



APPENDIX 10

HSES-SP Management in Contracts Specification

For Mode 1, 3 and 2 non HSES-SP critical contracts, tasks 1-5 are relevant.

For Mode 2 HSES-SP critical contracts, all tasks are relevant.

HSES-SP Management in Contracts implies the successful completion of following HSES-SP tasks:

TASK 1 – ASSURE CONTRACTS HOLDERS HSES-SP COMPETENCE

The Contract Owner shall be responsible for selection of the Contract Holder among CO subordinates. For HSES-SP Critical Contracts, the Contract Holders shall be selected from among employees who passed a course on HSES-SP management in contracts and competence assessment.

Competence of the Contract Holders shall be assessed subject to the requirements of the HSE Competence Standard.

All Contract Holders shall attend the Sakhalin Energy HSE-SP Management in Contracts training.

EXPECTED OUTPUTS:

- **Documented** HSES-SP competency for Contract Holder for HSES-SP Critical Contracts.
- **Signed** [Contract Holder Appointment Letter](#) filed as per CP File Plan requirements.
- **Attended** HSES-SP Management in Contracts training.

TASK 2 – IDENTIFY HSE-SP HAZARDS, RISK AND CONTROLS ON CONTRACT AND DETERMINE CRITICALITY OF CONTRACT

Based on future scope of work, the Contract Holder, with necessary assistance from the relevant HSES-SP Adviser and/or specialists of the C-HSE Assurance Department shall identify hazards and risk related to the work. The HSE Risk Assessment Matrix (RAM) shall be used for this purpose.

The assessment shall consider:

- The nature of the work, product or service;
- The location of the work;
- Potential consequences of an incident, to include harm to personnel or third parties, damage to the environment, damage to assets and/or damage to the company's reputation.

If **ANY** risks are assessed as **medium or high** on the RAM (yellow and red zones), the Contract is considered as **HSES-SP critical**.

If **ALL** risks are assessed as **low risk** on the RAM (light blue and dark blue zones), the Contract is **non HSES-SP critical**; it is required to go directly to **TASK 3**.

Note:

Low commercial value Contracts may still have significant HSES-SP risks associated with them.

For example, scope of work of such low commercial contracts can contain transportation activities.

Once all the tasks mentioned above are completed, the Contract Holder shall document all contracted activities and identify the key controls required to manage these hazards, including applicable Sakhalin Energy HSES-SP standards and procedures, as appropriate to the level of risk.

[Hazard & Effect Register](#) form shall be used for this purpose. Further [guidance](#) on Contract choice and criticality could be used.

EXPECTED OUTCOMES:

- **Hazards and Effects Register** which:



- shall be filed as per CP File Plan;
 - shall be attached to the Tender Board submission form or the [Contract Requisition Form](#);
 - identifies the applicable Sakhalin Energy standards which are to be considered by the bidders during development of technical proposals based on the work scope;
 - may be provided to the Contractor in the [Invitation to Tender](#) as part of HSES-SP Plan.
- Identification of HSES-SP **Criticality of Contract**.

TASK 3 – ASSIGN THE CONTRACT MODE

A Mode of Contract shall be assigned to the Contract to assist the identification of accountability for HSES-SP matters between Sakhalin Energy and the Contractor.

Using the Scope of Work and Hazard & Effect Register and based on following below definitions, the Contract Holder shall assign the Contract to be a Mode 1, 2 or 3. A selected mode shall be approved by specialists of the C-HSE Assurance Department.

Assigning a Mode to the Contract clarifies the way the Company and the Contractor will interact with each other regarding HSES-SP issues, and assists in defining the party responsible for direct HSES-SP supervision.

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.

Multiple Modes:

To be applied when the Scope of Work under the Contract contains elements of different modes. However, it is necessary to assign a general mode to the Contract under the following principle:

- If there are elements of Mode 2 in the scope of work, the Contract shall be classified as Mode 2.
- If there are elements of Modes 1 and 3 in the scope of work, the Contract shall be classified as Mode 1.
- The term "Point of Mobilization" is used for differentiating between HSES-SP requirements that are applicable to different modes. The Point of Mobilization is the first practical time and geographical location where the Company can apply influence and assure the identification of hazardous factors and application of controls during the performance of the work under the Contract.

[Guidance note](#) has more information on choice of mode and several distinct examples.

Note:

Proper identification of a contract mode within a scope of work plays an important role in correct application of the relevant HSES-SP Clauses as an integral part of the Contract.

If the scope of work under the Contract contains elements of different modes, it is necessary to use the term "**Point of Mobilization**". The "**Point of Mobilization**" should specify period and geographical location (when and where) each HSE Mode (terms and conditions) should be applied to the contract.

For example: The contract is effective from 1st of January 2019. The scope consists of preparation of the



design documentation in Contractor's Yuzhno office, obtaining permits and licensing from authorities for 6 months and then on 1st of July the Contractor commences mobilization from Yuzhno and Nogliki to OPF for construction activities involving significant HSE Hazards.

In this case, the contract should be classified as Mode 2 with **Point of Mobilization** on 1st of July at Yuzhno for Yuzhno-based staff/equipment and Nogliki for northern staff/equipment. Transportation shall be conducted by the Contractor under Mode 2 scope. The other contracted activities should be classified as Mode 3.

EXPECTED OUTPUT:

- **Assignment of Contact Mode** (1, 2 or 3) **confirmed** on the Tender Board submission form or Contract Requisition Form.

TASK 4 – IDENTIFY AND APPROVE STANDARD HSES-SP CONTRACT CLAUSES

The Contract shall incorporate the applicable HSES-SP Clauses that are appropriate for a contract mode and criticality, with any approved changes relevant to the specific scope of work. The applicable Company HSES-SP Standards shall be listed in the Mode 2 contracts standard HSES-SP clauses.

The Contract Engineer should include appropriate [Standard HSES-SP Contract Clauses](#) into the Contract based on **HSES-SP Criticality and Mode of this Contract**.

For major projects or for contracts with very specific HSE hazards, HSES-SP Contract Clauses shall be modified as appropriate for the scope of work.

Any deviation from use of standard HSES-SP Contract Clauses shall be approved by Deputy Head of HSE Contracts, Assurance, Planning and Reporting (SEIC-HSE-Management-in-Contracts@sakhalinenergy.ru)

EXPECTED OUTPUT:

- **Identification and Approval** of the appropriate HSES-SP contract clauses.

TASK 5 – IDENTIFY POTENTIALLY ELIGIBLE BIDDERS

Based on the historical experience of performing similar scopes, guidance of Sakhalin Energy Russian Content Team and Shareholders, as well as media publications, a list of possible bidders shall be prepared by Contract Engineer in cooperation with the Contract Holder.

EXPECTED OUTPUT:

- **A complete list of potentially eligible bidders.**

For **Mode 1**, **Mode 3** and **Mode 2** non-HSES-SP critical contracts, it is not mandatory to fulfill specific HSES-SP related tasks 6-11.

However:

- For **Mode 1** contracts, it is important to make sure that the Contractor can provide personnel who are medically fit, qualified and trained in accordance with the requirements of the Russian Federation and the Company, that the said personnel are insured and will be transported safely to the site subject to safety requirements. For more details see the Sakhalin Energy **Mode 1** Model Contract clauses.
- For **Mode 2** non HSES-SP Critical Contracts, it is important to assure that contractor personnel are medically fit, competent, trained as per Sakhalin Energy and RF requirements, follow the H&S rules, environmental and waste rules and regulations, incident reports. For more details see the Sakhalin Energy **Mode 2** non-HSES-SP critical Model Contract clauses.

TASK 6 – HSES-SP PRE-QUALIFICATION

For **Mode 2 HSES-SP Critical Contracts**, it is necessary to make sure that the potential Contractor has an effective HSES-SP Management System in place. The HSES-SP pre-qualification questionnaire shall be used to determine the adequacy of the HSES-SP Management System.

If the bidders are former and/or current Company's Contractors for similar Scope of Work, work location, and Mode of Contract (HSES-SP) and have HSES-SP "green" PERFORMANCE banding registered at the Company (if no more than 2 years have passed since the latest evaluation), ignore tasks 6, 7, 8 and 9 and go directly to Task 10. Similar Scope of work is defined as the same list of work activities. In a situation when and



if the scope changed by more than 30%, meaning that new SEIC standards are to be followed, or/and 70% change in workforce then a bidder is required to pass through HSES-SP Pre-qualification.

The Contract Engineer shall send the HSES-SP Pre-qualification Questionnaire to all bidders so that they provide the relevant documentation as evidence. Where possible, it is strongly recommended to conduct the HSE Prequalification during site/face-to-face visit to the location of the potential bidder, and/or involve the bidder in Vendor Development events.

Note:

The availability of the HSES-SP Management System at a company is a legal requirement in the Russian Federation (Articles 209 and 212 of the RF Labour Code) and one of the main requirements of the Lenders' agreement for the Sakhalin-2 project. It is also included in the requirements of ISO 14001 and OHSAS 18001 Standards. The HSES-SP Pre-qualification Questionnaire allows the Contractor to demonstrate the availability of an effective HSES-SP Management System to meet the Company's general requirements.

If needed, the potential Contractor can be trained to get full understanding of preparation of preliminary HSES-SP documentation for tender. Contact [Russian Content Department](#).

The completed questionnaires and supporting documents shall be evaluated by a special Committee. The Committee shall be comprised of the Contract Holder and Company Site Representative or the relevant HSE Adviser, as well as specialists of the Central HSE representatives upon CH request). The evaluation shall be carried out by applying the scoring system described in the relevant scoring tool. The Contractor shall provide responses to the questionnaire and supporting documentation necessary to substantiate its responses. If the information provided is insufficient, the Committee is entitled to request additional information.

The Committee shall, per the scoring of the HSES-SP Pre-qualification Questionnaire, place each contractor into one of three bands. Results of HSES-SP Pre-qualification together with HSES-SP Questionnaires filled by bidders are to be filed as per CP File Plan. C-HSE Assurance Department should have access to HSE prequalification results for analysis.

- **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.

Vendor Development training is available to inform potential bidders on HSE and other requirements of the Company.

EXPECTED OUTPUTS:

- **The completed** evaluation of the HSES-SP pre-qualification Questionnaire(s).
- **The HSES-SP performance banding of Contractor.**
- **The final list of bidders.**

TASK 7 – DEVELOP THE TECHNICAL EVALUATION CRITERIA

Based on the Scope of Work, the Contract Holder shall develop the technical evaluation criteria. The scoring or percentage system shall be used for this purpose (HSES-SP shall make up at least 25% of the total score of technical proposals). Specific criteria for HSES-SP evaluation shall include:

- Readiness of the bidders to follow the requirements of the Scope of Work and the Company's standards relevant to the SoW of the bid.
- Readiness of the bidders to meet the Company's requirements applied for personnel training.
- Readiness of the bidders to meet all Federal, Regional, Municipal and industry specific and other Works related legislation and standards on HSE. The possible Contractors shall be ready to obtain all required



licenses and permits.

- Completeness and quality of the developed HSES-SP Management Plan.

Note:

Depending on criticality of certain Contract activities for the Company, the Go/No go principle may be applied to some criteria.

Go/No Go criteria must be specified in the technical evaluation matrix, including mandatory requirements and High gaps.

EXPECTED OUTPUT:

- A developed **Matrix with the technical evaluation criteria for tender proposals**.

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.

HSES-SP gap closure actions shall be included into the contract HSES-SP Management Plan in the further stages.

TASK 8 – ISSUE INVITATION TO TENDER

Unconditionally to ALL “GREEN” banded Contractors, Company should issue ITT.

The Contract Engineer shall take measures to ensure that HSES-SP requirements for the scope of work are understandable to all bidders. The Hazard & Effect Register when completed may be incorporated in the tender proposal as part of HSES-SP Plan Template. However, the quality and completeness of the Register by the bidder may be one of the technical evaluation criteria. In this case the bidders receive a blank Register form so that they could fill it.

For **Mode 2** HSES-SP Critical contracts the Scope of Work / Invitation to Tender shall contain:

- List of HSES-SP Critical positions for future Scope of Work related to bid at the time (whose act or failure to act can lead to incidents with major consequences (Criticality of 4 and 5 on the RAM).
- Relevant HSES-SP clauses.
- Copies of (or confirmed access to) relevant important Sakhalin Energy HSES-SP Standards.
- HSES-SP Management Plan Template.
- Proposed Leading and lagging Key Performance Indicators.

Other points that may be addressed in the Invitation to Tender or the Scope of Work are:

- Staff motivation schemes.
- Environmental safeguards, e.g. site preparation, waste minimization and disposal.
- Facilities, services and training provided by the Company.

Conditionally upon TB approval (C-HSE Assurance Manager for contracts below TB threshold) to “YELLOW” banded Contractors Company may issue ITT requesting provision of their technical and commercial proposals reflecting actions needed to close identified HSES-SP MS gaps.

EXPECTED OUTPUT:

- **An adequate and equal level of understanding of specific HSES-SP requirements related to the Contract by all bidders. These requirements shall be considered during preparation of technical and commercial proposal.** The Contract Engineer shall file all information communicated during clarification as per CP File Plan.

Note:

A few methods can be used individually or in combination to clarify the expectations on HSES-SP management for the execution of the contract. These include:



- Allow bidders an opportunity to assess HSES-SP risks by making a site visit (where similar work is undertaken).
- Provide bidders with copies of Sakhalin Energy HSES-SP documentation relating to the Scope of Work.
- Hold clarification meetings.

It is important that all contractors are provided with the same materials and provided the same opportunities for clarification to avoid any claims of bias in the selection process.

TASK 9 – BIDDERS PREPARE HSES-SP MANAGEMENT PLAN

HSES-SP Management Plan is a document, in which the bidders shall communicate HSES-SP requirements, identified hazards and controls (to inform the Company and obtain the Company's approval).

Activities, hazards, and controls communicated to the bidders (Task 8) shall be an input for the preparation of the HSES-SP Management Plan. The bidders shall, however, complete their own assessment of HSES-SP risks based on their experience in the scope of work and HSES-SP statistics, and then document all controls, as appropriate to the level of risk, in the proposed HSES-SP Management Plan.

The HSES-SP Management Plan is the most important HSES-SP implementation tool for the Contract execution. The HSES-SP Management Plan shall document the hazards and risks identified for the Scope of Work, and then build the necessary controls around them, all the time concentrating on reducing the risk to a level that is as low as reasonably practicable, which does not absolve the contractor (or any subcontractors) from the obligation of full legal compliance. For the Plan to be effective it should be based on the Scope of Work, specific to the Contract. **Anything that is put into the HSES-SP Management Plan must be capable of being translated into a tangible output.**

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.

The bidders shall prepare a draft HSES-SP Management Plan and provide it together with the tender documentation.

EXPECTED OUTPUT:

- **A draft HSES-SP Management Plan** prepared by the bidders, including the list of hazards and controls associated with the Scope of Work.

Note:

Where necessary, the Contract Holders should seek assistance from the relevant HSES-SP Adviser for guidance on what should be provided by the bidder, and on assessing the bidders' response. The objective is:

1. Demonstrate what actions they take to identify risks associated with the contract work scope and which controls they put to prevent HSE incident and/or negative consequences to people, assets, environment and reputation.



2. To make sure that the data presented in the technical proposal realistically reflects the level of resource required for effective HSES-SP risk management during the performance of the Contract.
3. To ensure an HSES-SP Management Plan is ready before mobilization.

Further guidance on the content and structure of the HSES-SP Management Plan is available and properly resourced in [HSES-SP Management Plan Guide](#).

TASK 10 – TENDER EVALUATION INCLUDING PROPOSED HSES-SP MANAGEMENT PLAN

The Contract Holder, with assistance from the relevant HSES-SP Advisor, shall evaluate the bidders' draft HSES-SP Management Plans: contractors' ability to meet and exceed the Company's HSES-SP requirements for the Scope of Work.

The [HSES-SP Management Plan Guide](#) (Mode 2) lists elements against which the HSES-SP Management Plan could be reviewed.

Important aspects to look for in an HSES-SP Management Plan are:

- Quality of the Hazard & Effect Register
- Clarity and completeness of the HSES-SP Management Plan
- Identification of actions before mobilization and/or start of work
- Frequency and type of actions to implement and verify requirements
- Visible leadership and involvement of management

EXPECTED OUTCOMES:

- **Results of technical evaluation (completed matrix).**

TASK 11 – APPROVE THE HSES-SP MANAGEMENT PLAN

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.)

Before mobilization both the Contractor and Contract Holder shall approve the HSES-SP Management Plan. The HSES-SP Advisor and Company Site Representative(s) should attend the HSES-SP kick-off meeting. The Contract Holder shall agree with HSES-SP Advisor and Company Site Representative(s) on their expected contribution to implement the HSES-SP Management Plan.

EXPECTED OUTCOMES:

- Approval of **HSES-SP Management Plan**.
- **Clarity on the roles and responsibilities of the Company Site Representative and HSES-SP Advisor** to implement and monitor the HSES-SP Management Plan.
- Report to HSES MiC Steering Committee

TASK 12 – CARRY OUT THE PRE-MOBILIZATION AUDIT



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.

EXPECTED OUTCOMES:

- **Audit report** which should indicate audit opinion of the timing of the next level 3 HSE audit

TASK 13 CONTRACTS MANAGEMENT

The Contract Holder shall monitor the implementation of the HSES-SP Management Plan and compliance with it. The Company Site Representative (where applicable) and/or the relevant HSES-SP Adviser shall assist the Contract Holder in monitoring the day-to-day implementation of the HSES-SP Management Plan and key HSES-SP performance indicators (approved as an integral part of the Contract, Tasks 8 and 9, as well as in meeting the requirements of the Company's HSES-SP Scorecard.

EXPECTED OUTCOMES:

- 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**.

TASK 14 – CONTRACTOR DEMOBILIZES

Contract Holder shall ensure that the supplier demobilizes from the site of work in accordance with all requirements of the HSES-SP Management Plan.

EXPECTED OUTPUT:

- **Assurance of Hazards & Effects Management Process during demobilization phase.**

Note:

Prior to demobilization, the Contract Holder should review the HSES-SP Management Plan to ensure all demobilization hazards and controls have been identified and are implemented.

The Contract Holders should maintain their vigilance on the execution of the Contract until completion and closeout. De-mobilization will often involve new high-risk activities such as export of materials, personnel transportation, equipment commissioning and adjustment, waste disposal.