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02: ACCOUNTS RECEIVABLE (TRADE) AND RELATED ALLOWANCES

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SUMMARY

Accounts receivable primarily consist of the consideration due to the Company from its customers for the sale of goods and services. Receivable balances are recorded for each customer and are presented net of discounts, credits or other reductions from list prices in order to represent the amounts collectable from customers. Refer below for further discussion related to discounts.

The Company records an allowance for doubtful accounts, reducing its receivable balance to an amount the Company estimates collectible from its customers when collectability is in doubt. A provision for impairment of individual trade receivables may be established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the individual trade receivable may be impaired. Estimated provision amounts are also based on the ageing of the receivable balances.

The carrying amounts of accounts receivable generally approximate fair value because of the short maturity of these instruments.

RELEVANT TECHNICAL GUIDANCE

- IAS 1, Presentation of Financial Statements
- IFRS 15, Revenue from contracts with customers
- IAS 39, Financial Instruments: Recognition and Measurement
- IFRS 7, Financial Instruments: Disclosures

SCOPE

This policy is applicable to the global operations of the Flint Group, its consolidated subsidiaries and joint ventures.

POLICY

Recognition

Trade accounts receivable consist of the consideration due to the Company from its customers for the sale of goods and services. This amount is net of any prompt payment cash discounts.

Other receivables are covered by Policy 04, Prepaid Expenses and Other Assets.

Accounts receivable will be recognized if it is probable that economic benefits (typically cash) will flow to the Company and the amount can be measured reliably. The recognition of trade accounts receivable is closely related to revenue (refer to Policy 17, Revenue for additional recognition criteria).

Trade accounts receivable are to be recorded in HFM account 1200 Accounts Receivable.

Measurement

Accounts receivable are initially recorded at the fair value of the amount receivable from the customer. The amount recorded will be the amount invoiced to the customer, net of price reductions, payment discounts and/or credits accrued or applied. Refer below for further discussion related to discounts.

Prompt payment cash discounts

Payment discounts are offered as an inducement for prompt payment. The Company records the revenue and accounts receivable at the gross amount at the point of sale and reduces the revenue if the customers take advantage of the payment discount. However, at each quarter end date, a reasonable estimate (e.g. based on historical trend) of material amounts of expected discounts to be taken should be charged against sales in HFM account 4600 Sales Incentives/Discounts/Rebates and the related accounts receivable in HFM account 1297 Allowance for Cash Discounts. The discounts taken should be compared to the estimate and properly adjusted in the subsequent reporting period using the same HFM accounts noted above.

Volume and price discounts

Volume and price discounts are frequently granted in conjunction with sales contracts. In the instance the customer receives a credit memo for settlement of a volume or price discount the amount should be recorded as a contra asset in HFM account 1295 Volume/Price Discounts Owed by Credit Memo.

In case the discount is agreed to be settled in cash then HFM account 3110 should be used – this is applicable for volume and price rebates.

Customer accounts with a total net credit balance as a result of volume or price discount credit memos are required to be reclassified to HFM account 3000 Trade Payables at the reporting date (as a minimum at quarter and year-end).

It should be noted that for Management reporting purposes account 1295 is included in Accrued Liabilities. For external IFRS reporting purposes account 1295 is included in Accounts Receivable.

For the details on the accounting for volume and price discounts see Appendix B.

Allowance for doubtful accounts

An allowance for doubtful accounts will be recorded if the carrying amount (i.e., invoiced amount less discounts) of the accounts receivable exceeds the realizable value (i.e., amount to be collected). An assessment of accounts receivable balances should be performed monthly to determine whether there is any evidence that suggests collectability of the amount recorded is in doubt. Accounts receivable are to be reserved in the period when management deems collectability unlikely and/or remote based on objective evidence of impairment as a result of past occurrences. Reserves are not recorded for future events, however likely the events may be.

Allowance for doubtful accounts can be recorded either as generic or specific risk. For generic allowance – vales are calculated based on ageing report.

Generic bad debt reserve should be posted on HFM account 1299 Allowance for Doubtful Accounts on balance sheet side and HFM 6980 Allowance for Doubtful Accounts account in Income Statement.

Allowance for specific risk is based on the individual risk assessment. It should be recorded in balance sheet either on HFM account 1294 for customers undergoing bankruptcy or insolvency proceedings, or on HFM account 1296 Specific Identified Reserve for Bad Debt for other individual risks with customers. On Income Statement HFM account 6981 Specific Identified Bad Debt Reserve should be used.

The allowance for doubtful accounts should be recorded in the following HFM accounts:

HFM account 1294 Specific Reserve for Bankrupt or Insolvent Customers-

- A reserve for bankrupt or insolvent customers
- A reserve for customers undergoing legal proceedings for bankruptcy or insolvency.

HFM account 1296 Specific Identified Reserve for Bad Debt -

- A reserve for specific customer accounts or portion of customer accounts that are considered doubtful of collection based on management judgement and objective evidence of current events. Examples of objective evidence include:
 - Long outstanding receivables due to commercial issues such as price disputes, freight charges, quality issues or quantity discrepancies;
 - ******A customer has a high probability of bankruptcy or other financial reorganization due to current financial difficulties;
 - ******Customer deviates from agreed payment terms and/or other conditions in the underlying contract;
 - ******Significant financial difficulty of the customer.

**** Note** – Approval by the Group Controller is required to reserve for customer accounts which are less than 180 days aged and greater than €10,000.

HFM Account 1299 Allowance for Doubtful Accounts -

- In addition to the above specific identified reserve, all other account receivable amounts will be reserved using a percentage based reserve methodology. The percentage based reserves are as follows:

Days Aged	Portion of Balance Reserved
Greater than 180 days	**50%
Greater than 360 days	100%

**** Note** – Approval by the Group Controller is required to reserve greater than the 50% requirement for customer accounts which are aged between 180 and 360 days.

Credit memos in the greater than 180 or 360 day categories should not be reserved (refer to column D in Appendix A). Note that customer accounts with a total net credit balance are required to be reclassified to HFM account Trade Payables at the reporting date (as a minimum at quarter and year-end).

Accounts that have been specifically reserved should be separated prior to applying these percentages to avoid over reserving. Refer to Appendix A for an example aging analysis and reserve calculation.

At each reporting date, Group Finance will analyze the recorded percentage based reserves for conformity with IFRS requirements and any adjustments will be made at the Group level.

Certain elements to consider which may not require an accounts receivable balance being written off are:

- In entities that have coverage with a credit insurance company where claims are made and reimbursed up to an amount of the maximum limit if, and only if, the terms of the policy have been fully complied with and a high degree of certainty exists that the insurance payment will be received. The uninsured amount must be assessed into the allowance for doubtful accounts as a specific identified reserve (column B in Appendix A).
- An existing bank guarantee without limiting provisions.
- Recoverable sales taxes and value added tax (VAT).

The Corporate Authority Levels chart must be followed when writing accounts receivable amounts off (removing the invoice from the accounts receivable aging) whether or not the invoice has been reserved.

Imputed interest

The acceptance of trade receivables for periods longer than customary local standards are required to be approved by the CEO in accordance with the Corporate Authority Levels chart. If a receivable is due on terms exceeding 12 months, the proper valuation is the present value of future payments to be received, determined by using an interest rate commensurate with the risks involved at the date of the receivables creation. If the receivable is noninterest-bearing or if the rate stated in the agreement is not indicative of the market rate, interest is imputed at the market rate. A valuation allowance is used to adjust the face amount of the receivable to the present value at the market rate. The interest rate

used for calculating the valuation allowance generally will be based on the rate at which the debtor can obtain financing of a similar nature. The objective is to approximate the rate which would have resulted if an independent borrower and an independent lender had negotiated a similar transaction under comparable terms and conditions. The interest rates applied for material A/R balances should be determined on a case-by-case basis and Group Treasury and Group Finance should be consulted.

Factoring of accounts receivable

Factoring of Accounts Receivable is described in separate policy (04 Factoring).

Credit Memos

For purposes of aging outstanding credit memos, the following guidelines apply:

- Credit memos that have been issued against specific outstanding invoices should be aged in the accounts receivable trial balance in the same category (e.g. current, 30-60 days past due, etc.) as the invoices to which the credit memo applies.
- Credit memos that have been issued without a specific reference to any outstanding customer invoice (e.g. volume discounts, returned product on invoices already paid, etc.) should be aged in the accounts receivable trial balance by the issue date of the credit memo in question.

It is understood that compliance with these guidelines may be superseded by system limitations inherent in the accounts receivable ledger systems employed in the field. In these instances, material known items should be manually adjusted for management reporting purposes.

Reconciliation

On a monthly basis the accounts receivable ledger must be reconciled to the general ledger without exception. All reconciling items between the two ledgers must be corrected by the following month.

PRESENTATION & DISCLOSURE

Accounts receivable will be presented on the face of the balance sheet net of allowance for doubtful accounts and will be classified as current (i.e., payment due within one year from the balance sheet date) or non-current (i.e., payment due greater than one year from the balance sheet date).

Offsetting accounts receivable and accounts payable balances is not allowed (i.e., in the instance a customer is also a vendor, the related accounts receivable and accounts payable balances may not be netted).

Any customer account with a total net credit accounts receivable balance (i.e., overpayments received from customers, credit memos which are greater than the current receivable balance) must be reclassified to accounts payable at the reporting date (as a minimum at quarter and year-end).

The financial statements shall disclose:

- Allowance for credit losses (doubtful accounts):
 - A reconciliation of changes in the allowance for doubtful accounts during the period.

- Credit risk information as it relates to accounts receivable:
 - The amount that best represents the maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (i.e., credit insurance);
 - In respect of the amount disclosed above, a description of collateral held as security and other credit enhancements (i.e., credit insurance);
 - Information about the credit quality of accounts receivable that are neither past due nor impaired; and
 - The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

- For accounts receivable that are either past due or impaired:
 - An analysis of the age of financial assets that are past due as at the reporting date but not impaired;
 - An analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired; and
 - For the amounts disclosed above, a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

SIGN OFF AND POLICY APPROVAL:

Date:	Date:	Date:
<i>Marta Bojanowska</i>	<i>Stefan Van Keilegom</i>	<i>Ron Muawad</i>
Marta Bojanowska Technical Accounting Manager Flint Group	Stefan Van Keilegom Group Finance Controller Flint Group	Ron Muawad Group Chief Financial Officer Flint Group

Appendix A

The following is the calculation for the allowance for doubtful accounts utilizing an accounts receivable aging. This table is also included for completion in the year-end reporting pack and is utilized in a footnote disclosure.

The accounts receivable aging should be based on the invoice **due** date, not the issuance date. For example:

Invoice date: March 15, 20XX
 Payment due date: May 14, 20XX (60 days)
 Today's date: June 30, 20XX
 Invoice aging date: 47 days overdue

Note that accounts that have been specifically reserved should be separated prior to applying these percentages to avoid over reserving. **Once a specific reserve has been recorded for an accounts receivable balance, the balance should remain in the specific reserve account until the amount is settled.**

Description	A/R Aging as of 31-Dec	Specific Identified Reserve	A/R Aging Less SIR	Non Reserved Items**	A/R Aging Less Non Reserved Items	% Reserve Based on Policy	% Reserve Total	A/R Aging Less Total Reserves	Total Provision as of 31-Dec
	A	B	C = A + B	D	E = C + D	F	G = E * F	H = A+B+G	I = B + G
Current	53,262		53,262		53,262			53,262	-
Overdue 1 to 30 days	34,852		34,852		34,852			34,852	-
Overdue 31 to 60 days	26,984	(2,487)	24,497		24,497			24,497	(2,487)
Overdue 61 to 90 days	15,678	(865)	14,813		14,813			14,813	(865)
Overdue 91 to 180 days	8,426		8,426		8,426			8,426	-
Overdue 181 to 360 days	4,953	(1,234)	3,719	(250) X	3,469	50%	(1,735)	1,984	(2,969)
Overdue over 360 days	2,746	(975)	1,771	325 Y	2,096	100%	(2,096)	(325)	(3,071)
Total	146,901	(5,561)	141,340	75	141,415		(3,831)	137,509	(9,392)
HFM Accounts	1200	1296					1299		

** Amounts in this column require explanation in the periodic reporting packages.

X – Amount represents invoices which have been processed for insurance reimbursement in which payment from the insurance company has been deemed virtually certain, therefore the invoices will be excluded from the reserve calculation.

Y – Amounts represent credit memos which are not reserved for, therefore the amount of credit memos has been added back to the A/R balance prior to applying the percentage reserve.

Appendix B – Rebates, group rebates, discounts and commissions accounting

1) Single rebate:

Below table outlines accounting guideline for customer rebates and discounts based on individual customer contracts:

Single Customer Rebate:

Product information		FI Accounts			
Product Code	Prod. Descr.	P&L Release of Rebates	P&L Build up of Accrual	Balance Sheet Volume Discount Owed by Credit Memo	Balance sheet Cash Paid Discount
XQ91- *070- 0475	Rebate Manufacturing	46001100 4600 HFM	46002100 4600 HFM	12959000 1295 HFM	31109000 3110 HFM
XQ91- *071- 0475	Rebate Resale	46001200 4600 HFM	46002200 4600 HFM	12959000 1295 HFM	31109000 3110 HFM
XQ91- *072- 0475	Rebate Merchandise	46001300 4600 HFM	46002300 4600 HFM	12959000 1295 HFM	31109000 3110 HFM

***: “N” for general material. “W” for waterbased, “S” for solventbased**

For rebates reconciliation please refer to manual *1.4.1 Single Customer REBATE AGREEMENTS*

2) Group rebates:

“Customer Group Agreement” is when contract with one customer is operated by several Flint Group entities, but the rebates are paid out by one Flint Group entity. For Flint Group reporting this is classified as bonus paid out to third party customer, but for local Flint Group entities this is treated as an intercompany commission for local GAAP reporting purposes.

Below table outlines accounting guideline for group customer rebates and discounts:

GROUP Customer Agreements:

Product information		FI Accounts			
Product Code	Prod. Descr.	P&L Release	P&L Build up of Accrual	Balance Sheet Owed by Credit Memo	Balance sheet Cash Paid
XQ91- #G70-0475	Manufacturing	46003100 4600 HFM	46004100 4600 HFM	12958000 1295 HFM	31108000 3110 HFM
XQ91- #G71-0475	Resale	46003200 4600 HFM	46004200 4600 HFM	12958000 1295 HFM	31108000 3110 HFM
XQ91- #G72-0475	Merchandise	46003300 4600 HFM	46004300 4600 HFM	12958000 1295 HFM	31108000 3110 HFM

#: **N** – “General material”, **W** – “Water based”, **S**- “Solvent based”

For group rebates reconciliation please refer to manual *1.4.2 Customer Group AGREEMENTS*

3) IC Commission AGREEMENTS

Below table outlines accounting guideline for IC commissions:

IC Commissions:

Product information		FI Accounts			
Product Code	Prod. Descr.	P&L Release of Rebates	P&L Build up of Accrual	Balance Sheet Build up Owed by Credit Memo	Balance Sheet Release Owed by Credit Memo
XQ91- *090-0719	IC Commission Manufacturing	5321xxxx 5320 HFM	53210000 5320 HFM	31228000 3122 HFM	31228000 3122 HFM
XQ91- *091-0719	IC Commission. Resale	5322xxxx 5320 HFM	53220000 5320 HFM	31228000 3122 HFM	31228000 3122 HFM
XQ91- *092-0719	IC Commission Merchandise	5323xxxx 5320 HFM	53230000 5320 HFM	31228000 3122 HFM	31228000 3122 HFM

#: “N” for general materials. “W” for waterbased, “S” for solventbased
“xxxx” = Finance Intercompany number

For IC commissions reconciliation please refer to manual *1.4.3 IC Commission AGREEMENTS*

Appendix A – Trade Accounts Receivable related HFM Accounts

Below is a listing of trade accounts receivable related accounts. Refer to the Chart of Accounts for further details on the use of each of these accounts.

HFM Account Number	HFM Account Name
1200	Trade Accounts Receivable
1220	Unapplied Cash
1294	Specific Reserve for Bankrupt or Insolvent Customers
1295	Volume/Price Discounts Owed by Credit Memo
1296	Specific Identified Reserve for Bad Debt
1299	Allowance for Doubtful Account
3110	Accrued Customer Volume Discounts
3122	Accrued Commissions
4600	Sales Incentives/Discounts/Rebates
5320	Commissions/Royalty I/C - Income/Expense
6980	Allowance for Doubtful Accounts (formerly Bad Debt Provision)
6981	Specific Identified Bad Debt Reserve