




Sakhalin Energy Investment Company Ltd. Stock Check Guideline

Руководство по инвентаризации ТМЦ

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SECTION 6.7. STOCK CHECK PROCEDURE AT THE STORAGE LOCATIONS OF THIRD PARTIES

The purpose of this Guideline is to determine the relationship between Sakhalin Energy Investment Company Ltd. (hereinafter referred as Sakhalin Energy or Company) and Contractors in terms of planning, conducting, and recording the results of materials stock taking.

Depending on the operational needs and the nature of the work, Sakhalin Energy's materials may be stored at Contractors' warehouses on the basis of safe custody. The procedure for approval and signing of a safe custody agreement as an integral part of a contract is regulated by the relevant provisions of the Contracting and Procurement Manual (Standard).

Information on the stock taking at the storage locations of third parties shall be incorporated in the annual Stock Check Plan. After approval of the Stock Check Plan by the Finance Director of the Company, the dates of the forthcoming stock taking shall be communicated to the Contract Holder for further notification of the Contractor. In case, for some reason, changes are made to the planned dates, information about the change shall also be brought to the attention of the Contract Holder for further communication with the Contractor.

The procedure for organising the stock taking (issuance of INV-22 order, etc.) in warehouses/storage locations of third parties shall be the same as for organising the stock taking in warehouses/storage locations of the Company (Appendix 1, Section 6.3).

The Chairman of the Stock Check Team shall send an information email to the Contract Holder and Contract Engineer about the beginning of the stock taking of materials at the Contractor's warehouse, at least 10 working days before the stock taking start date. The Contract Holder or Contract Engineer shall issue a letter (notification) about the beginning of the stock taking to the Contractor.

The Contractor shall advise the materially-responsible person acting under a power of attorney on behalf of the Contractor, and having the appropriate authority, including the authority to sign the stock taking results, provide a copy of the power of attorney or other document (order of appointment, etc.).

The materially-responsible person of the Contractor shall take part in the stock taking of materials, coordinate the work of the Stock Taking Team in the Contractor's premises.

The procedure for preparing the warehouse and holding a kick-off meeting is described in Section 6.3 of this Guideline (Appendix 1). The Contract Holder shall also take part in the kick-off meeting on behalf of the Company.


The Contractor shall be responsible for conducting an HSES briefing in the premises of the Contractor before the start of the stock taking.

The physical count procedure is specified in Section 6.4 of this Guideline (Appendix 1).

After completion of the stock taking, the results shall be sent to the materially-responsible person of the Contractor and to the Contract Holder for further analysis and explanation.

Having established that the physical count was performed correctly and having made sure that a discrepancy between the physical count data and the quantity registered in the SAP system does exist, the members of the Stock Check Team together with the materially-responsible person of the Contractor are required to investigate further the causes of these discrepancies. The Chairman of the Stock Check Team shall be responsible for

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documenting the results of the stock taking of materials. The materially-responsible person of the Contractor shall be responsible for conducting investigations on the discrepancies and providing explanations/supporting documents on the flow of materials.

The identified discrepancies may be due either to a failure to make timely transactions in the SAP system or to a loss/incorrect placement of items at the warehouse or a theft. The materially-responsible person shall provide the relevant documents to the members of the Stock Check Team for analysis and correction of the Stock Check Report, if applicable. Final decision on acceptance or rejection of the document and making appropriate amendments to Stock Check Report shall be made by the Chairman of the Stock Check Team.

The materially-responsible person/ Contractor shall be given 10 working days from the date of receipt of the notification on the stock taking results to provide a written justification and supporting documents on the discrepancies found. If no written justification is provided within the specified time period or if the Company believes that the justification provided does not contain sufficient explanation of the identified shortage of materials, then such materials shall be considered lost by the Contractor.

If necessary, the materials may be recounted. The decision on the recount shall be made by the Chairman of the Stock Check Team.

The investigation of discrepancies shall be completed within a period not exceeding 2 (two) months from the end of the stock taking.

Upon completion of the discrepancies approval process, the Chairman of the Stock Check Team shall proceed to documenting the results of the stock taking, by preparing INV-3 and INV-19 documents.

INV-3 and INV-19 for Contractors should contain the name of the Contractor, the materially-responsible person of the Contractor, the number of the power of attorney (PoA), contract number based on which terms Company's materials were transferred to the Contractor. Copy of PoA of the materially-responsible person should be requested for the Contractor and attached to INV documents.

The authorised person of the Contractor shall sign the documents within 3 (three) working days and hand over the originals to the Company.

After completion of the stock taking, if necessary, a meeting with a debriefing shall be held. The final results of the stock taking (signed reports) shall be sent by the Chairman of the Stock Check Team to the Contract Holder and the Contract Engineer with a copy to the SEIC CP-Claim Management SEIC-FCP inbox (in case of shortages identified) to start the claim handling in accordance with the terms of the Contract and the legislation of the Russian Federation.

In case if written-off materials will be found in future reporting periods, they should be returned to Company's balances, relevant corrective activities should be performed.

For the restoration of materials in Company's records the following documents are required:

- Collation statement INV-19 with surpluses identified (previously considered as shortages);
- Inventory sheet INV-3 signed by the Stock Check Team;
- A letter from the Contractor with the detailed explanation of reasons what happened.

In addition to the Stock Check Report, the Chairman of the Stock Check Team shall provide the following information to the materially-responsible person, Contract Holder, Head of warehousing operations and Head of SCM Compliance, Planning and Reporting:

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- a summary with positive observations and areas for development;
- HSES issues and other risks identified;
- discrepancies between unit of measure (UOM);
- information about joint storage of Company's materials and Contractor's materials;
- other deviations identified by the Stock Check Team, supported by relevant evidence.

The materially-responsible person of the Contractor and Contract Holder shall ensure timely removal of deviations and conformation of conditions of storage location with the requirements of the contract and safe custody agreement.

It is recommended that the stock taking results be included into the agenda of the next business performance review (BPR) meeting with the Contractor to evaluate its performance.

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APPENDIX 1: EXTRACTS FROM THE GUIDELINE

6.3. Preparation for Stock Taking

6.3.1. Administrative preparation

Before the start of the stock taking of materials, it is necessary to issue INV-22 order. The order shall contain specific information about the planned stock taking (dates, members of the Stock Check Team, the deadline for submitting the results of the stock taking to the Fixed Assets Group). The order shall be approved/signed by the Finance Director.

The Chairman of the Stock Check Team specified in the order shall be responsible for maintaining the Stock Check Report (Inventory Count Sheet - data entry, data accuracy), HSES induction and ensuring that all member of the Stock Check Team are compliant with HSES standards, coordinating the stock taking process at a specific storage location, and submitting the stock check results.

Depending on the nature of materials in a particular storage location, it is recommended to include in the Stock Check Team materials cataloguers, discipline engineers, and relevant employees with practical experience and knowledge in handling the materials being subject to stock taking (pipe products, drilling equipment, rotating equipment, chemicals, etc.). The inclusion of relevant people into the Stock Check Team shall be approved beforehand by the relevant line manager.

The order shall be prepared at least 10 days before the start of the planned stock taking.

The Chairman of the Stock Check Team shall notify the Head of warehousing operations, Materials Controller and the Contract Holder or Contract Engineer 10 working days (two weeks) before the expected date of the stock taking start. The notification shall indicate storage locations to be calculated and any special requirements to be foreseen/arranged by the host party.

If the timing of the proposed stock taking is impractical for some operational reason, the materially-responsible person shall immediately notify the Chairman of the Stock Check Team to agree on a suitable stock taking date.

In special cases, an unscheduled stock taking may be performed without a proper notification or without notifying the materially-responsible person at all.

Before the start of each stock taking, a kick-off meeting shall be held with the participation of the members of the Stock Check Team, the materially-responsible person, the Material Controller and/or other warehouse workers, if applicable. The purpose of the kick-off meeting shall be to determine the rules for conducting the stock taking at the asset/warehouse, namely, the sequence of recounts (start/end, in what order), roles and responsibilities at the time of the stock taking, the procedure for accepting/issuing materials, in case it is impossible to stop the process of acceptance/issuance for the period of the stock taking, etc. In case any materials that are not subject for stock check (the ones written off to production, warehouse equipment, etc.) are stored in the territory of the asset/warehouse, this shall also be stated at the kick-off meeting, and such materials shall be placed in a specially designated area.

6.3.2. Warehouse preparation

Upon receiving the notification of the date of the stock taking, the Material Controller shall take measures to ensure compliance with the following requirements:

- All materials shall be properly marked.

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- Storage locations shall be determined for all physically available materials.
- Any accumulated unfinished documents, if any (receipts and goods issuance documents), shall be finished and appropriate entries shall be made in SAP.
- In case of existing reservations, it is necessary to check the availability of stocks for timely issuance of goods.
- All possible issuances of goods shall be carried out before the upcoming stock taking period, in accordance with the dates of reservation of the equipment required at the site, in the SAP system.
- Warehouse equipment and tools intended for warehouse operations shall be separated from the stored stock and marked accordingly.
- Materials written off to production but not issued, due to a delay in the work or consumption, but having appropriate documentary evidence shall be placed in a specially designated area and marked accordingly.
- All materials shall be physically available for count.
- In case any non-compliances are found, the Chairman of the Stock Check Team shall register and submit comments to the Head of warehousing operations.

In case non-compliances are found, immediate measures shall be taken to rectify them.

It shall be taken into account that, at some warehouses (for example, at the Contractor's warehouses), the requirements may not be fulfilled or may be fulfilled partially. Therefore, the Material Controller shall ensure the participation of technical specialists and take other possible measures for proper stock taking.

It is recommended, if possible, to stop the acceptance and issuance of goods or to minimise the flow of materials on the dates of the stock taking.

When performing stock taking of materials in storage areas, all physical movements of materials shall be entered into SAP within a 12-hour period.

The Material Controller shall ensure that installation, handling, and measuring equipment is available and can be provided to members of the Stock Check Team, if requested.

The Material Controller shall provide full support to the Stock Check Team during the stock taking. The stock taking shall be carried out in the presence of the materially-responsible person.

Before the start of the stock taking, the Material Controller or another responsible person at a particular asset shall conduct an HSES induction briefing and a review of all relevant HSES procedures for members of the Stock Check Team.


6.4. Counting process

The counting process shall include counting, recording, and verification of the physical quantity of the materials against the quantity registered in the SAP system.

The Chairman of the Stock Check Team shall make a Stock Check Report (Inventory Count Sheet) containing the following data:

- The number of the main material record in the SAP system (Material Master) and description of the material.
- The asset and SAP storage location where the stock taking is to take place.
- Date of count.
- The quantity of material in the storage location according to SAP.

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- The unit of measurement.

Due to a wide range of accounting items of the stored materials, stock taking cannot be done 'blindly', therefore, the quantity in accordance with SAP shall be indicated in the Inventory Count Sheet. Nevertheless, if the number of accounting items of the materials is small, a 'blind' check can be performed.

The work scope (Inventory Count Sheet) shall be distributed among the members of the Stock Check Team on the day of the stock taking.

The procedure for counting and compiling a list of materials for individual storage location/warehouse or for the whole asset with one counting sheet shall be determined each time separately, in accordance with the specifics of the object and the need or absence of need for obtaining objective data on internal movements during the stock taking period.

During the counting, the Stock Check Team shall perform the following actions:


- The Stock Check Team shall be aware of the need for a quick recount to ensure a minimum delay in normal warehouse activities.
- The Stock Check Team shall use the Inventory Count Sheet excel file. At the end of each working day, the data shall be merged into one main file.
- The Stock Check Team shall recount each individual item at the selected location and indicate the quantity, date, and full name of the person conducting the stock taking, opposite the corresponding material in the Inventory Count Sheet.
- The recount shall start with a certain logical point and be carried out in a way being most consistent for the area being checked. The recount procedure for each specific asset/warehouse shall be determined separately and approved at the kick-off meeting.
- If possible, it is necessary to stop the receipt and issuance of materials for operational activities. If it is impossible to stop the acceptance and issuance of materials, the acceptance and issuance activities shall be taken into account and shown in the Inventory Count Sheet which shall be updated daily, based on entries in the SAP system.
- The Stock Check Team shall check the description of the recounted materials against descriptions of these items in the Inventory Count Sheet.
- The members of the Stock Check Team shall determine the materials that lack a clear labelling/markings with the corresponding SAP number (Material Master).
- Members of the Stock Check Team shall record incorrect units of measurement.
- Members of the Stock Check Team shall record incorrect placements.
- Members of the Stock Check Team shall identify any unsafe storage practices that could lead to accidents or damage to materials. The data obtained shall be immediately brought to the attention of the Material Controller and recorded in the Inventory Count Sheet for subsequent control.

If, during the stock taking, materials without any marking are found in the relevant storage (placement) areas, it is extremely important that such materials are identified and registered in SAP. Members of the Stock Check Team shall record information about the position of the material along with the current storage location and discuss with the materially-responsible person the identification of the discovered positions.

If a situation arises when materials that were not included in the Inventory Count Sheet are located at the site being checked, data on the corresponding items shall be entered into the Inventory Count Sheet as surpluses and carefully analysed after the count is completed.

If any materials with the 'disposal' and 'block stock' marking are found at the area of recounting, the members of the Stock Check Team shall calculate these materials taking into account their possible non-compliance in

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terms of their description, units of measurement, and quantity. Information on finding, in the area of recounting, any materials not to be counted shall be brought to the attention of the materially-responsible person and the Material Controller.

Possible deviations in physical recount shall be allowed in the following cases:

- Recount of components in assemblies/finished products according to technical documentation/drawings, in case dismantling is impossible.
- Inventory taking of bulk and liquid cargoes stored in tanks and beams, according to incoming and outgoing documentation and/or reports, if recounting by measuring instruments is unavailable (deviation range within 5%).
- Recalculation of pipe products measured in meter, (deviation range within 5%).

The Stock Taking Report (Inventory Count Sheet) shall contain questions, deviations, and other notes as reference information for subsequent monitoring and informing the materially-responsible person, Material Controller, Head of warehousing operations.