

# EXHIBIT – MATERIALS MANAGEMENT REQUIREMENTS FOR CONTRACTED STORAGE PROVIDERS

## TABLE OF CONTENTS

1. General
  - 1.1. Purpose
  - 1.2. Scope
  - 1.3. Target groups and responsibility
    - 1.3.1. Target groups
    - 1.3.2. Roles and Responsibilities
  - 1.4. External requirements
  - 1.5. Definitions/abbreviations
2. Introduction
3. Control Objectives & Standards
  - 3.1. Administration & Records
  - 3.2. Physical Verification
4. Goods Receipting
  - 4.1. Receipt of COP owned materials at Contractor's storage locations (with no COP SAP access)
5. Material Storage and Security
6. Inventory Counting and Reconciliation
7. Customs and Import Duty

## 1. General

### 1.1. Purpose

The general purpose of this procedure is to document ConocoPhillips Norway (COPNO) requirements, with respect to material management for contractors and third parties, who are storing and managing COPNO owned material and equipment.

### 1.2. Scope

The information provided in this document is directed to all contractors involved in storing and managing inventory on behalf of COPNO.

### 1.3. Target groups and responsibility

#### 1.3.1. Target groups

The target group for this procedure consists of external contractors and suppliers, in addition to internal logistics -, operations -, maintenance, drilling, well services, projects and any other groups managing materials & equipment.

#### 1.3.2. Roles and Responsibilities

#### The Director Inventory & Material Management

Director Inventory & Material Management is the owner of this document and the process. Director Inventory & Material Management is responsible to ensure that this procedure is implemented as well as it being updated by revisions. Director Inventory & Material Management may delegate authority under this procedure.

#### Sr. Representative Material Administration

Sr. Representative Material Administration is responsible for the technical authority of this document, accountable for development, future updates and approval.

**Contract Specialist (COPNO)**

Contract Specialist is responsible for informing the Material Administration group if COP owned material is stored at the Vendor, including customs status of the material.

**Contract Manager (COPNO)**

Contract Manager is responsible for including this procedure in the Service contract and insuring the contracted storage provider submit for approval by COPNO, a detailed plan outlining the procedures that Contractor will follow in order to manage materials and equipment on behalf of COPNO. Contract Manager must provide Material Administration group with the name of the contact person at the Contractor who is responsible for recording inventory activity.

**Investment Recovery Representative (COPNO)**

Investment Recovery Representative is responsible for ensuring that all surplus Materials are disposed of in a manner consistent with COPNO policy. He is responsible to ensure that formal approvals exist prior to eventual sale or donation.

**1.4. External requirements**

This document refers to the relevant regulations and other external standards and guidelines, which includes:

- Customs Act and Regulation
- ISPS Guidelines
- ADR/IMDG Regulations
- Applicable Governmental Laws & Regulations
- SOX

**1.5. Definitions/abbreviations**

COP:	ConocoPhillips
Contractor	Contracted service provider
Surplus Material & Equipment:	All material and equipment no longer required by COP
Investment Recovery Repr.:	Responsible person in Procurement for disposal of surplus material
SAP	COP Material Management system

**2. Introduction**

The type and volume of inventory to be stored and managed by the Contractor shall be agreed between COPNO and Contractor, with the overall objectives being:

- For Contractor to meet the key control objectives as set-out in the Agreement, this document, and/ or the contract management plan.
- Ensuring the right materials are available at the right time, where they are required, in the right quantities, at the right cost, in a fit for purpose condition, in compliance with COPNO and regulatory requirements.
- Ensuring inventory and related holding costs are minimized whilst still meeting operational requirements.

Within ninety (90) days of the “Effective Date of the Agreement”, or ninety (90) days from the date that this document is incorporated into the Agreement, whichever is earliest, Contractor shall submit for approval by COPNO, a detailed plan outlining the procedures that Contractor will follow in order to manage materials and equipment on behalf of COPNO. As a minimum, such procedures should address the following:

- The controls that Contractor has in place to prevent inventory discrepancies.
- Contractor’s goods receipt process and related controls for ensuring that the quantity, both in terms of volume and value, is accurate when goods are received.
- Contractor’s process for preservation of materials and equipment held in long term storage.
- Details of Contractor’s system for recording the movement (inbound and outbound) of materials and equipment on behalf of COPNO.

### **3. Control Objectives & Standards**

#### **3.1. Administration & Records**

All inventory being managed on behalf of COPNO must be properly safeguarded, with all receipts, transfers and issues being properly recorded in a timely manner. In addition, Contractor shall ensure that receipts, transfers, issues and inventory records reflect the correct customs status of the material being stored:

- For material stored in Norway: <FREE> or <BOND>
- For material stored in UK: Free Circulating Goods <FCG> or Duty Suspended <DS>

Inventory balances must reflect actual quantities on hand and all events that affect their underlying valuation must conform to applicable accounting principles.

#### **3.2. Physical Verification**

In order to ensure the accuracy of Contractor’s records with respect to the quantity and value of materials and equipment stored on behalf of COPNO, Contractor shall comply with the following:

- Stock check of inventory and related account reconciliations must be performed to ensure all inventory balances are accurate and correctly valued.
- COPNO Material administration representative will perform the physical count of the warehouse inventory on a regular basis. Differences will be reconciled by COPNO.

### **4. Goods Receipting**

#### **4.1. Receipt of COP owned materials at Contractor’s storage locations (with no COP SAP access)**

Frequently, goods are delivered to and held at Contractor’s storage location until called for by COPNO representative.

The goods receipt process for these items are as detailed below.

Where QA/QC inspection release is required, the COPNO buyer should advise the Contractor’s QA/QC group of the purchase order inspection details and request Contractor to notify COPNO’s QA/QC representative of material readiness for inspection. When this has been carried out, the COPNO inspector will endorse Supplier’s “*Certificate of Conformity*” (COC) document as “Reviewed”, and the document will be forwarded to the appropriate onshore facility and used along with the Contractor’s delivery paperwork to perform the SAP goods receipt.

Where QA/QC inspection is not a requirement and the vendor is based locally to the onshore receiving facility, a representative of COPNO, will carry out a physical check of the goods, sign a packing list and perform the required SAP goods receipt.

Where the vendor storage location makes it impractical to carry out a physical check, delivery documentation and packing lists will be forwarded to the onshore facility for goods receipt update within SAP. Periodic audits by COPNO representatives described further in this plan will be used to verify the accuracy of COPNO's inventory.

The Contractor shall ensure that all material is labeled with COP "Material Master Number", as detailed on the purchase order or as directed by the COPNO materials controller.

Contractor shall maintain an independent material control system of the COPNO inventory.

As part of COPNO periodic stock counting process detailed herein, all contractors holding inventory on COPNO behalf will be required to submit to Material Administration group a monthly detailed register of all items held in stock.

The materials register should contain, but not be limited to:

- Date of Receipt
- Materials Description
- Material Master number
- Unit of Measure
- Quantity
- Customs Status
- Serial number, if applicable
- Plant, Storage Location and Bin Location
- Purchase Order Number or Responsible Asset Owner

This material register shall be kept up to date by Contractor at all times.

## **5. Material Storage and Security**

The Contractor must only action material call-offs and material returns when authorized to do so by COPNO Material Control Representative.

It is the Contractor's responsibility to advise the COPNO Materials Control Representative when material is received for storage.

All Contractors who are responsible for storing material or equipment on behalf of COP are responsible for all aspects of security within warehouses and storage yards in order to protect the material and equipment against loss or damage. The storage facility will be secured and only authorized personnel will have access.

## **6. Inventory Counting and Reconciliation**

In line with COPNO requirements, all inventory shall be physically counted and verified against inventory records by COPNO.

Company may include parties external to COPNO Material Administration group to participate in such audits and Contractor will be requested to provide all necessary assistance to facilitate the stock count.

Once the initial count has been completed, any discrepancies will be reviewed and a recount carried out if deemed necessary. A reconciliation exercise will be conducted to resolve and account for all discrepancies.

An audit report will be submitted after each stock check. The report shall include but will not be limited to the following:

- Actual count list
- Discrepancy list
- Investigation actions and findings
- Items to be written off by inventory reconciliation movement
- General comments on storage and stock conditions
- Actions and recommendations relating to general observations

Particular attention will be paid to areas where frequent negative adjustments are being made as this normally is an indication that the processes are not being adhered to.

## **7. Customs and Import Duty**

Any material or equipment purchased on COPNO behalf by Contractor shall comply with all legislative Customs requirements.

The Contractor shall maintain an accurate register and track and report all movements of customs controlled goods.