Gobain for 1986 amounted to F 1,374,000.

24. Earnings Per Share

Earnings per share have been calculated on the basis of the weighted average number of shares, including investment certificates, in issue during the year (1986—FF 39,836,280, 1985—FF 35,836,280) and net income after remuneration of non-voting participating securities.

Earnings per share calculated on the number of shares and investment certificates issued at December 31, 1986 amount to FF 28.76.

25. Litigation

Legal proceedings involving Group companies are not expected to have a significant effect on the Group's consolidated financial position.

26. Consolidated Companies at December 31, 1986

FLAT GLASS		*Percentage held direct and indirect*
FRANCE		
Saint-Gobain Vitrage Code Siren: 998 269 211	18, Avenue d'Alsace Les Miroirs—92400 Courbevoie	100%
Société de Verrerie Industrielle et Scientifique (SOVIS) Code Siren: 746 251 040	B.P. 1 77260 La Ferté-Sous-Jouarre	99.99%
GERMANY		
Saint-Gobain & Glaceries de Saint-Roch	Viktoria-Allee, 3-5 Postfach 14 90—D-5100 Aachen	86.40%
Südglas GmbH	Industriestrasse, 19 D-7120 Bietigheim-Bissingen	86.40%
Vegla Vereinigte Glaswerke GmbH	Viktoria-Allee, 3-5 D-5100 Aachen	86.40%
Vegla (Ver. Glas. Ges)	Postfach 1565 Viktoria-Allee, 3-5—D-5100 Aachen	86.40%
BELGIUM		
Glaceries de Saint Roch S.A.	World Trade Centre No. 1, Boulevard Émile-Jacqmain, 162 B1210 Brussels	65.99%
NETHERLANDS		
Internationale Maatschappij Voorhet Beheer van Glasmaatschappijen B.V.	Oostkade 31 NL—4551 CM Sas Van Gent	71.72%
Glasfabriek Sas Van Gent	20 Westkade 4550 AA Sas Van Gent	65.99%

FLAT GLASS (cont.)		*Percentage held direct and indirect*
ITALY		
Fabbrica Pisana	Via Ponte a Piglieri, 2—56100 Pisa	100%
Luigi Fontana	Via E. Romagnoli, 6—20146 Milano	87.90%
Milanese	Via E. Romagnoli, 6—20146 Milano	91.29%
Saint-Gobain Italiana Auto	Via Saluzzo—12038 Savigliano	70.93%
Toscana Glas S.p.A.	Via Aurelia, 1—56100 Pisa	100%
SPAIN		
Cristaleria Española	Edificio Ederra, Centro Azca Paseo de la Castellana, 77 28046 Madrid 16	72.94%
Inmobiliaria Cristalvex	Paseo de la Castellana, 77 28046 Madrid 16	72.94%
La Veneciana S.A.	Paseo de la Castellana, 77 28046 Madrid 16	72.94%
DENMARK		
Scan Gobain Glass A/S	Raadhuspladsen 16, 2E SAL DK—1550 Copenhagen	71.72%
Scanglas A/S	Norvangen—4220 Korsor	71.72%
NORWAY		
Drammens Glass A/S	Tangen 760—N3001 Drammen	71.72%
SWEDEN		
Emmaboda Glas AB	Box 501 S—36101 Emmaboda	71.72%
Trempex AB	Fack—24100 Eslov	71.72%
BRAZIL		
Companhia Brasileira de Cristal	Avenida Santa Marina, No 482 3 and. Agua Branca 05036 São Paulo (percentage controlled: 52.50%)	37.33%
Companhia Vidraria Santa Marina	Avenida Santa Marina, No 482 Agua Branca—05036 São Paulo	71.11%

INSULATION		*Percentage held direct and indirect*
FRANCE		
Isover Saint-Gobain Code Siren: 312 379 076	18, Avenue d'Alsace Les Miroirs—92400 Courbevoie	100%
Unimat Code Siren: 327 630 349	18, Avenue Parmentier 75011 Paris	100%
GERMANY		
Grünzweig + Hartmann und Glasfaser AG	Burgermeister-Grunzweig Strasse 1—D-6700 Ludwigshafen	97.85%
BELGIUM		
Glaceries de Saint Roch S.A.	World Trade Centre No 1, Boulevard Émile-Jacqmain, 162 B1210 Brussels	65.99%
ITALY		
Balzaretti Modigliani	Via E. Romagnoli, 6—20146 Milano	82.01%
SPAIN		
Cristaleria Española	Edificio Ederra, Centro Azca Paseo de la Castellana, 77 28046 Madrid 16	72.94%
SWEDEN		
Gullfiber AB (ex. Gullfiber Isoler)	Box 501 260-50 Billesholm	99.16%
SWITZERLAND		
Isover S.A.	Chemin de Mornex 3 P.O. Box 655 CH—1001 Lausanne	91.54%
U.S.A.		
CertainTeed Corporation	750 East Swedesford Road P.O. Box 860 Valley Forge, PA 19482	57.14%
BRAZIL		
Companhia Vidraria Santa Marina	Avenida Santa Marina, No 482 Agua Branca—05036 São Paulo	71.11%

FIBRE REINFORCEMENTS		*Percentage held direct and indirect*
FRANCE		
Vetrotex Saint-Gobain Code Siren: 309 880 813	767, Quai des Allobroges 73000 Chambéry	100%
GERMANY		
Gevetex Textilglas—GmbH	Viktoria-Allee, 3-5 Postfach 426—D-5100 Aachen	100%
ITALY		
Vetrotex Italia	Via E. Romagnoli, 6 BP 1202—2002 Milano	100%
Vitrofil	Via Piave, 29 17047 Vado Ligure SV	99%
SPAIN		
Cristaleria Española	Edificio Ederra, Centro Azca Paseo de la Castellana, 77 28046 Madrid 16	72.94%
U.S.A.		
CertainTeed Corporation	750 East Swedesford Road P.O. Box 860 Valley Forge, PA 19482	57.14%

CONTAINERS		
FRANCE		
Polyflex Code Siren: 522 077 695	Z.I. Langeais 37130 Langeais	79.31%
Saint-Gobain Desjonquères Code Siren: 552 012 585	18, Av. d'Alsace—Les Miroirs 92400 Courbevoie	79.46%
Saint-Gobain Emballage Code Siren: 722 034 592	18, Av. d'Alsace—Les Miroirs 92400 Courbevoie	79.48%
Saint-Gobain Cinématique et Contrôle Code Siren: 784 689 564	56, Av. du Vieux Chemin de Saint-Denis 92230 Gennevilliers	79.48%
Sofab Code Siren: 326 050 044	104, Rue Voltaire 80130 Friville-Escarbotin	79.45%
LesVerreries de Saint-Gobain Code Siren: 581 620 192	7, Rue du Petit-Bois 45380 La Chapelle Saint-Mesmin	99.98%
Verreries Générales Code Siren: 572 201 671	38, Rue Bréguet B.P. 277—75525 Paris Cedex 11	79.45%

CONTAINERS (cont.)		*Percentage held direct and indirect*
GERMANY		
SGD Glashüttenwerke Kipfenberg GmbH	D-8079 Kipfenberg	79.25%
SPAIN		
Vidrierias Española Vicasa S.A.	Paseo de la Castellana, 77 28046 Madrid 16	57.27%
BRAZIL		
Santa Susana Mineraçao	Avenida Santa Marina, No 443 Casa 68—Agua Branca 05036 São Paulo	71.11%
Companhia Vidraria Santa Marina	Avenida Santa Marina, No 482 Agua Branca—05036 São Paulo	71.11%

FIBRE-CEMENT		
FRANCE		
Everite S.A. Code Siren: 542 100 169	18, Avenue d'Alsace Les Miroirs—92400 Courbevoie	99.90%
Ofiges Code Siren: 303 697 098	415, Rue du Port 77190 Dammarie-les-Lys	99.27%
Société Française Redland Code Siren: 662 043 272	60, Rue de la Chaussée d'Antin 75009 Paris	50.95%
U.S.A.		
CertainTeed Corporation	750 East Swedesford Road P.O. Box 860 Valley Forge, PA 19482	57.14%
BRAZIL		
Brasilit Da Amazonia	Rodovia Arthur Bernardes Esquina Do Tapana 66000 Belem—PA	86.23%
Brasilit S.A.	Avenida Paulista, No 2202, 3E Andar—01310 São Paulo—SP	86.23%
Sama Mineraçao de Amianto	Avenida Paulista, No 2202, 2E Sobreloja—01310 São Paulo—SP	42.97%

		Percentage held direct and indirect
FIBRE-CEMENT (cont.)		
ARGENTINA		
Monofort	San Martin 379 Piso 3 Correo Central 1004 Buenos Aires	78.36%
COLOMBIA		
Colombit	Parque Industrial Juanchito Manizales	69.73%
MEXICO		
Mexalit	Bosque de Ciruelos 168 Piso 2 Bosques de Las Lomas 11700 Mexico—DF (percentage controlled: 49%)	32.28%
PIPE AND MACHINERY		
FRANCE		
Pont-à-Mousson SA Code Siren: 755 802 105	91, Avenue de la Libération 54000 Nancy	98.31%
Société Européenne d'Engrenages Code Siren: 622 049 088	5, Rue Henri-Cavallier 89104 St-Denis-les-Sens	58.98%
Billion S.A. Code Siren: 332 088 004	1, Avenue Victor-Hugo 01810 Bellignat	98.30%
GRI Sapag Code Siren: 612 044 339	Z.I. Croix de Metz 54200 Toul	98.31%
Saunier Duval Eau Chaude Chauffage Code Siren: 312 574 346	18, Avenue d'Alsace Les Miroirs 92400 Courbevoie	97.32%
Seva Code Siren: 392 073 282	43, Rue du Pont de Fer 71100 Chalon-sur-Saône	98.31%
Sidel Code Siren: 365 501 089	55, Rue du Pont-VI 76053 Le Havre Cedex	98.30%
GERMANY		
Halbergerhütte GmbH	Saarbrückerstrasse 51 D-6604 Brebach-Fechingen	98.31%
Luitpoldhütte AG	Sulzbacher Strasse, 105 Postfach 2 64—D-8450 Amberg	50.14%
Spanner—Pollux GmbH	Industriestrasse, 16 D-6700 Ludwigshafen	98.31%

PIPE AND MACHINERY (cont.)		*Percentage held direct and indirect*
SPAIN		
Funditubo	Apartado 2178—39080 Santander	93.23%
UNITED KINGDOM		
Stanton PLC	P.O. Box 72—Stanton Near Nottingham NG 10 5 A A	98.31%
BRAZIL		
Companhia Metallurgica Barbara	Via DR. Sergio Braga, 452 27400 Barra Mansa—RJ	59.98%
Valvulas Barbarà S.A.	Rua Frei Liberato de Gries, 548 Jardim Arpoador 05572 São Paulo—SP	59.98%

INDUSTRIAL CERAMICS		
FRANCE		
Quartz et Silice Code Siren: 562 053 314	Les Miroirs 18, Avenue d'Alsace—92400 Courbevoie	80.48%
Savoie Réfractaires Code Siren: 331 292 599	Les Miroirs—Cedex 30 92096 Paris La Défense	81.54%
Sté Eur. Prod. Réfractaires Code Siren: 305 756 413	Les Miroirs—Cedex 27 92096 Paris La Défense	81.55%
ITALY		
Refradige	Foro Buonaparte, 68—20121 Milano	81.55%

PAPER-WOOD		
FRANCE		
La Cellulose du Pin Code Siren: 552 046 104	353, Bd du Président Wilson 33200 Bordeaux-Cauderan	71.74%
Compt. du Pin d'Aquitaine Code Siren: 780 111 357	353, Bd du Président Wilson 33200 Bordeaux-Cauderan	70.67%
Lembacel Code Siren: 590 500 443	19, Avenue de Poumeyrol 69641 Caluire Cedex 1	71.22%

PAPER-WOOD (cont.)		Percentage held direct and indirect
Cie Emballages Pratiques Code Siren: 785 920 679	Rue du Luxembourg 08600 Givet	71.55%
Sté des Etablissements Martin Guillemin Code Siren: 786 220 079	1, rue Hippolyte Noiret 08300 Rethel	70.32%
Papeterie de la Seine Code Siren: 572 067 270	109, Av. de la Commune de Paris 92024 Nanterre Cedex	71.71%
Papeteries de Condat Code Siren: 622 037 513	41, rue Ybry 92523 Neuilly-sur/Seine	71.74%
Rougier Océan Landex-Rol Code Siren: 562 094 896	339, Av. de la Rochelle 79009 Niort Cedex	76.13%
Silvallac Code Siren: 662 025 006	47, rue Emile Roux 94132 Fontenay-sous-Bois Cedex	61.48%
Sté Continentale du Carton Ondulé "SOCAR" Code Siren: 712 063 122	5, Av. du Général de Gaulle 94160 Saint Mandé	70.70%
SPAIN		
Celulosas Del Nervion S.A.	Dario Regoyos, 1 Apartado 1628—48080 Bilbao	41.70%

CONTRACTING AND SERVICES		
FRANCE		
*Group Société Générale d'Entreprises "S.G.E." Code Siren: 552 037 806	Tour American International 34, Place Les Corolles 92079 Paris La Défense	77.14%
Société Industrielle de Filtration Sofiltra Poelman Code Siren: 672 030 723	71, Boulevard National Tour Charlebourg Défense 92250 La Garenne Colombes	72.21%

* The Group Société Générale d'Entreprises comprises 97 consolidated companies, 5 associated companies and 15 companies consolidated proportionally.

CONTRACTING AND SERVICES (cont.)		Percentage held direct and indirect
GERMANY (RFA)		
G + H Montage GmbH	Westendstrasse 17 Postfach 2105 30—D-6700 Ludwigshafen	97.85%
Felix Schüh & Co GmbH	Wilhelm-Beckmann Strasse 6 D-4300 Essen 13	97.85%

FINANCE AND HOLDING COMPANIES

FRANCE		
Saint-Gobain Prom. et Particip. Internationales SGPPI Code Siren: 702 050 527	Les Miroirs 18, Avenue d'Alsace—92400 Courbevoie	100%
Spafi Code Siren: 572 228 179	Les Miroirs 18, Avenue d'Alsace—92400 Courbevoie	100%
Sofidav Code Siren: 775 730 633	Les Miroirs 18, Avenue d'Alsace—92400 Courbevoie	98.15%
GERMANY (RFA)		
Cie de Saint-Gobain- Succ. All. Zweigniederlassung Deutschland	Viktoria-Allée 3-5 Postfach 1490—D-5100 Aachen	100%
NETHERLANDS		
Saint-Gobain Nederland	Oostkade, 31 4551 CM Sas Van Gent	100%
SWITZERLAND		
Société Financière pour la Métallurgie et les Mines Finameta	26, rue Saint-Pierre 1700 Fribourg	99.66%
International Saint- Gobain	26, rue Saint-Pierre—1700 Fribourg	100%
Valfix Finanz AG	Kapeleplatz 2 CH—6000 Luzern	100%
BRAZIL		
Comp. Administradora São Lourenço	Avenida Paulista 2202 01310 São Paulo	98.40%

27. Principal Trade Investments

Division	Name	Address	Percentage held direct and indirect	In millions of French francs: Shareholders' equity before the 1986 results	Net income (loss) 1986	Carrying value of the investment
FLAT GLASS	Glas Und Spiegel Manufacture (Schalke)	Vechtingstrasse 19 D-4650 Gelsenkirchen Schalke—Germany	84.51	100.6	5.9	98.2
	Flovetro	Strada Provinciale Trignina 66050 San Salvo (Chieti)—Italy	50.00	188.6	32.3	47.5
	Rezag	Poststrasse 71—103 D-5000—Köln 90—Germany	86.19	46.0	(0.3)	43.9
	Uniglas	Bosanski Samac—Yugoslavia	21.60	74.1	2.2	40.5
	Covina	Santa Iria De Azoia Caixa Postal 2651—Lisboa 2—Portugal	14.43	201.0 (estimated)	(70) (estimated)	25.9
	Société Générale des Vitrages Isolants	Zone Industrielle de Condren 02410 Les Aulnes—France	100.00	25.2	2.7	25.1
	Ziegler GmbH	Liesinger Flurgasse—Vienna—Austria	86.15	13.0	—	21.7
	Saint Roch Nederland	2400 AK Alphen Aan de Rijn—Netherlands	65.99	40.1	2.8	21.2
INSULATION	Linzer Glas Franz Haid	Prager Strasse 77 A 2000 Stockerau—Austria	39.72	76.2	3.9	33.0

(Continued on next page.)

27. Principal Trade Investments *(cont.)*

				In millions of French francs		
Division	*Name*	*Address*	*Percentage held direct and indirect*	*Shareholders' equity before the 1986 results*	*Net income (loss) 1986*	*Carrying value of the investment*
PIPE AND MACHINERY	Meinecke	Sud Strasse 2 D-3014 Laatzen—Germany	95.66	13.4	2.2	33.6
	Socam	Zone Industrielle—290 Av. du 8 Mai 1945 69140 Rillieux-Le-Pape—France	98.31	42.3	5.0	25.4
INDUSTRIAL CERAMICS	Kerlane	Les Miroirs—Cedex 27 92096 Paris La Défense—France	81.54	20.5	6.0	57.2
PAPER WOOD	Rougier Océan Gabon	Libreville—Gabon	29.79	30.5	4.3	22.0
FIBRE-CEMENT	Plasticos Best	Av. Mandii 1261 Distrito Industrial Castelo Branco—69075 Manaus AM—Brazil	64.98	15.6	15.4	22.5
CONTRACTING AND SERVICES	Compagnie Générale des Eaux (holding)	52 rue d'Anjou 75384 Paris Cedex—France	8.82	ND	457.7	583.0
	Nickel (company acquired in the second half of the year)	Siegstrasse 28-34 Postfach 6-20—D-5240 Betzdorf—Germany	97.85	39.7	(25.7)	46.2
FINANCE	Aedilitas	Place Camille Cavalier 54000 Nancy—France	83.40	32.1	1.4	25.3
OTHER	Sicomibail	154 Boulevard Haussmann 75008 Paris—France	19.00	341.7	15.0	39.9

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in France

General Questions	Answer	Comments
1. Is a primary purpose of an audit:		
a. to attest to information used by investors, creditors, etc. . . .?	No	
b. to satisfy statutory requirements (for example, the Companies Act)?	Yes	1*b*. Requirement included in art. 228 of Company law of July 24, 1966.
c. for tax purposes?	No	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field work, and standards of reporting. Those standards and their interpretations constitute U.S. generally ac-	Yes	

Notes:

Checklist should be completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards,* unless otherwise noted.

General Questions	Answer	Comments
cepted auditing standards which have been published in *Codification of Statements on Auditing Standards*. Do generally accepted auditing standards exist in your country?		
B. If so, are they published?	Yes	2B. In the *Normes—Commentaires—Déontologie* issued by CNCC.
C. If auditing standards exist in your country, are they similar to U.S. standards?	Yes	2C. They are, however, less detailed.
D. If not, what are they?		
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	The profession	3. The two professional bodies (OECCA and CNCC) issue recommendations for the use of their members. Additional comments are also done by the COB.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	Yes. *Norme* CNCC 2103	✓			4–9. Practice varies, and depends on the nature and size of the company audited. These procedures are carried out selectively for major companies, including listed companies. For smaller companies, these audit techniques are not yet systematically applied.
5. Do auditors observe inventory counts? (AU 331)	Yes. *Norme* CNCC 2103	✓			
6. Do auditors receive written representations from management? (AU 333)	No		✓		
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. *Commentaires* CNCC 2103.4		✓		

8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. *Norme* CNCC 2105	✓		
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. *Commentaires* CNCC 2101.19	✓		
9. Do auditors study existing internal controls as a basis for reliance thereon in determining the nature, extent, and timing of audit tests to be performed? (AU 320)	Yes. *Norme* CNCC 2102 Booklet CNCC Internal Control	✓		
10. A. Do auditors communicate material weaknesses in internal accounting control to senior management or the client's board of directors? (AU 323)	Yes. *Commentaires* CNCC 2102.11	✓		10A. When weaknesses have a material effect on the accounts, relevant information may be included in art. L 230 report to the attention of the board of directors.
B. If so, is the communication documented? (AU 323)	Yes. *Commentaires* CNCC 2102.11		✓	
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes. *Norme* CNCC 2103	✓		
12. Is the auditor responsible for planning his examination to search for errors or irregularities that would have a material effect on the financial statements? (AU 327)	No	✓		12. The statutory auditor is not required to systematically search for all errors and irregularities (CNCC *Caractéristiques générales des missions*).
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU 334)	No		✓	13A. Although a legal obligation to report on these transactions does exist in France, the auditor is not required to perform procedures to identify related party transactions. They

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					form part of the "special report" issued by the *commissaire aux comptes* to shareholders. These transactions must have received prior approval of the board of directors and the *commissaire aux comptes* has mainly to review the "minutes" of the meetings of the board of directors held during the year. He or she does not have to perform special review to find them (booklet CNCC Rapport special).
B. If so, list the procedures.					
14. Does the auditor consider the adequacy of cut-off procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. *Commentaires* CNCC 2103.05	✓			
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. *Commentaires* CNCC 2103.11	✓			

B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	No		✓		
16. The concept of "joint auditors" in certain countries (e.g., U.K., Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the U.S. Does the concept of "joint auditors" exist in your country?	Yes. Company Law L. 223	✓			16. Two *commissaires aux comptes* must be appointed when the company publishes consolidated accounts.
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)					
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. *Norme* CNCC 2106.3	✓			
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No			✓	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
18. A. Is there a standard form of auditor's report? (AU 509)	Yes. *Norme* CNCC 2501 Company's accounts *Norme* CNCC 2502 Consolidated accounts	✓			18A. Standard forms of the report are more detailed and consequently may differ in their content.
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 509)					18B. *Opinion avec réserve(s)* (qualified opinion) occurs— 1) When errors or irregularities in the application of accounting principles have been found but are not significant enough to reject the annual accounts. 2) When the *commissaire aux comptes* has not had the possibility to perform all examinations he or she wished. These limitations in his or her work do not prevent him or her, however, from establishing his or her opinion. *Refus de certifier* (Disclaimer of opinion or adverse opinion) occurs when errors and irregularities or limitations in his or her work are so important that they prevent the issuing of an unqualified opinion.

19. A. Does the auditor's report express an opinion on the consistency of application of accounting principles? (AU 420)	No		✓	19A. The reference is implicit in the word "regular" used in standard report which means "in conformity with rules and regulations" and thus encompasses consistency. Unless there is a consistency exception, consistency is only rarely specifically referred to in the auditor's report. If there is a consistency exception, then consistency must be specifically referred to in the opinion.
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes. *Code de commerce* Art. 11	✓		19B. When there are changes, the statutory auditor should mention it in the annual report.
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	Yes. *Commentaires* CNCC 250.03	✓		
B. If not, what date is used?				
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client. (*Code of Professional Conduct,* Rule 101)	Yes. *Déontologie* CNCC 11	✓		
22. Please describe any standards for France for which there are no corresponding U.S. standards.				22. None.

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in France

General Information	Answer	Comments
1. Are there generally accepted accounting principles in France? If so, are they codified?	Yes	1. They are codified by— • commercial code, law of April 30, 1983 as amended (hereafter *C. com. art.*) and decree of November 29, 1983 as amended (hereafter *C. com. art. D*) • the *plan comptable général* 1982 (P.C.G.) General Chart of Accounts.
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?		2. Accounting principles are established in law after consultation of the *Conseil National de la Comptabilité* (National Accounting Council) and of professional bodies (e.g., CNCC, OECCA) At a lower level, elements of information on the interpretation of law may be found in publications issued by the *Conseil National de la Comptabilité* (National Accounting Council), the *Commission des Opérations de Bourse* (COB), CNCC and OECCA.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	Yes. C. com. art. 12	✓			
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	Yes. C. com. art. D 7-2	✓			4. Predominant practice for companies that face this problem (long-term contract and building industry). Interest capitalized on the following: • Fixed assets. • Inventories only when the manufacturing period exceeds one year (this limitation is excluded for consolidated financial statements)
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. C. com. art. 12		✓		5A. See paragraph 90 of text.
B. If so, define the basis.					5B. Current value (*valeur actuelle*) but that can be determined based on coefficient for fixed assets.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determinable within reasonable limits? (N35)	Yes. PCG p. 98, for an asset received in exchange of another asset.	✓			

Note:

Parenthetic references are to sections in the *FASB Current Text,* unless otherwise noted.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. C. com. art. 9	✓			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. C. com. art. 9	✓			
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. Comp Law Art L 357-1 for listed companies. Other companies as of 1990.	✓			9A. For unlisted companies, few consolidated financial statements have been prepared so far. See paragraphs 93 through 94 of text.
B. Is control usually indicated by ownership of over fifty percent of the outstanding voting shares? If not, how is control indicated?	Yes. Comp Law Art L 357-4	✓			9B. Exclusive control when— • More than 50% voting rights • Less than 50% voting rights but with full power on board of directors
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. Comp Law Art L 357-4	✓			
B. If so, list them.					10B. • Subsidiary is not material to the consolidated statements.

				• Subsidiary is held only temporarily. • The costs to obtain information are excessive or the information cannot be obtained in due time. • Control of the subsidiary is threatened. See paragraphs 93 through 94 of text.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. Comp Law Art L 357-3	✓		11. With the exception of joint ventures to which proportional consolidation applies.
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	No		✓	12. Pooling-of-interest method not recognized.
13. Is the method used to account for a business combination disclosed? (B50)	No		✓	
14. A. Do criteria exist for treatment of business combinations as poolings of interests? (B50) B. If so, list the criteria.	No		✓	14A. Pooling-of-interest method not recognized.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. Bull. CNCC No. 34 OECCA: Rec. Accounting principles No. 14	✓			
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. OECCA: Rec. Accounting principles No. 14		✓		
16. Are the following disclosures made for related party transactions: (R36)					
a. the nature of the relationship?	Yes. Art. 101–105 of law of July 24, 1966 as amended for *Sociétés Anonymes SA* and Art. 50 for the SaRL.	✓			16. *a–d* Art. 101–105 and Art. 50 refer only to transactions between companies with common directors or management. Other related party transactions of significance should be disclosed in notes to financial statements. See paragraph 100 of text.
b. a description of the transactions for the periods presented?	Yes. Art. 101–105 of law of July 24, 1966 as amended for *Sociétés Anonymes SA* and Art. 50 for the SaRL.	✓			
c. the amounts of the transactions for the periods presented?	Yes. Art. 101–105 of law of July 24, 1966 as amended for *Sociétés Anonymes SA* and Art. 50 for the SaRL.	✓			

d. the amounts due to or from related parties at the balance sheet date?	Yes. Art. 101–105 of law of July 24, 1966 as amended for *Sociétés Anonymes SA* and Art. 50 for the SaRL.	✓	
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. C. com. art. 14	✓	
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Not specifically	✓	18. Done in practice (application of general principles).
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the U.S., guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)	Yes. C. com. art. D 24 a	✓	
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)			20. *a–f* If the information regarding sales is considered as "strategic" by the company, it can prevent the disclosure of

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
a. sales to outsiders and intersegment sales?	Not required.		✓		this kind of information. In that case, it is possible just to mention in the notes that the disclosure is incomplete.
b. operating profit or loss?	Not required.		✓		
c. identifiable assets and related depreciation, depletion, and amortization expense?	Not required.		✓		
d. capital expenditures?	Not required.		✓		
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	Not required.		✓		
f. effect of a change in accounting principle?	Not required.		✓		
21. A. Are there any requirements to disclose the effects of inflation? (C27)	No		✓		21A. See paragraphs 102 through 106 of text.
B. If so, list the disclosures required.					
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	No. C. com. art. D 24-7°	✓			22. Segregation only appears in the notes to the financial statements.
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. PCG II-80	✓			
B. If not, how are noncurrent assets defined?					

24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. C. com. art. 14	✓		
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?				24B. Estimated net realizable value of identified receivables (depends upon circumstances).
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (I69)	No		✓	
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. C. com. art. D 8	✓		
B. If not, how is inventory stated?				
C. Is the basis disclosed?	Yes. C. com. art. D8	✓		
27. Does cost for inventory purposes include: (I78)				
a. materials?	Yes. C. com. art. D 7-2°	✓		
b. direct labor?	Yes. C. com. art. D 7-2°	✓		
c. factory overhead?	Yes. C. com. art. D 7-2°	✓		
d. if the answer to *c.* is yes, is an allocable share of all factory overhead included?	Yes. C. com. art. D 7-2°	✓		
28. A. Are the following cost methods permitted for reporting purposes: (I78)				

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
a. first-in, first-out (FIFO)?	Yes. C. com. art. 12	✓			
b. last-in, first-out (LIFO)?	No			✓	28*b*. Permitted in consolidated financial statements Comp. Law Art. D. 248-8 & C. com. art. 12.
c. average cost?	Yes. C. com. art. 12	✓			
B. Are the same methods permitted for tax purposes?	Yes. CGI Ann. III Art. 38	✓			
29. Is the inventory costing method used disclosed? (I78)	Yes. C. com. art. D 24-1	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. C. com. art. 12	✓			
B. If so, is an accumulated depreciation account used?	Yes. PCG II-102	✓			
31. Are disclosures made of: (D40)					
a. depreciation expense for the period?	Yes. C. com. art D 24	✓			
b. balances of major classes of depreciable assets?	Yes. C. com. art D 24	✓			
c. the methods used to compute depreciation for the major asset classes?	Yes. C. com. art D 24	✓			
d. accumulated depreciation, either by major class of assets or in total?	Yes. C. com. art D 24	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	No			✓	

B. If so, list the criteria and disclosure requirements.					
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	No			✓	
B. If so, list the criteria, type of lease, and disclosure requirements.					
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	No			✓	34. Segregation only appears in the notes to the financial statements.
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	Yes. PCG II-80	✓			
B. If not, how are noncurrent liabilities defined?					
36. For notes payable, is disclosure made of: (C59 and Statement of Financial Accounting Concepts No. 5)					
a. interest rates?	No		✓		
b. maturities?	Yes. C. com. art. D 24-7	✓			
c. assets pledged as collateral?	Yes. C. com. art. D 24-8	✓			
d. covenants to reduce debt?	No			✓	
e. minimum working capital requirements?	No			✓	
f. dividend restrictions?	No			✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed-contract methods used? (C04)	Yes. C. com. art. 15 and PCG p. 224	✓			37A,B. Same as in ARB45 and FASB Statement 56, but a choice between both methods remains for companies when criteria are met.
B. If so, what are the criteria for determining the method to be used?					
38. A. Are research costs charged to expense when incurred? (R50)	Yes. PCG p. 119	✓			38A,B. See paragraph 125 of text.
B. Are such costs disclosed?	Yes. C. com. art. D 19	✓			
39. A. Are development costs charged to expense when incurred? (R50)	Yes. PCG p. 119	✓			39A,B. See paragraph 125 of text.
B. Are such costs disclosed?	Yes. C. com. art. D 19	✓			
40. A. In the U.S. events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in France? (I17)	No			✓	
B. If not, what are the criteria?					40B. See paragraphs 126 and 127 of text.

41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. PCG II-71	✓			
42. A. Are disclosures required for:					
a. extraordinary items? (I17)	Yes. Application of C. com. art. D 24-3	✓			
b. material events or transactions not classified as extraordinary items? (I22)	Yes. Application of C. com. art. D 24-3	✓			
c. disposal of a segment of a business? (I13)	Yes. Application of C. com. art. D 24-3	✓			
B. Indicate the financial statement presentation of these items.					42B. See paragraphs 126 and 127 of text.
43. A. Are pension costs provided for covered employees over the term of employment? (P15)	No. Allowed but no obligation exists (C. com. art. 9)		✓		43A,B. See paragraph 129 of text.
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	Yes. OECCA no. 16, *Accounting for pension plans*		✓		
44. A. Are specific disclosures required relating to pension plans? (P15)	Yes. C. com. art. 9 and D 24-16	✓			44A,B. See paragraph 129 of text.
B. If so, list them.					
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for differences (as opposed to permanent differences)? (I24)	See Comments.	✓ Consol. fin. stmts.		✓ Annual fin. stmts.	45A. See paragraphs 130 and 131 of text.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?	Yes, consolidated financial stmts. Comp. Law Art. D 248-11	✓			
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?					
46. A. Are deferred taxes determined on the basis of tax rates in effect at the time the difference originated? (I24)	Yes. OECCA Reg. no. 20		✓		46A. Compulsory financial statement requirements were issued for the first time in 1987. In general, this information is rarely stated in the notes.
B. If not, on what basis.					
47. A. Is specific information related to income taxes required to be disclosed? (I28)	Yes. Annual accounts C. com. art. D 24-24, Consolidated accounts: Comp. Law art. D 248-12	✓			
B. If so, list the requirements.					47B. See paragraph 130 of text.
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I37)	Yes, but under certain conditions only.	✓			48A,B. See paragraphs 130 through 133 of text.

B. If so, are the tax effects of a loss carry backward included in the income in the period?	Yes. CNC (avis no. 26)	✓	
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I37)	Yes. Fiscal Code art. 290-1	✓	
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes. C. com. art. D 24-24	✓	
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes	✓	50. Both historical and current rate methods acceptable. When the historical method is applied, difference is recorded in the profit and loss account; when current rate method is applied, difference is recorded in a specific reserve called "Translation difference" reported in stockholders' equity. When the historical rate method is used, monetary items are translated at the current rate.
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes	✓	
52. A. Are translation adjustments reported separately? (F60)	Yes	✓	
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	Yes		✓		
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes	✓			53A. Losses are recorded. Gains are not anticipated, except in consolidated financial statements (Comp. Law Art. D. 248-8g), for which the option is left open.
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes	✓			53B. Identified separately on balance sheet. Losses are then recorded to net income through provision.
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transaction? (F60)	Yes. PCG p. 105	✓			
55. What information is disclosed about foreign currency restrictions?	None specifically required	✓			
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto?	Yes. C. com. art. 14, al. 3 OECCA n° 12, post balance sheet events	✓			
57. Please list any standards for France for which there are no corresponding U.S. standards.					57. None

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