

A. Physical inventory - Definitions

This document provides a **step-by-step guide** for physical inventories that allows us to verify the existence and ownership of inventories.

FRA ensures that plant physical inventory procedure is updated every year, that physical count coverage complies with group rules and that auditors can supervise physical inventory organized during Q4

Physical inventory counts objective is to check the existence and ownership of inventories.

This procedure applies to all companies included in the consolidation under full integration. It is recommendation for "joint operation", joint venture and where Syensqo is considered as "associate" and to **all warehouses within and out of production sites.**

For each new acquisitions the integration management office will determine when that procedure becomes compulsory.

The procedure deals with the inventory count of **all materials** from a site where the inventory is taking place.

The procedure deals with the inventory count associated with BFC heading STOT-A300 inventories.

The procedure is effective **from the publication date**



A physical inventory count of inventories and work-in-progress is performed on an **at least once by reference period** in accordance with the Syensqo Group's accounting standards. Reference period starts on December 1st and ends on November 30th of the following year.

- The Syensqo Group admits the use of **cycle count** until the end of November and **"full Spot" physical inventory until the end of December** (Note: *The full Spot count results of Dec YN cannot be used as control evidence in YN+1*).
- Off-site locations are eligible for confirmation method, in case costs for conducting inventory counts are not reasonable ([The decision of what constitutes reasonable rests with the GBU Management team](#)).
- All types of stock items are counted at least once a year.
- Any adjustment of the inventory valuation related to an inventory count **is communicated to a Controller** (plant, function or business). A controller must validate and ensure proper accounting record.
- A count of items representing 100% of the value of prior end inventory should be done as of November 30th. Note: The period can be extended/ modified if requested by Audit team.

Annual inventory planning

Annually, at the start of Q1, the Physical Inventory Manager (PIM) defines the physical inventory count program for the year for raw materials, semi-finished goods, finished goods. For plants which follow cycle counts, the plan includes a stratification/ classification following the Cycle Count policy. The data used for the analysis is based on SAP G/L detail for the prior year-end and forward-looking material resource projections. It is then reviewed and approved by the GBU Finance Responsible Assigned (FRA). For Cycle Counts: The plan outlines the stratification classification & count requirements for each following the guidelines stated in the Cycle Count policy. The FRA reviews the count plan which is then transferred/uploaded to the Company's database to feed with the ERP to enable cycle count execution. A reconciliation is performed by PIM and reviewed by FRA to confirm the count plan has been posted in the appropriate AODOCS document repository.

Independent of the methodologies applicable for the physical inventory count, it is mandatory that each individual item is counted at least **once a year**, and the count is registered in the ERP and documented in the memorandum of inventory.

Any inventory location is under the responsibility of a Physical Inventory Manager (role) and supervised by Finance Responsible Assigned (role)

<p>Physical Inventory Manager (PIM)</p> <p><i>GBU supply chain director is accountable for designation of PIM</i></p>	<ul style="list-style-type: none"> • Plans physical inventory counts following Group rules • Prepares a locale inventory procedure in respect of segregation of duties • Organizes the physical inventory counts including consigned inventory at customers location • Justifies any significant discrepancies and report to Finance Responsible Assigned (FRA) • Prepares inventory memorandum, records differences in accounting and sends it to the Finance Responsible Assigned (FRA)
<p>Finance Responsible Assigned (FRA)</p> <p><i>GCCO is accountable for designation of FRA</i></p>	<ul style="list-style-type: none"> • Role assigned to a controller accountable for internal control • Validates the annual planning in accordance with group rules regarding inventory coverage • Validates a local inventory procedure, in particular regarding respect of segregation of duties • Validates the inventory discrepancies analyzed by the inventory manager and ensures proper accounting • Upload memorandum into AODOCS and submit for approval
<p>Inventory count team</p>	<p>Perfoms an accurate count in accordance with the safety rules and must be familiar with the specific counting procedures</p>

<p>GBU costing control owner (GCCO)</p> <p><i>Is appointed by Finance Director</i></p>	<p>Role assigned to a Business or Industrial Controller or a Finance Director who validates :</p> <ul style="list-style-type: none"> • Adjustment above threshold • Exceptions to 100% count role
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==> **Responsibilities can be adapted for each plant according to the [segregation of duties](#), but any modification should be written in a procedure**

To accomplish the segregation of duties, it is mandatory to not overlap the roles of each actor of the process into the tasks.

- Physical inventory count – Performed by PIM and/or correspondents team members.

It is the execution of the counting program, by the cycle count, or monthly / quarterly count or yet the stock physical annual full count, in accordance with the planning program, as defined in [local procedure](#).

In this process, prior to the physical count, the PIM generates in SAP the inventory documents considering the physical count to happen and prints the sheets with the materials and storage locations, to support the counting. These sheets may be manually filled, with the volumes found in each location, for each material number and batch (if applicable).

Later, the PIM will use this information to input on SAP the counting for each item into the inventory document. After saving the document, another transaction on SAP will show a list of differences between the physical and the SAP.

If any difference is questionable, a physical recount can be performed, to ensure no mistake has happened.

Once the differences are considered appropriate, they can be approved by the FRA in SAP, in a specific transaction, which generates a financial posting. To ensure the segregation of duties, the access and role of differences approval must be due to the FRA only, or higher level in hierarchy in case of unavailability, medical leave, annual leave, etc.

- Memorandum of inventory – Performed by PIM and/or correspondents team members.

It is the document that details how, when, who and what materials and storage locations are being physically counted. Need to mention the methodology used for the counting and keep attached the digitalized version of counting sheets fulfilled with the quantities found.

- Mail of validation from GCCO – Performed by FRA

The communication between the FRA and the GCCO explaining and obtaining the approval of the process and the differences found. Once approved, FRA must perform in SAP the posting of the inventory differences, under the appropriated transaction.