WW - Capitalized Cost Management

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Objective and Scope

Objective of this Procedure

The purpose of this document is to describe the role of SBS I&D in the capitalization cost management process from project creation to the project technical closure.

Scope

This organizational procedure (P) applies to all companies within the Solvay Business Services scope of entities. It is important to highlight that this procedure concerns all types of projects: Industrial, Research & Development, and IT etc.

Reference Documents

Group IFRS Principle and Rules:

Financial Reporting Guide

CAPEX:

Capex01 Procedure
Management of investments and capex excellence progress
Transactions_Management

Definitions

WBS	Work Breakdown structure
PS	SAP Module for "Project System"
ERP	Enterprise Resource Planning (SAP)
SBS	Solvay Business Services
SU MAC	Service Unit - Management Accounting
CAM	Companies Accounting Manager
BFC	Business Financial Consolidation
I&D	Investment and Divestment
AUC	Asset Under Construction

Main Part

General Roles and Responsibilities

SBS Actors:

- **SU MAC I&D Expert**: The I&D Expert coordinate overall process efficiency and participate in the definition and deployment of capitalization rules.

- **SU MAC Regional I&D contacts**: Regional I&D contacts are accountable of the deliveries of the process with the support of SU MAC team via a supervision role (for their region) to ensure overall process efficiency and performance enhancement coordination / follow-up when needed. They represent the first level of contact for all complex cases. They are responsible to identify, maintain, update and communicate the list of individual eligible to send a request to SU MAC Project & Analytics team.

- **Companies Accounting Managers**: CAM are not involved in the process directly.

- **SU MAC Projects & Analytics Team**: Project & Analytics is expected to be the main contributor of the capitalized costs Management process, being responsible for project codes creation (for Solvay Legacy) and run for settlement transactions in ERP.

Non SBS Actors:

- **Project Manager (Industrial Function / IT / GBU/Regulatory Affairs/ Research & development)**: The role of these actors is to provide SBS actors and / or the technical controller with the necessary input (project definition, WBS definition etc.) in order to carry out their responsibilities.

- **Technical Controller**: In Solvay Legacy the technical controller is responsible of the asset register update / WBS. SU MAC is exclusively responsible of all posting transactions (WBS settlement on AUC / depreciation posting / periodic posting)

- **Manufacturing database & reporting:** In Solvay Legacy, the manufacturing database & reporting centralize the project code creation requests before sending it to SU MAC.

Communication flow

The communication flow should respect the following criteria:

- Any request must be sent to SU MAC via a ticketing tool in order to be registered
- The requester should be recognized as eligible
- SU MAC is in charge of following the traceability, performing the request and sending a feedback to the requester.

Process Description

The Capitalized Cost Management organizational procedure describes the roles and responsibilities of the different parties involved in the project cycle life from the project code creation in PS to the project technical closure

Capitalization rules reminder

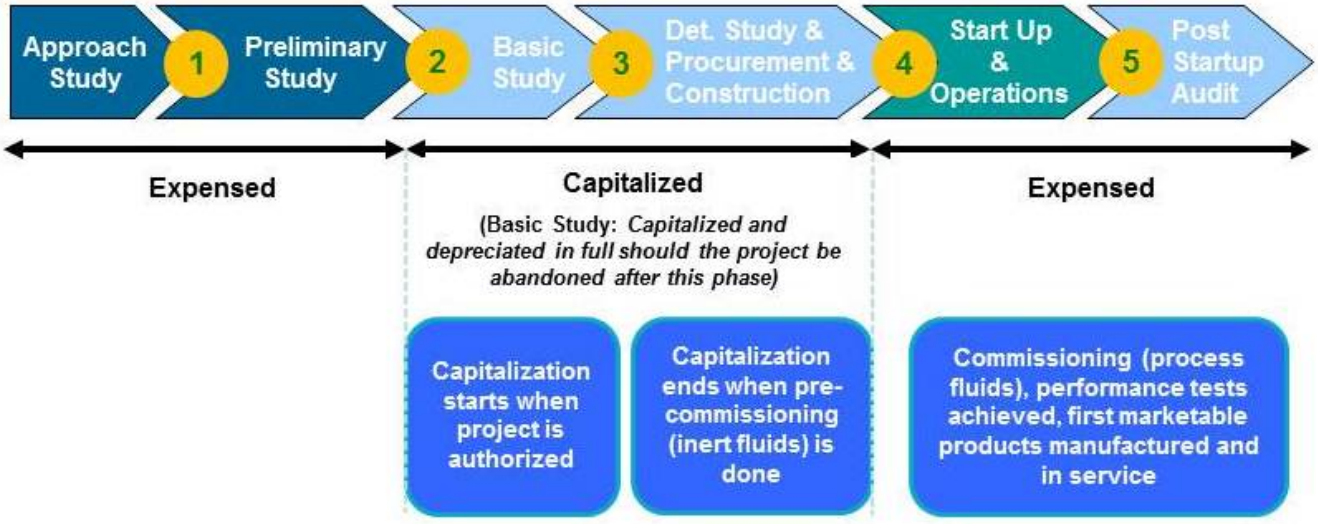
Key Principles

- The project managers have to identify the expenses to capitalize in respect of the following rules :
    1. It is probable that the future economic benefits attributable to the asset will go to the company
       *The cost of the assets can be reliably evaluated.
    2. The capitalized expenses differs according the project phase and type (IT, industrial or Research & development)
    3. The project managers are responsible of the proper application of these rules

IAS 16 PAR 55 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
This definition determine the commissioning date and is under responsibility of the project manager

The following charts identify the capitalized expenses by phase and by project type:

- **<u>Industrial investment project phases</u>**



The 4º step is the date of commissioning and represents the starting point of depreciation

Explanation of terminology
Approach study

- Brainstorming mainly at GBU level, with some limited support from Group Engineering & Construction (GEC)
- Definition of basis of projects (industrial scheme, processes, scope, …)
- Costs of personnel or consultant can be included
- Order of magnitude of project cost estimate at +/- 30%.

Preliminary study

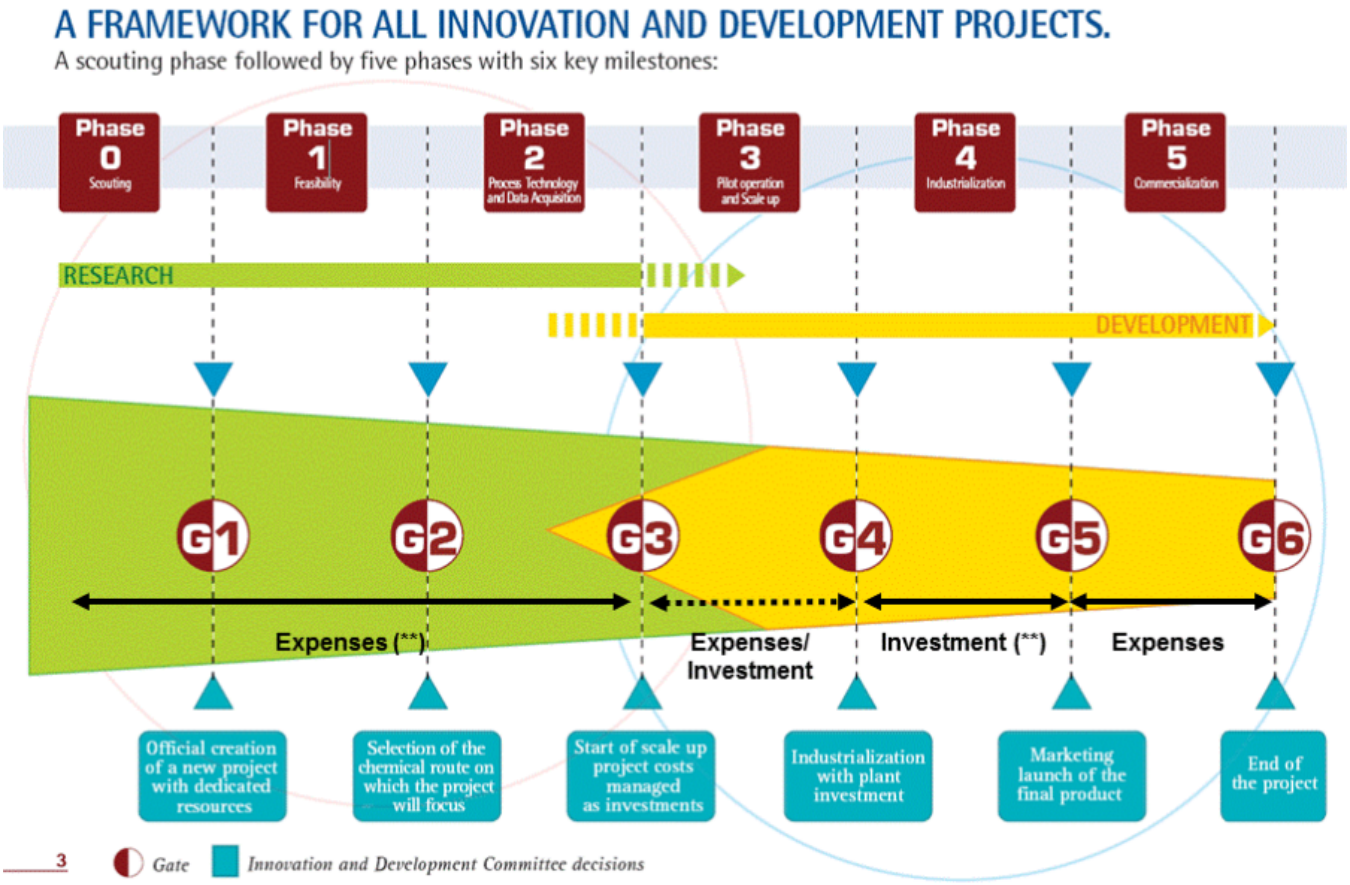
- Include:
    1. Already engineering hours used
    2. Business, financial and engineering studies to freeze the scope of the project)
    3. Preliminary study costs themselves
    4. Experimentation costs
- Order of magnitude of cost estimate at 20%.

Basic study

- Preliminary studies move to Basic studies based on a formal decision to proceed (Authorization-To-Proceed). The impact is on future expenses (no retroactivity). The trigger is the decision date.
- A basic study leads to the creation of a project which is capitalized. It will be depreciated in full should the project be abandoned after this phase.
- Include:
    1. Development of the basic engineering package which will enable the carrying-out of the detailed study
    2. Procurement of long-lead equipment
    3. Order of magnitude of cost estimate at 10%.

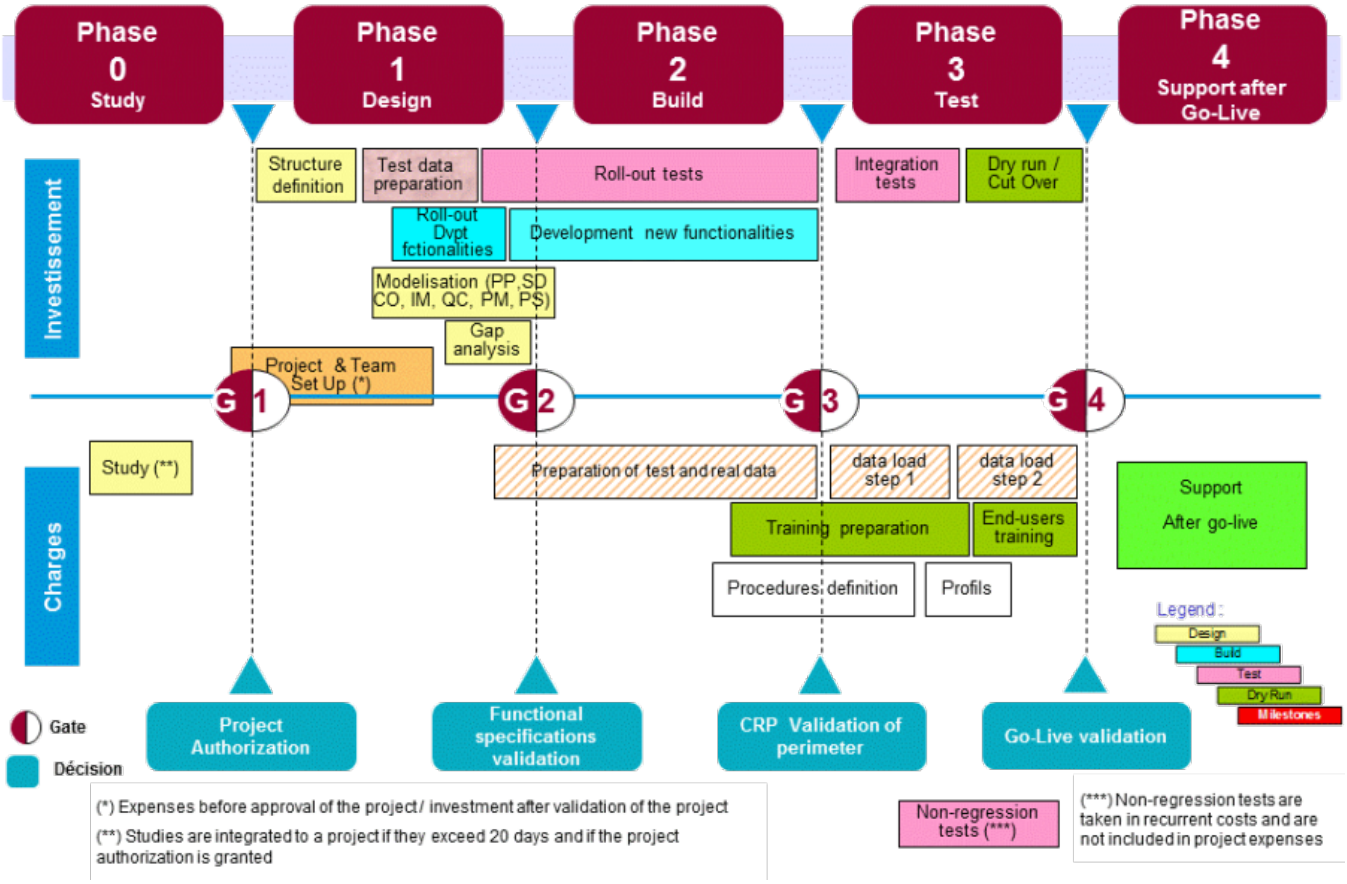
Note: At each phase of a CAPEX project, a different package of deliverables has to be achieved and a series of essential checks are to be carried out by GEC and/or GBU prior to go to the following stage

- **<u>Innovation / Research & Development project phases</u>**



G5 (Phase 4) is the date of commissioning and represents the starting point of depreciation

- **IT investment project phases**



G5 (Phase 3) is the date of commissioning and represents the starting point of depreciation

Project code creation in PS

Key Principles

Prior to any project code creation, the project manager has to obtain the formal authorization (approval) to launch the project. In this authorization request, he should indicate either the project in question should be capitalized or not. The process of obtaining the projects approval is described in the document "C APEX 01".
Preceding any WBS element creation and purchase allocation in the system, the project has to be created in PS and key elements must be defined: this is performed via the project code creation in PS (PS is an SAP module allowing the project manager to ensure that the project is executed efficiently, on time, and within budget - which he achieves by guaranteeing that the required resources and funds are available as and when needed) Thus after validation of the project, key elements related to the project itself must be entered in PS. This will allow the future WBS creation.

Roles and Responsibilities:

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- The Project Managers are in charge of:
  1. Listing all information necessary to create the project code:
     a. Division
     b. Entity code
     c. Business area
     d. …
  2. Transferring the information to the Manufacturing and Database Reporting entity
  3. The Manufacturing and Database Reporting entity is in charge of:
     a. Centralizing all project code creation requests
     b. Sending the project code creation requests to SU MAC team

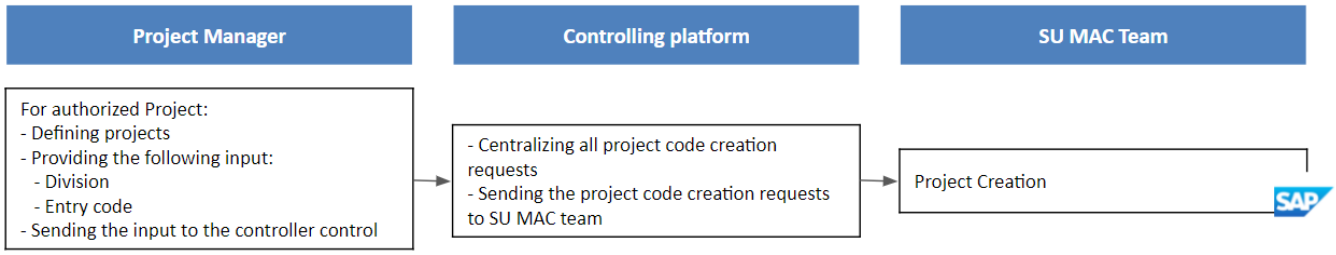
- SU MAC is in charge of :
  1. Creating the project code in the ERP based on the information provided

Rhodia Legacy

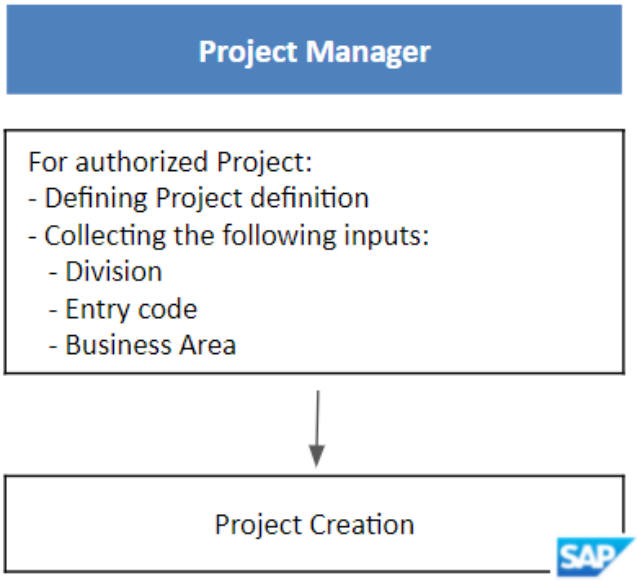
- The Project Managers are in charge of:
    1. Identifying all information necessary to create the project code:
        a. Division
        b. Entity code
        c. Business area
        d. …
    2. Creating the project code in the ERP

Flowchart:

Solvay Legacy



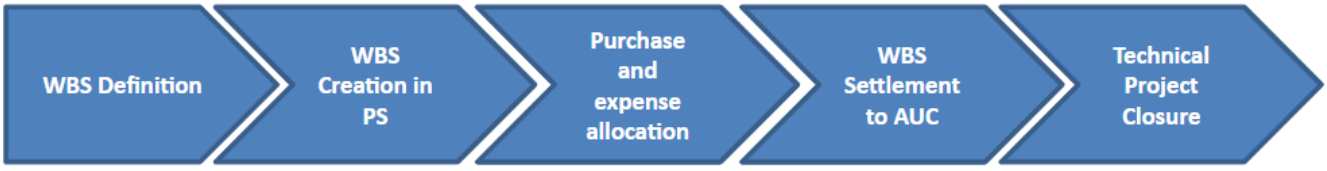
Rhodia Legacy



Project Life Cycle

Key Principles

The project life cycle process is described as follow:



- **WBS Definition:**

A project is defined under a hierarchical structure made up of WBS (Work breakdown Structure) elements created at different levels.

- **For Solvay Legacy**:

WBS elements are based on Material Codes that represent different activities / tasks (Appendix 1). The use of the material code during project realization allows simplifying the transition from project phase to fixed asset creation, by minimizing interpretations all through the process.
It is important to respect a few rules in the WBS elements issuance at the very beginning of the project.
The WBS elements issuance rules have to meet two main requirements:

1. to allow follow-up by project manager;
2. to allow the creation of relevant fixed assets (physically identifiable and standardized definition within the Group).

- **For Rhodia Legacy:**

WBS definition is not based on the material code structure. Project managers do not define WBS structure on the basis of a standard rules or regulation.
A project of WBS structure standardization (based on the material code) is under consideration.
For intangible assets, the project code creation is centralized by the "IT Project Controller"

- WBS Creation in PS:

After the WBS elements have been defined, meeting project manager and Group requirements, WBS elements have to be created effectively in PS (via transaction CJ02). This step consists in populating all the fields of WBS master data with relevant information (defined upfront by the project manager).
After the creation of the WBS elements in PS, they must be marked as "released" in order to allow their proper use as cost collectors for future purchase allocation.
For Rhodia Legacy, the project > 500 K€ should be reviewed with the SU MAC I&D key user.

- Purchase and expense allocation:

The purpose of this task is to define the allocation between collected costs (WBS)
Costs families that can be related to a project can be the following:

1. External purchases
2. Internal labor
3. External studies
4. Internal equipment (inventory consumption)

- WBS settlement on AUC:

On a monthly basis, costs are allocated on WBS elements and are settled to AUC via a transaction run in the system (CJ88/CJ8G)

- Technical Project Closure:

Once accomplished, the project has to be marked in PS as "technically closed" (via status system in PS). This step will prevent any new order to be performed on the project. The project manager has to perform the technical closure.

Roles and Responsibilities

Solvay Legacy

	Project Managers	SBS	Tools
1. Define the WBS structure definition (material code)	X		Excel Format
1. Send the WBS element creation request to the Technical Controller	X		Excel Format
1. Create the WBS elements in SAP		X	SAP - PS
1. Control expense allocation	X		SAP - PS
1. Perform WBS settlement on asset under construction and on P&L (CJ88/CJ8G)		X	SAP - PS
1. Request project to be technically closed	X		SAP - PS

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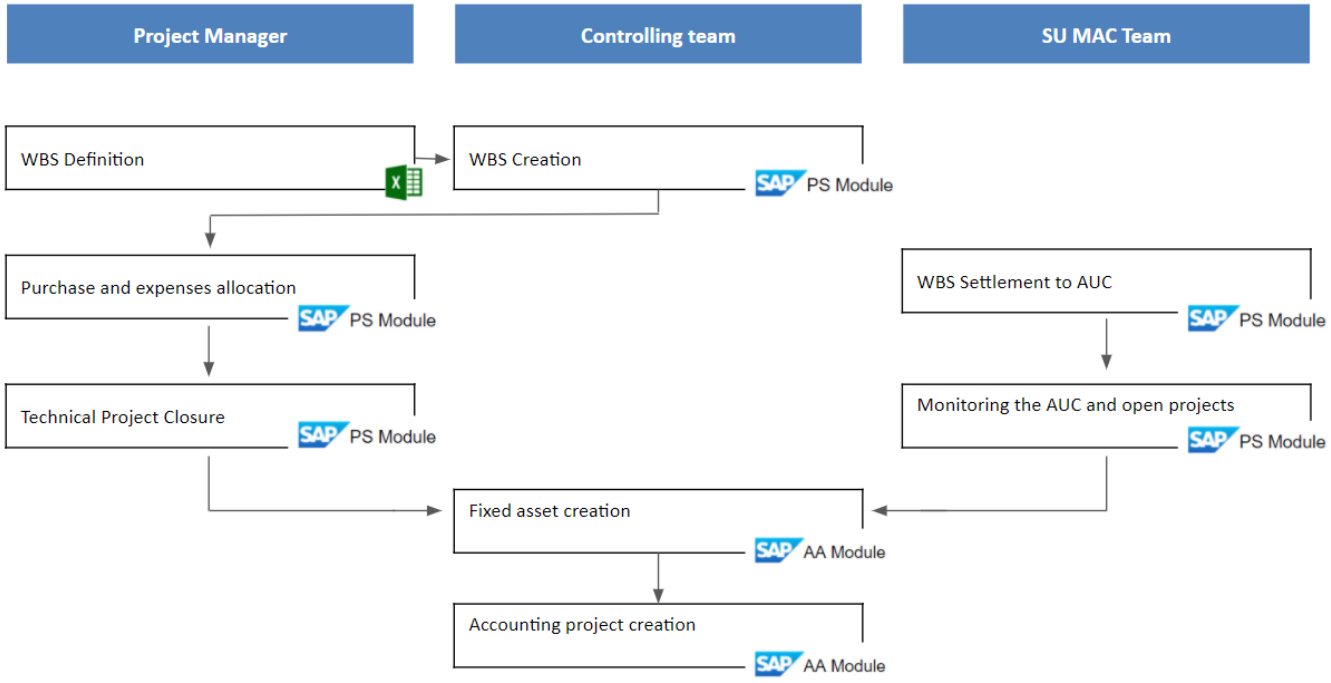
	Project Managers	SBS	Tools

1. Define the WBS structure definition	X		Excel Format
1. Send the WBS element creation request to the Technical Controller	X		Excel Format
1. Create the WBS elements in SAP	X		SAP - PS
1. Control expense allocation	X		SAP - PS
1. Perform WBS settlement on asset under construction and on P&L (CJ88/CJ8G)		X	SAP - PS
1. Close the project technically	X		SAP - PS

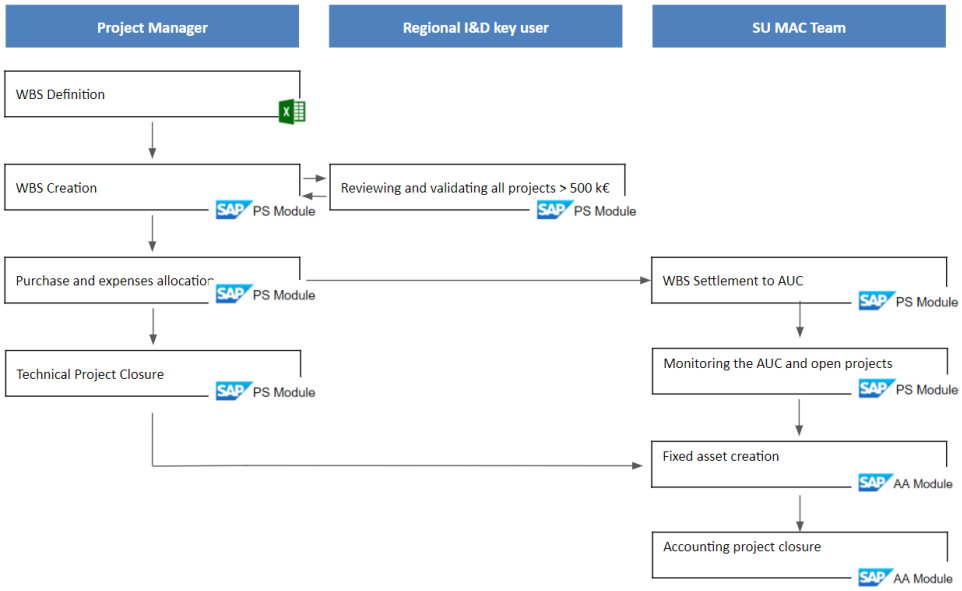
Flowchart

Solvay Legacy



- The "AUC Monitoring" will be detailed in the "I&D Closing Management" procedure and the "Fixed Asset Creation" / "Accounting Project Closure" will be detailed in the "I&D SAP Transaction Management" procedure

Rhodia Legacy



- The "AUC Monitoring" will be detailed in the "WW - FXA.01.08 - Review of assets under construction (AUC) older than 6 months - Sleeping AUC" procedure and the "Fixed Asset Creation" / "Accounting Project Closure" will be detailed in the "I&D SAP Transaction Management" procedure

Capitalized Cost Collection

Key Principles

The capitalized cost collection follows the following key principles:

- Submit Capitalization Request:

At the end of a project, the Project Manager has to send a capitalization request (Excel, mail, doc.) to SU MAC team in order to start the asset commissioning process.

- Control Documents Authorizing the Capitalization:

When receiving the capitalization request (Excel, mail, doc.), SU MAC have to control the capitalization request (make sure that all needed information is included). Key elements related to future assets to be created must be completed including **asset class** and **cost center**. In addition they have to verify that costs to be capitalized correspond to the costs recorded in the system.

- Asset Creation:

In the AA Module and based on capitalization request, related asset master data has to be created. At this step, asset class information is a key element to enter in the asset master data. It will define all the related treatment (fiscal and accounting).

The following management rules apply to the capitalized costs collection:

- All expenses, whether capitalized or not, must be recorded in a project via a WBS element in the Project System module (PS) in order to have complete traceability of project expenses
- The Project Management ensures at least quarterly that expenses allocated on projects are properly recorded:
    1. Expenses and engagements are in the project's scope
    2. Expenses records in line with the achievements
    3. Visibility of final project expenses
    4. Expenses / investments distinction respected
- Expenses recorded on WBS are automatically settled by CJ8G transaction, executed by SBS
- SU MAC also carries out a review of assets under construction posted for over 6 months to ensure that there are no unjustified postponements of depreciation. It contacts the Project Management to obtain an explanation for this situation and gets if necessary the capitalization forms for the assets concerned

Controls to be performed:

- **FXA.01.01:** Documentation of any modification in the assets books
- **FXA.01.08:** Review of assets under construction (AUC)older than 6 months

Roles and Responsibilities

Solvay Legacy

	Project Managers	Tools
1. Send the capitalization request	X	Xls/Doc/mail
1. Control documents authorizing capitalization	X	Xls/Doc/mail
1. Control that costs to be capitalized correspond to the costs recorded in the system	X	Xls/Doc/mail / SAP
1. Identify projects with no related expenses for more than 2 months	X	Xls/Doc/mail / SAP
1. Create asset in AA module	X	SAP-AA

Rhodia Legacy

	Project Managers	Tools
1. Send the capitalization request	X	Excel Format
1. Control documents authorizing capitalization	X	Excel Format
1. Control that costs to be capitalized correspond to the costs recorded in the system	X	Excel Format / SAP
1. Identify projects with no related expenses for more than 2 months	X	Xls/Doc/mail / SAP
1. Create asset in AA module	X	SAP-AA

Projects / WBS status management

Key Principles

In SAP, WBS (or project) are managed by 2 types of status :

- User status
- System status
    1. Created
    2. Release
    3. Technically closed
    4. Complete closed

Responsibilities

User status : Managed by SU MAC
System status 1 to 3 : Managed by project manager
System status 4 - Complete close : Managed by SU MAC

Status 4 Complete close : Updating process

To be moved from status 3 to status 4, a WBS (or project) should first satisfy the following conditions :

- All costs must be capitalized on final asset
- No commitments on going
- All good receipt balanced

2 times per year (in May and October), a review of WBS (or project) in status 3 for which technical closing date is older than 12 months and the last date of expense posting is older than 6 months.
The analysis and the appropriate status update will be performed by SU MAC.
All project and their structure older than 2 years without expenses have to be systematically closed by SU MAC.
In case of blocking related to conditions not filled, SU MAC team has to contact:

- Project manager for need of additional capitalization
- Purchasing service line procurement agent involved in purchase order in case of issues on good receipt or remaining commitments

End of document