

Inventory Valuation

1. Objective and Scope

1.1 Objective of this Procedure

This procedure describes the Group requirements for macro process Costing – Inventory Valuation

It includes:

- the roles and responsibilities within the SBS Rtr organization
- the tasks to be performed
- the related deadlines.

More precisely, this document will focus on:

- Part 4.1 : the overview of responsibilities in the light of SBS organization
- Part 4.2 : the Inventory Valuation process General Description
- Part 4.3 : the Physical Inventory Count process
- Part 4.4 : the Reserves Estimation process
- Part 4.5 : the Internal Margins Elimination process
- Part 4.6 : the related Internal Core Controls

1.2 Scope

This organizational procedure (P) applies to all companies included in the Solvay Business Services scope of entities.

This procedure takes effect as of disclosure of the document to the Group.

2. Reference Documents

SBS-P-DRTR-04-006 Intercompany reconciliation process

3. Definitions

[Costing - Glossary](#)

4. Organizational Procedure

4.1 General Roles and Responsibilities

WW PE Costing : Process Management Team – WW level

- PE Costing is the owner of the process for the Group at a worldwide level
- Ensure efficient governance of the process through rules definition, communication and enforcement.
- Manage internal controls on Costing and Cost Accounting
- Deploy procedures / orientation defined at Rtr Process Management level
- Manage the delivery accounting team in each region
- Deploy common/standard procedures and support local teams
- Establish the link between Process Management and Delivery team in each region
- Mostly act as supervisors to ensure process efficiency and performance enhancement
- Create/Maintain the controlling network
- Leverage the controlling network to achieve process efficiency and transmission of required expertise

The Process Expert will work closely with a **Delivery team** in charge of Rtr activities organized as follows:

SU MAC Service centers

- Perform daily operations related to the Product Costing process, in line with guidance and rules defined upfront, for activities not requiring proximity to customers or specific local knowledge
- Optimize and standardize operations, as well as documentation materials (mostly Operating Procedures).
- Offer standard services and conduct related internal controls
- Three centers serving their regions as well as the whole world, and coordinated worldwide (Lisbon, Curitiba, Bangkok)

Non-GBS Roles:

Corporate Controlling

- Responsible for giving instructions on process objectives

GROUP ACCOUNTING REPORTING (GAR)

- Responsible for giving instructions on process objectives

GBU Finance Directors

- Responsible for financial statements compliance
- Designate FRA and GCCO, and in general, all responsible of internal controls to be performed by the GBU

GBU Finance Responsible Assigned (FRA)

- Responsible for validating Costing processes
- For reason of simplification, there is only one role GBU FRA, however in some sub-processes this role could be developed by 2 actors: FRA and GCCO

4.2 Inventory Valuation: General Process Description

4.2.1 Inventory Valuation Roles and Responsibilities

The Inventory Valuation activity implies inputs and responsibilities from various actors in the organization, as described below:

4.2.1.1 SBS actors of the Costing Model Architecture

WW PE Costing

- Define the generic roles of the Costing and cost accounting organization
- Define, communicate and implement Inventory valuation procedures
- Validate Inventory valuation procedure
- lead Inventory valuation projects
- Training of resources when needed
- Design of internal controls on the process
- Organize teams in order to ensure the proper functioning of the Inventory valuation process
- Ensure a proper allocation of resources to the Inventory valuation process
- Ensure the link between process management and delivery team in each region
- Provide feedback, relay information from the regions to PE costing
- Control and validate the requests sent by GBU
- Supervise internal control efficiency within the region

SU MAC service centers

- Input in the systems and reporting tools (SAP, BFC) all the information provided by out of SBS functions
- Maintain the system accuracy

4.2.1.2 Non-GBS actors of the Costing Model Architecture

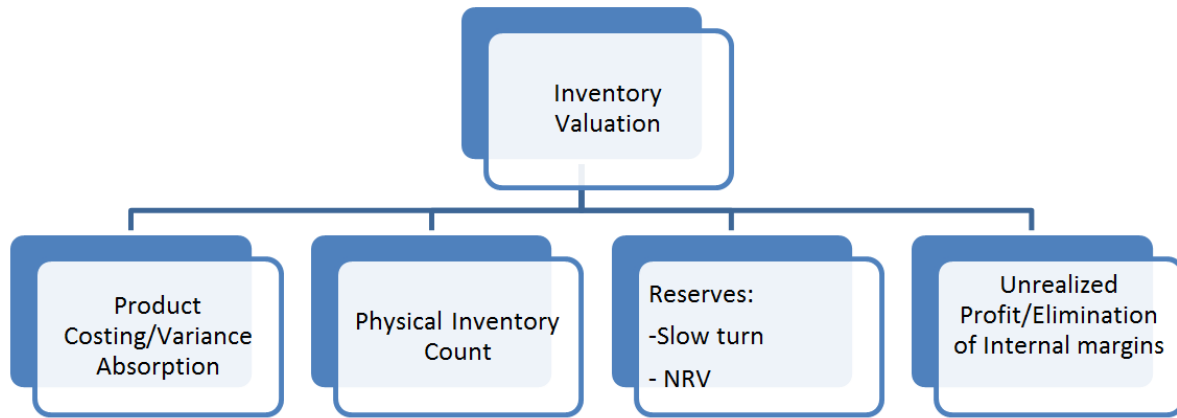
FRA/GBU controller

- Estimate NRV reserve
- Perform product mapping for intercompany margins
- Validate SAP reports
- Define physical inventory count process
- Manage and supervise physical inventory count
- Estimate slow turn reserve
- Prepare inventory reports

Inventory manager

- Manage and supervise physical inventory count
- Assist in preparation of inventory reports

4.2.2 Inventory valuation Flowchart



Note: for Product Costing/Variance Absorption, refer to the Product Costing Procedure

4.3 Physical inventory count

[Physical Inventory procedure](#)

4.4 Reserve estimation

According to IAS2, when "realisation value" of inventories decreases below "historical cost value", inventories must be depreciated. For this reasons reserves estimation must be performed to provision for the impairments. The following are the main underlying rules governing the reserves estimations:

[Instruction for Inventory Reserve](#)

4.5 Internal Core Control

[SBS-OP-DRTR-02-104 - IAC 01.09. Costing model](#)

[SBS-OP-DRTR-02-106 - IAC 01.02. Variance analysis](#)

[SBS-OP-DRTR-02-107 - IAC.03.07. Critical inventory movements](#)

[SBS-OP-DRTR-02-109 - IAC.02.06. Slow turn inventory reserve](#)

[SBS-OP-DRTR-02-112 - IAC.02.03. Physical inventory](#)