

# S03.03-IS-01-R380-I.4

## I - Other operating Gains & Losses: General principles

### 4. Other recurring operating income and expenses (R384)

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#### Other recurring operating income and expenses (R38100)

- Costs not directly linked to production processes, while relating to the entity's industrial activities, i.e.:
  - Costs incurred and provisions established by the entity for the demolition and dismantling of installations, facilities and equipment, where such operations are tied up to restructuring or partial decommissioning related to definitive shutdowns:
    - Any further costs not covered by provisions and deemed **insignificant** by the Business, related to restructuring with respect to a definitive shutdown. These costs are entered in full for the month in which they occur.  
Note: Such costs, when deemed **significant**, are recorded in "[R48690 - Other non-recurring expenses](#)" provided they are approved by Group Accounting & Reporting.
    - Forecast net costs related to a partial decommissioning with respect to definitive shutdown of facilities. They include demolition, site clearing and rehabilitation costs, **BUT NOT** the depreciation due to demolition, which is reported in "[R38400 - Other recurring depreciation expenses](#)" (non-cash item).
    - Demolition costs not covered by provisions, relating to a definitive shutdown in the past.  
Note: Demolition costs (incl. site clearing costs) should not be recorded as fixed assets, even when they precede construction, unless the land on which the building to be demolished stands is bought from a third party (outside the Group) with a view to construction. In such cases, they should be recorded as assets and included in the budget request.
  - Expenses incurred by an entity on production sites with a view to optimizing production processes or operating methods
    - for routine tests performed
    - for tests carried out by operating staff in the units concerned on the initiative of those in charge of operations, sometimes with assistance from the research centers
    - Are NOT taken into account:
      - Technical customer assistance (in "[R33320 - Commercial expenses](#)")
      - [Research and development costs](#)
  - Temporary production shutdowns for over 30 days:
    - This is where a unit or part of a unit is "**awaiting assignment**" or "**mothballed**" i.e. shutdown for a period **exceeding** 30 days. In here, we may face cases where there are uncertainties about when the installation will restart whereas there are no decisions taken about a definitive shutdown.  
In such cases, the associated expenditure is charged to the BU, posted on the cost center "shutdown costs", and reported in here for the corresponding division.
    - **However, there are cases where the shutdown period exceeds 30 days and that ought to be reported above gross margin.** The corresponding under-activity is analyzed through the difference between period fixed costs and fixed costs absorption. Such cases exist when they fall under the normal business conduct. Examples:
      - Installation shutdown for commercial reasons (e.g. in the case of a stop of sales for a certain period)
      - Production by batch. The production may be shut down awaiting another batch to be produced.
    - Read global note on shutdowns in [here](#).
  - Gains or losses generated by an entity through activities connected with its operations but that are not part of its basic commercial and industrial activities.
    - **Are taken into account:**
      - Gains and losses on invoices from third parties for industrial or commercial activities not included in net sales.  
Examples:
        - Gains and losses on maritime and international shipments in general.
        - Gains and losses on swaps of some products used as raw materials, when it is clear that the transaction is not commercial but is intended to cut the cost of transporting raw materials and thus to reduce the cost price of production.
        - Tailoring and subcontracting activities performed by the entity, **provided they are non-current or insignificant.**
        - Gains and losses on realization of trade receivables.
        - For French entities, the labor force participation and profit sharing are allocated to all headings containing personnel costs.
        - Income resulting from the sale of products developed in the Group research facilities that are at a pre-marketing stage or already marketed, but not yet introduced in the Group product codes.
    - **Are NOT taken into account:**
      - Results on activities performed by the administrative services ("[R33310 - Administrative expenses \(non functions\)](#)").
      - Tailoring and subcontracting activities performed by the entity, **if such activities are part of its current business and are significant** ("[R10000 - Net sales](#)").
      - Write-downs on spare parts. They are reported under [R25600 "Write-downs on inventories"](#).
- Non-financial and non-operational charges and income that do not fall under the definition of non-recurring items
  - **Are taken into account (non-exhaustive list):**
    - Fines and tax penalties (except penalties related to income taxes)
    - VAT that became non-recoverable as a consequence of an unfavorable decision taken by the tax authorities.

- Operating results not directly related to the commercial and industrial activities (incl. write-downs on receivables and discounts on stocks from connected activities).
- Compensation payable to or received from a supplier of fixed assets for breach of contract.
- All expenses and income on past commitments, provided:
  - they relate to discontinued activities (expenses not generating revenues any longer)
  - they are not covered (or insufficiently covered) by the initial provision.
  - Income and expenses related to prior years as well as recovery of past charges resulting from creation or modification of rules for constitution of pension funds
  - All additional allocations to these initial provisions, to the condition that they are not related to the core business.
    - Expenses related to pension payments to retired personnel of manufacturing activities or of production sites that have now been shut down or sold, provided these expenses were not covered by the initial provisions made, whether or not the Group is still committed in the related activities.
    - For activities in which the Group is no longer committed: fertilizers, wood protection, enzymes, etc.
    - For continuing activities: retired personnel from a closed soda ash production site.
  - Costs of land revalidation and costs of environmental remedies or of follow-up of problems linked to Environmental Liabilities.
  - Expenses related to reorganization into a subsidiary, charged to the parent company, using the reporting division for the related business.  
Remark: Reorganization into a subsidiary is by definition the continuation of an existing activity (going concern) in a new form. Often, reorganization into a subsidiary involves the parent company making provisions for expenses related to structures that the subsidiary will no longer require, or as required by assessors or auditors.
  - In the case of impairment tests, any consolidation differences-related impairment charge if recurrent.
- **Are NOT taken into account:**
  - Penalties related to income taxes of prior years ("R73100 - Current income taxes").  
However, interest cost for late payment of income taxes (adjustments due to the passage of time), outside of income tax penalties, has to be reported in "R53610 - Interest charges"
  - In the case of impairment tests, any consolidation differences-related impairment charge if non-recurrent ("R46000 - Goodwill impairment").
- **Comments**
  - Expenses and income on past commitments are not to be reported under this heading, if they are related to current activities, even if based on past commitments. These elements should be reported under headings that fit their primary nature (gross margin, commercial costs, administrative costs, etc...).
- Royalties received on exclusivities and commercialization: These are royalties on brands, exclusive rights, marketing, ... They are **not included in revenue**.  
Under IFRS, royalties should be accounted for when acquired, according to the substance of the agreement concerned.

#### Study and start-up costs (R38210)

##### **Are taken into account (and therefore expensed as incurred):**

- Study costs incurred during approach and preliminary stages (occurring before the budget is approved).
- Start-up costs linked to an investment that should be expensed as incurred.  
= Start-up activities that occur
  - before an entity commences operations or production and
  - after operations have begun but before normal productive capacity is reached.

Comprise:

- production expenses with deduction of the value of saleable products
- training expenses
- Recruiting, salary-related expenses and training costs for new employees
- Salary-related expenses and travel costs for the management team
- During the start-up period: rent, security, property taxes, insurance, utilities, depreciation of equipment, operating losses incurred
- Initial process and quality testing prior to operation (commissioning with process fluids)
- Consulting fees for outside consultants to help implement a new process
- Feasibility studies

Notes:

These expenses are incurred over the start-up period, which runs from the mechanical acceptance through the technical close. On an exception basis, training expenses incurred even prior to the mechanical acceptance are included in start-up expenses.

- The placement in inventory of saleable products or works deriving from the start-up of manufacturing is deducted from start-up expenses.
- No integration of the share in start-up expenses should be made:
  - either to production costs and inventories,
  - or to the valuation of fixed assets or products acquired by the company for itself.

##### **Are NOT taken into account (and therefore to be capitalized):**

- Initial process and quality testing prior to operation (pre-commissioning with inert fluids)
- Costs of acquiring or developing tangible assets (in tangible assets)
- Costs of acquiring intangible assets from third parties (in tangible assets)
- Costs which are eligible to be capitalized as part of inventory (in tangible assets), long-lived assets or internally developed intangible assets (in intangible assets).
- R&D costs, or intangible assets for development costs that are capitalized under specific agreement from Group Accounting and Reporting Department (GAR)
- Costs of raising capital
- Initial allocations of materials not incorporated in the product, such as **catalysts, shuttles, etc.** (capitalized as tangible assets)

#### Recovery plans (R38220)

Recovery plans result in decrease in staff as part of normal business adjustment to economic change but no closure of sites or stop of activities (in that case, it's a "restructuring plan"). Recovery plans are qualified as "Competitive" plans and thus the relating expenses have to be recorded in here.

Are also included here, the reorganization into subsidiaries, which, by definition, is the continuation of an existing activity (going concern) in a new form. Often, reorganization into a subsidiary involves the parent company making provision for expenses relating to structures that the subsidiary will no longer require, or as required by assessors or auditors. Such expenses should be charged in here, at the parent company, using the reporting division for the business concerned.

In the case of a **definitive** shutdown of an **old** production line, regardless of whether it is replaced by a new one; down-sizing of a commercial office, etc...: The resulting net costs must be identified and valued to avoid penalizing the activities of other businesses. The forecast net costs are recorded in the income statement for the activity in question among the recurring items above Underlying EBIT: Under R38220 for social plans and under usual headings for other costs depending on the type.

Read global note on shutdowns in [here](#)

#### **PPA (Purchase Price Allocation) depreciation expenses (R38300)**

Depreciation of intangible assets recognized following the acquisition of a business which leads to the revaluation at fair value according to IFRS-3 Revised.

Before using this account, please refer to the Consolidation Department.

#### **Other recurring depreciation expenses (R38400)**

Include:

- Write-offs linked to recovery plans qualified as "Competitive" plans, but not the depreciation linked to restructuring that are reported under "[R45500 - Restructuring - Impairment of intangible and tangible assets](#)"
- Accelerated amortization/depreciation following the abandonment of a project (start-up costs that were capitalized). This amortization/depreciation must be reported under "[R38400 - Other recurring depreciation expenses](#)".
- Depreciation due to demolition.