Re: Exposure Draft (ED) Leases

Lafarge appreciates the opportunity to respond to the proposals set out in the Exposure Draft "Leases".

We understand that there is a need to improve the existing requirements of IAS 17 in order to prevent what the Board sees as structuring opportunities. However, we believe that the primary objective to achieve in developing this new standard should be to improve the usefulness of financial information for the users. In our opinion, the proposals appear too complex, in some cases disconnected from the economic reality and do not facilitate the comparability between different entities.

General comments on the proposals provided in the Exposure Draft

Lafarge acts solely as a lessee, and accordingly, our general comments address only the lessee accounting proposals.

Our main concerns relate to:

- Benefits and costs of the proposed requirements: the proposals will significantly impact the reporting process and will require material changes in the accounting/reporting IT systems. The collection of the data and their analysis will require additional high qualified resources. This proposal is at once expensive and time-consuming at the transition date but also on a recurrent basis.

- Contingent rentals: under the proposed model, estimates of the contingent rentals will be treated as a liability. To the extent that the obligation to make lease payments is under the control of the lessee (e.g. by ceasing to use the leased asset), we consider that this position is inconsistent with the definition of liabilities under the framework currently applicable.

- Renewal options: we disagree with the Board’s proposal that the lease term should be measured as ‘the longest period more likely than not to occur’. We believe that
optional extension periods should be included in the determination of the lease term, only if it is certain at inception of the lease that the option will be exercised. In all other circumstances, the right of renewal is within the control of the lessee and the related payments do not represent a liability until the right is exercised. It is fundamental that the lease term considered in the model is consistent with the contractual terms of the contract otherwise we believe that the liability recognised would be inconsistent with the definition of liabilities under the framework currently applicable.

- Measurement issues (estimation of exercise of renewal options and contingent rentals): the model proposed introduces a lot of assumptions and estimations, and practically, we consider that it is not feasible to make those assumptions and estimations on a reliable and consistent manner. We consider that the proposed approach is not operational and will cause high difficulties to be implemented.

- Side effects introduced by these proposals: the proposed model may impact other standards (IIAS 36, IAS 39/IFRS 9...), but those impacts are not highlighted in the exposure draft. It is therefore not possible to implement a new model without having a full view of the related accounting consequences.

- Timetable: in case the Board do not consider our comments and decide to issue the final standard on that basis, the date of mandatory application shall be carefully considered. Actually, by considering the significance of the changes required by this approach, it is practically not feasible to implement this standard in the timetable generally provided. At this stage, we understand that IT system providers will need at least 2 years to complete the required developments; and this work is not yet started.

**Alternative proposals suggested by Lafarge**

Despite the concerns expressed on this proposal (see above), we recognize the need to improve the existing requirements. However, we believe that no fundamental change need to be made to the current IAS 17 standard but that it is rather possible to achieve a high quality standard by making few targeted changes to this standard.

We consider that the existing model (operating/finance lease) is relevant for the business model of industrial companies. However, we support the proposal of the Board to reinforce the information related to operating lease.

In that perspective, we suggest the following:

- no change in respect of the accounting of finance lease

- operating lease disclosures shall distinguish operating lease of core assets and operating lease of non-core assets. This information is relevant for the users of the
financial statements to appreciate and compare the business model of the different entities in the same sector of activity

- operating lease of core assets shall be disaggregated into classes of assets with extended disclosures related to contingent rentals, option penalties, renewal clauses

- operating lease of non-core assets shall present the disclosures currently required by IAS 17 § 35 in aggregates.

Should you wish any supplementary comments or explanations, please do not hesitate to contact us.

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