

**APPENDIX 1****HSES-SP Management in Contracts Overview****Purpose**

The Purpose is to manage HSE-SP risks as is a part of Sakhalin Energy's broader Contracts and Procurement process, as documented in the Contracting and Procurement Manual (Standard).

Who is this for?

- Directors;
- All staff using contracted services or involved in Contract management process including Tender Boards, Contract Owners, Contract Holders and Contract Engineers, Company Site Representatives, and HSE representatives;
- All Sakhalin Energy Assets, Facilities, operations, Projects and activities, including activities undertaken by contractors on behalf of the Company.

What situations are covered?

This document applies to all Sakhalin Energy Contracts and Purchase Orders.

Requirements

Directors are *Accountable* for requirements 1 to 5:

1. Require Contractors to manage HSES and SP aspects in line with the Sakhalin Energy HSE and SP Policy.
2. Optimize the overall contracting strategy (numbers, type, risks) to reduce the overall HSES-SP risks.
3. Regularly review the HSES-SP Risks, performance and management of all contracted activities. When necessary, define and document actions for improvement.
4. Promote the sharing of HSES-SP good practices between Sakhalin Energy staff and Contractors.
5. For each Contract, appoint a Contract Owner, Contract Holder and Contract Engineer who are competent to manage the Contract throughout all stages and provide sufficient resources and support.

Head of HSE contracts, assurance, planning and reporting is accountable for requirement 6 and responsible for 7-8:

6. Review all Tender Board submissions before actual Tender Board takes place with the aim of final confirmation and approval of the Contract Classification by the Contract Holder.
7. Approve any deviation from the requirements of this Standard.
8. Examine activities performed by Contract Holder for Mode 2 HSES-SP critical contracts for their compliance with the requirements of HSES-SP Management in Contracts Standard (0000-S-90-04-O-0013-00).

Contract owners are responsible for requirements 9-11:

9. Appoints competent Contract Holder.
10. Approves Hazard and Effect Register, choice of HSES-SP Contract mode and criticality.
11. Signs off Contract audit reports.

Contract Owners are *Accountable* and Contract Holders are *Responsible* for requirements 12 to 22 for their Contract(s):



* For Pan-Asset Contracts, the responsibilities of **CONTRACT HOLDER** are modified and the additional roles of **CONTRACT MANAGER** and **CONTRACT ASSET SUPERVISOR** apply

12. Prepare Hazard and Effect Register for the Scope of Work.
 - Document hazards, threats, consequences, Risk Assessment Matrix (RAM) ratings, and Controls and Recovery Measures in a Hazards and Effects Register.
13. Determine **HSES-SP Criticality** of the Contract.
 - Contract is HSES-SP Critical if ANY of the Hazards is assessed as Medium or High on the RAM, regardless of whether hazards are mitigated or controlled (by Sakhalin Energy or the Contractor).
 - Contract is HSES-SP Non-Critical if ALL Hazards are assessed as Low on the RAM.
14. Select **Contract Mode** therewith relevant standard HSES-SP Contract provisions.
 - Mode 1: The Contractor shall provide personnel and/or equipment for the execution of the work at the Company's facilities under the Company's general supervision and under the Company's HSES-SP Management System. The Contractor shall provide the personnel who are qualified and medically fit to the work, and the equipment that meets requirements of the Company. The Contractor's HSES-SP performance indicators and incident statistics are included in the Company's indicators and statistics.
 - Mode 2: The Contractor shall ensure that the work is executed under its own HSES-SP Management System (by providing necessary controls and supervision, and ensuring the proper functioning of its HSES-SP Management System. The Company shall check that the Contractor's HSES-SP Management Systems conforms to the requirements of the Company's HSES-SP MS and shall monitor compliance and effectiveness during the performance of the Contract. The Contractor's HSES-SP performance indicators and incident statistics are included in the Company's indicators and statistics.
 - Mode 3: Mode 3 may be assigned in cases where the Contractor (1) performs works at non-Company facilities AND (2) in multi-client situations, AND/OR (3) in situations where the Company is not able to influence and assure the identification of hazardous factors and application of controls during the performance of the work under the Contract. The Contractor is not required to report HSES-SP performance indicators, including incidents, to the Company. However, the Company still seeks to influence HSES-SP performance of the Contractor.
 - For Mode 3 Contracts, the Criticality is not relevant. The term "HSES-SP Critical Contracts" refers only to Mode 1 and Mode 2.
 - Further guidance is provided in HSES Management in Contracts Standard Specification.
15. Support Contract Engineer in **Bidder pre-selection**.
16. Apply **HSES-SP Clauses** and communicate Company HSES-SP requirements to potential Contractors.
 - Include in the Contract the appropriate standardized HSES-SP Contract Clauses for the Mode and Criticality, considering sufficient detail of the Contract Scope of Work. Any deviations shall be formally approved by Technical Authority 3 (TA3) for HSES-SP Management in Contracts.
 - Include HSES-SP key performance indicators, incentive and/or penalty criteria, where practicable.
17. Conduct **HSE Pre-Qualification** in accordance with HSE Pre-Qualification questionnaire and determine HSES-SP performance banding:
 - Prequalify potential Contractors based on HSES-SP Performance Banding (Red / Yellow / Green).
 - Apply the existing Stoplight Performance for the Contractor if available, valid (less than two years old), and based on similar Scope of Work. Otherwise, apply the HSES-SP Prequalification Tool to determine Performance Banding for the potential Contractor.
 - **Red** (0–99 points) denotes that the status of the HSES-SP Management System does not comply with the laws of the Russian Federation and Company's requirements. This Contractor should be excluded from the list of potential contractors for this tender.



- **Yellow** (100-199 points) denotes that the status of the HSES-SP Management System complies with the laws of the Russian Federation and partially meets Company's requirements. This Contractor may be included in the short list of bidders upon approval by the Tender Board.
 - **Green** (200-300 points) denotes that the status of the HSES-SP Management System complies with both the laws of the Russian Federation and Company's requirements. The Contractor may be included in the short list of bidders.
18. Define HSES-SP criteria in Evaluation matrices for HSES-SP Critical Contracts and evaluate HSES-SP relevant items of technical bid.
- Develop HSES-SP criteria relevant for the Scope of Work, with appropriate numerical weighting, in the Technical Evaluation matrix. Disqualification criteria should be included. Guidance is provided in HSES Management in Contracts Standard Specification.
 - For Mode 2 Contracts, include review of the potential Contractor's draft HSES-SP Management Plan in the Technical Evaluation matrix.
 - If applicable Commercial Evaluation Matrix/criteria must evaluate and include costs of HSES-SP gap closure as the result of HSE-SP Prequalification, to allow properly informed comparison of various bidders. Costs may include for example additional field supervision, training days, equipment/vehicles, subcontractor support/consultancy.
19. Facilitate the development of an **HSES-SP Management Plan** by Contractor for Mode 2 critical contracts and approves it:
- The proposed HSES-SP Management Plan shall cover activities and associated HSE-SP risks related to all Contract phases from mobilization through execution, demobilization and site restoration. Important points of attention are:
- Identification of the pre-start up activities.
 - Identification of all HSES-SP gap closure actions to achieve green banding prior to mobilization, or within shortest practicable time, indicating items that are Go / No Go for mobilization.
 - Management of subcontractors (with appropriate identification of their Mode and Criticality and competence of HSES-SP Critical roles).
 - Manpower structure.
 - HSES-SP onboarding and training program.
 - Identification of the following Contractor positions involved in the Scope of Work or its management:
 - HSES-SP critical positions that have tasks in the Scope of Work that may directly or indirectly result in a significant incident (with potential consequence that have been rated severity level 4 or 5 on the Risk Assessment Matrix) if not correctly performed.
 - Contract Holders (Contract issues focal points) of HSE-critical Subcontracts.
 - HSE Professionals.
 - Training and competence assurance requirements to be applied to personnel in the above positions.
20. Execute pre-mobilization activities (kick-off meeting, inspection and audit):
- A (separate) HSES-SP Kick-Off Meeting shall be held for HSES-SP critical contracts with the selected Contractor and Contract Holder, and should also involve Contract Owner and relevant HSE Advisor. MoM of such a meeting to be provided to C-HSE Assurance (mandatory Scorecard item). Matters for discussion shall include, but not be limited to:
 - Hazards and controls of the operations detailed in the Contract.
 - Contract specific HSES-SP responsibilities and accountabilities.
 - HSES-SP competence of the Contractor's personnel.



- Applicable Sakhalin Energy HSES-SP Standards and Procedures.
 - Approval of HSES-SP Management Plan.
 - Emergency communications and procedures.
 - Necessary pre-mobilization activities (personnel and equipment delivery, provision of completed documents, operating manuals, pre-mobilization audit of transport carried out by the Company's authorized employees etc.)
- After awarding the HSES-SP Critical Contract and approving the HSES-SP Management Plan, the Contract Holder shall organize the HSES-SP pre-mobilization audit in accordance with the HSES-SP Audit Procedure.
21. During **Contract execution**, monitor and regularly review the performance of HSES-SP Critical Contracts and act for continuous improvement:
- Monitor implementation of the HSES-SP Management Plan
 - Steer HSES-SP performance improvement (analyze HSE KPI's results, investigate HSE incidents, assess and improve Contractor's HSE culture, improve HSE competence of Contractor's personnel etc.):
 - Annual review of the Contract HSE Management Plan.
 - Up-to-date standard HSE Clauses shall be used.
 - A list of subcontractors assigned to medium or high-risk activities.
 - The Contractor shall be HSES-SP audited at least once a year. Audit shall be conducted every 12 months, or 2 years if GREEN for 2 years, or 2 years if GREEN pre-mob audit. (HSE Audit shall be conducted in accordance with HSE Audit Procedure)
 - Business Performance Reviews shall be conducted:
 - twice in a year for Gold Contracts and once a year for Silver Contracts (not required for Bronze Contracts).
 - HSE Pulse Surveys shall be conducted and a gap closure plan shall be developed.
 - Satisfied requirements of the HSES-SP Scorecard.
 - Execute control activities for Mode 2 HSES-SP critical contracts as per Company Scorecard.
22. Confirm there are no HSE outstanding issues related to a Contract during Close-out process of the Contract (in accordance with Contract Close-Out Check List).

Contract Engineers are responsible for requirements 23-27:

- 23. Ensure compliance with relevant Contracting and Procurement Manual (Standard) and guides Contract Holder when required.
- 24. Support Contract Holder to select HSE Contract Mode and relevant HSE Contract clauses.
- 25. Identify potentially eligible Contractors.
- 26. Support Contract Holder during execution and close out.
- 27. Keep all records of above activities.

HSE Advisers (of the organizational unit where the contract is held) are responsible for requirements 28-29:

- 28. Support Contract Holder in analyzing HSES-SP risks, preparation of the HSES-SP Management Plan and during (pre) mobilization/demobilization of Contractor.
- 29. Perform routine support and monitoring to verify compliance with HSES-SP Management Plan.