

## B. Physical inventory - Planning & preparation

Group requirement is to provide an **annual planning** and communicate locally an **inventory procedure and preparation**.



**Responsible** : Physical inventory manager  
**Frequency** : Annual with a quarterly up-date  
**Control** : IAC.02.03 / control owner: FRA

For an example and a blank template of annual planning ==> 7. Example of documents to be used / a. Annual planning

### Inventory Planning & Scheduling

Physical counts or cycle counts must be conducted at least once annually for all materials. With limited exception (see exceptions section) the sites that perform a Full Periodic (Wall-to-wall) inventory must complete them between July and November each year<sup>[1]</sup>. Cycle counts may be performed in addition to the annual Full Periodic counts.

FRA validates and publishes updated physical inventory planning prepared by PIM and considering that:

- Recommended 90% of the physical inventory count (in value of items) be done by the end of September
- 100% of the physical inventory count (in value of items) must be done by the end of November, including all external storage (Hard Closing)

Exceptions:

- The period can be extended/ modified if requested by the external Audit team. **The need for date modification must be approved by the Group Controller.**
- Furthermore, **for the sites that perform Cycle counting they must:**
  - By November 30th, references counted must represent at least 80% of the total value of industrial supplies inventory.

The annual planning must **include** a list of all the inventory storage location (on site / off site), the frequency of cycle counts, a detailed planning taking into account the above objectives

<sup>[1]</sup> The site must maintain an auditable roll forward from the date of the inventory to the reporting period date.

The annual planning includes :

1. A list of the inventory storage location

- On site
- Off site: inventory on consignment, held in third parties facilities or by toll manufacturers

2. Frequency of cycle counts, if applicable

- All storage locations divided by count date;
- Inventory planning has to be prepared targeting 100% of Inventory counted at the end of reference period;

3. A planning taking into account the following objectives

- Cycle Counting - A count of items representing 100% of end inventory should be done as of 30th November (in value), each year (including external Storage)
- Full Physical Counting - A count of items representing 100% of end inventory should be done as of 31 December (in value), each year (including external Storage)

Specific for **Industrial Supplies**

- By November 30th, references counted must represent at least 80% of the total value of industrial supplies inventory.
- The rest 20% of references of the total value must be counted by either sampling counting method every year or cycle counting method every 3 years

That planning must be communicated to FRA, who could organize/support the supervision by a third party without prior notification to PIM.

#### 4. Cycle Counts rules

- **Cycle counts have to start before July 1st of each year**, otherwise Full Inventory count will have to be executed at the plant;
- ABC Classification method has to be implemented for a complete cycle count model implementation for **spare parts**;



Planning is proposed by PIM and validated by FRA **before end of September** with consideration for 2 periods :

1. **October 1st to November 30 November of current year** : revision of on going calendar :
  - a. Starting with actual inventory coverage rate as of October 1st (in theory 90%)
  - b. Showing completion of 100% target as of November 30TH
2. **Dec 1st of current year to November 30th of following year** :
  - a. That planning is detailed by material code and SAP plant where applicable
  - b. Where SAP isn't available, that planning is also used to follow progress of coverage inventory count
  - c. FRA is responsible for recording that planning in the dedicated group repository and external auditor have access to that repository



**Responsible** : Physical inventory manager  
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#### Red lines

The site procedure is **updated at least once a year before September 30th** by the PIM with validation by FRA. FRA is responsible for recording that procedure in the dedicated group repository.

#### The site procedure has to include:

- The name of the finance responsible assigned (FRA) who is authorized to validate physical inventory discrepancies and particularities linked to the segregation of duties
- A reference to applicable **safety procedure**
- **Triggering event to engage a second count** : for each of the category of inventory (A31000, A34000, A37000), determination of a threshold for the value of discrepancies above which a second count must be performed. A 0.5 % threshold of the total amount of the inventory concerned is recommended, it will be applied as such if the site inventory procedure doesn't specify otherwise.
- **Specific scenarios in which recounts might not be required**
  - Meter readings or print in continuous production environments
  - Scenarios specific to the site's activity



#### Red lines

- **Determination of a threshold for the value of discrepancies** for one stock count or one month of cycle count above in which: the GCCO, the plant manager and GBU supply chain director are **informed**.  
==> **Maximum threshold is 1%** of the value of counted inventory