

# S02.02-AS-11-Advances

## Treatment of advances and loans

"SHRINKING ADVANCES" (in French = "AVANCES FONDANTES")

### 1. Definition

A "shrinking advance" is a contract between 2 parties in which one party finances works (investments) and the other takes exclusive benefits from them.

In order to satisfy Company A's requirements in terms of utilities, products, services or other items, or requirements common to both Company A and Company B, **Company B will make an investment on its site**. B will therefore be the owner (and contractor) and **A will finance the investment through a loan to B (loan or advance)**.

A Group entity may of course be in the position of Company A or Company B.

Note that **all subsidies or loans obtained from government bodies or similar (whether they bear interest or not) are excluded from the application of this procedure**; these transactions are purely financial packages with no operational purpose directly shared by both parties.

### 2. Treatment

In general, Company B (the owner and contractor of the investment) must:

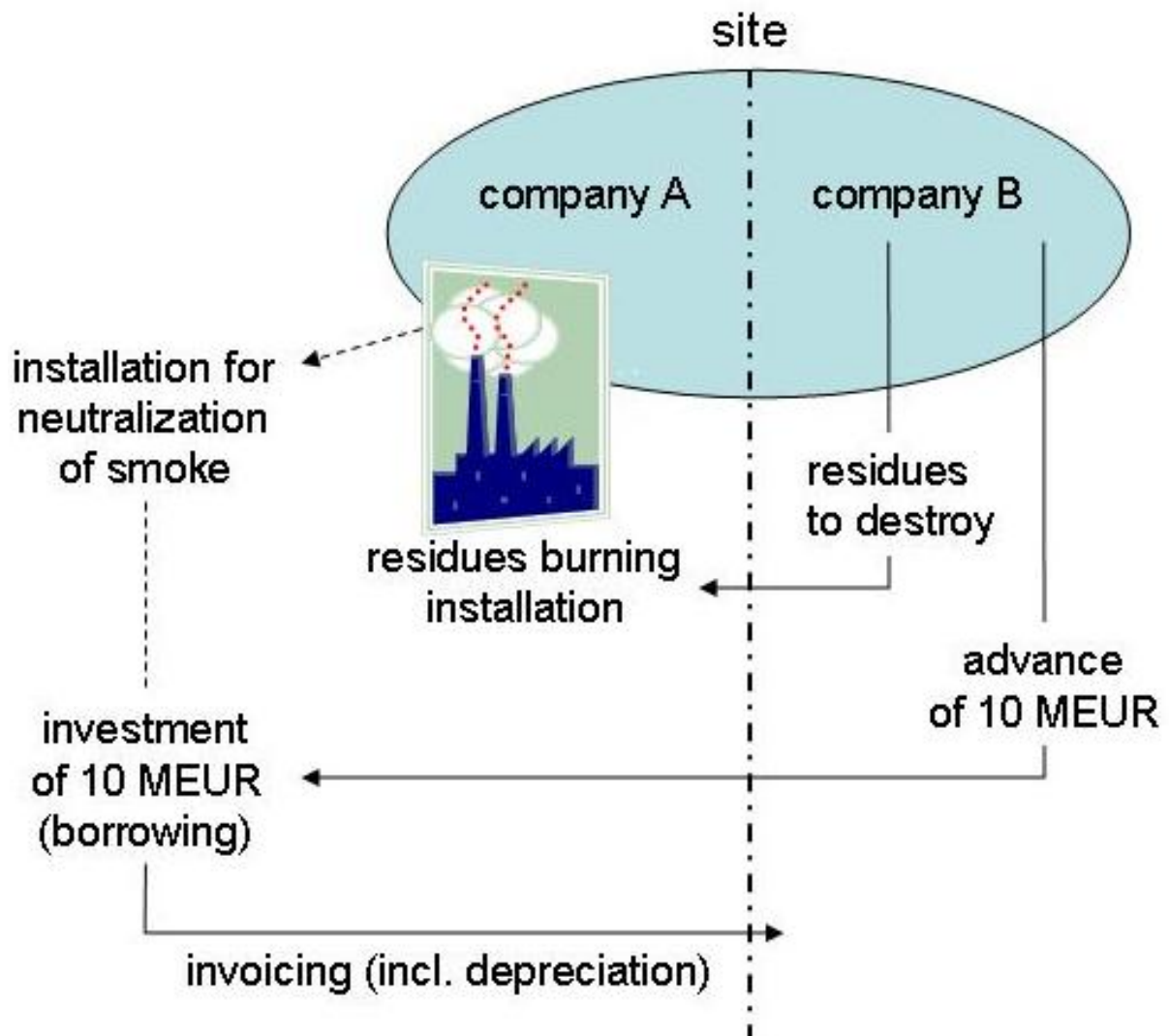
- Post its **asset** in its statement of financial positions and adjust its capital employed by the amount of the loan (see the following paragraphs).
- Bear the depreciation cost.
- Bear the cost of the local taxes and the insurance required for these assets.

The contractual package must specify (among others):

- the amount of the loan
- the terms of its payment
- the terms of its repayment: duration, installments, interest rate ★, frequency of repayments (annual, quarterly etc...)  
★ The payment of interests does not apply if mutual interest between the parties are preserved. A case by case analysis may be necessary with the tax department as this topic may reveal to be sensitive.
- the terms covering the realization of the work
- the terms according to which B supplies A with the utility, product, or service that is behind this investment
- the terms according to which A recognizes the costs borne by B: depreciation, local taxes, interim interest, start-up costs, any overrun of the investment cost
- the fate of the installation once in use: usage for parties other than A, transferability, fate at the end of the contract.

Note: Each contract must be analyzed in order to determine whether it represents a lease operation.

### 3. Example



#### 4. Remuneration of the loan

The lack of remuneration (no payment of interests) is justified when the lender is the sole beneficiary of the expected investment income that he finances.

#### 5. [Example of a loan not representing a lease](#)