



HSES-SP Management of Contracts

Purpose

To ensure that *Contracts*¹ consistently and effectively cover the management of Health Safety Environment Security and Social Performance (*HSES-SP*) Risks, and to deliver effective management of HSE S-SP Risks during contracted activities.

This HSES-SP Management of Contracts Standard identifies key requirements, which are further detailed in the HSES-SP Management of Contracts Procedure.

Who is this for?

- *Directors*;
- All staff using contracted services or involved in Contract management process (including *Tender Boards*, *Contract Owners*, *Contract Holders*, *Contract Engineers*, *Company Site Representatives*, and *Managers*, *Supervisors* and *HSES and SP representatives* using contracted services or involved in contracting activities).

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 and Security Policies*.
2. Optimise 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.

HSE Assurance manager is accountable for requirement 6:

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.

Contract Owners are Accountable and Contract Holders are **Responsible** for requirements 7 to 15 for their Contract(s):

7. Identify HSES-SP **Hazards** associated with the Scope of Work.

Document hazards, threats, consequences, Risk Assessment Matrix ([RAM](#)) ratings, and Controls and Recovery Measures in a Hazards and Effects Register (tool provided in HSES-SP Management of Contracts Procedure).

8. 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.
9. Assign the Contract **Mode**.

¹ Italicized terms in this document are included in the Sakhalin Energy HSE Glossary.

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Standard Overview

- Mode 1: Contractor provides people and tools for the execution of the work under the supervision, instruction and *HSE-SP Management System* and Security Standard of the Company. The Contractor provides assurance that the relevant personnel are qualified and fit to work, that safe transport is provided to and from point of mobilization, and that the relevant tools and machinery are properly maintained and suitable for the work.
 - Mode 2: Contractor executes and supervises (all) aspects of the job under own *HSES-SP Management System* if applicable to the work scope. The Company is responsible for verifying the overall effectiveness of the controls put in place by the Contractor.
 - Mode 3: Contractor operates within its own system outside the Company's influence, and is not required to report HSES-SP performance. However, this does not exclude the possibility that the Company may wish to guide and influence HSES-SP performance under the Contract. Examples of Mode 3 Contractors are suppliers (e.g. telephones), technical service providers (e.g. electricity), advisory service providers (e.g. recruitment agency, auditors).
 - Multiple Modes: When a Contract has activities in different Modes
 - If there is any Mode 2 activity, the Contract is automatically classified as Mode 2.
 - If there is both Mode 1 and Mode 3 activity, the Contract is automatically classified Mode 1.
 - However, multiple modes can still exist within the detailed work scope, and the Contract should indicate point of mobilization for Mode 1 and Mode 2 work scope.
 - 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 of Contracts Procedure.
10. **Prequalify** Potential Contractors considering their capability to execute the Scope of Work in line with Company HSE-SP and Security requirements. This is not required for Mode 1 or Mode 3 Contracts. For Mode 2 HSES-SP Critical Contracts:
- Prequalify potential Contractors based on HSES-SP Stoplight Banding (Red / Yellow / Green).
 - Apply the existing Stoplight Banding 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 (refer HSES Management of Contracts Procedure) to determine Stoplight Banding for the potential Contractor.
 - **Green** Banded potential Contractors pass HSES-SP Prequalification and may be included in potential Contractor Shortlist.
 - **Yellow** Banded potential Contractors pass HSES-SP Prequalification and may be included in potential Contractor Shortlist only if the Contract Holder can demonstrate the Contractor's capability to manage Risk, and achieve HSES-SP development of the potential Contractor by allocating Company resources to supervise/inspect the Work and incorporating appropriate Controls in the Contract HSES-SP Management Plan.
 - **Red** Banded potential Contractors do not pass HSES-SP Prequalification and shall only be included in potential Contractor Shortlist on instruction of *Tender Board* in exceptional circumstances and after due consideration of the Company's ability to adequately manage and control related Risks.
11. Apply **HSES-SP Clauses** and communicate Company HSES-SP requirements to potential Contractors.
- Include in the Contract the appropriate standardized HSES-SP Contract Clauses (refer HSES Management of Contracts Procedure) for the Mode and Criticality, considering sufficient detail of the Contract Scope of Work. Any deviations shall be formally approved by Technical Authority 2 (TA2) for HSES-SP Management of Contracts.
 - Include HSES-SP key performance indicators, incentive and/or penalty criteria, where practicable (refer HSES Management of Contracts Procedure).
12. Include HSES-SP criteria in **Evaluation** matrices for HSES-SP Critical Contracts.
- Include 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 of Contracts Procedure.
 - For Mode 2 Contracts, include review of the potential Contractor's draft HSES-SP Management Plan in the Technical Evaluation matrix.
 - For Mode 1 Contracts, include Company procedures for relevant HSES-SP Critical activities in the Invitation To Tender, and assess the capability of the potential Contractor to comply (e.g. competence, equipment) as part of the Technical Evaluation.
 - Consider relevant HSES-SP costs in Commercial Evaluation, based on the HSES-SP capability (Stoplight Banding) of the potential Contractor. Bids should include potential Contractor costs of

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compliance. Company costs of potential Contractor development/supervision/inspection should be included for consideration in Commercial Evaluation.

13. **Prior to authorizing work to commence**, verify that relevant HSES-SP requirements have been satisfied as defined in the Contract. For HSES - SP Critical Contracts:
 - a. For Mode 2 HSES-SP Critical Contracts, approve the HSES-SP Management Plan (refer [HSES Management of Contracts Procedure](#)).
 - HSES-SP Plan includes reference to Sakhalin Energy standards and procedures to be followed by potential Contractors related to specific Scope of Work.
 - This Plan is the most important HSES-SP requirements implementation tool for Contract execution. The *HSES-SP Management Plan* shall document the Hazards associated with the Scope of Work, Risk ratings, and Controls and Recovery Measures to reduce the Risks to a reasonable level in line with the [Managing Risk Standard](#). The *HSES-SP Management Plan* shall cover all Contract phases from mobilisation through execution, demobilisation and site restoration.
 - For subcontracts involved in Medium or High risk activities, Mode and controls shall be indicated in the HSES-SP Management Plan.
 - b. For Mode 1 HSES-SP Critical Contracts:
 - In relation to Transport Risks, Company approved transportation shall be used as per Contractual Clauses.
 - For all other Medium or High Risks, identify required Controls and document these in accordance with relevant Company requirements (e.g. Permits to Work, project Work Pack, project/activity-specific HSES-SP Plan). Liaise with the Asset/Site to confirm applicable local controls.
 - c. Verify that all Contractor personnel have been informed of the HSES-SP requirements of the Contract (including that Contractor personnel are given an HSES-SP induction on the HSE S and SP Risks) and Controls to manage those Risks.
 - A Kick Off Meeting should be conducted with Contractor personnel, to familiarise the Contractor with Company HSES-SP expectations and establish common goals.
 - d. Verify that adequate resources and support are provided to implement all controls (including mobilization of any required Company-provided supervision/inspection).
 - e. Verify that tools / equipment that the Contractor will use, are suitable for the job and safe to use.
 - f. Verify that the Contractor will assess the ability of potential subcontractors to meet Contract requirements, and only award the subcontract if satisfied that the subcontractor will meet these requirements.
14. During **Contract execution**, monitor and regularly review the performance of HSES-SP Critical Contracts and take action for continuous improvement.
 - a. Conduct audits to verify the management of contracts' HSES-SP Risks in accordance with the [Level 3 HSE Audit Guideline](#).
 - b. As part of Business Performance Reviews (where required in accordance with CP Standard), discuss the ongoing suitability and effectiveness of measures taken to manage HSES and SP.
 - c. Confirm that action is taken by the appropriate parties to improve performance where requirements are not met;
 - d. Review and adjust the level of monitoring/supervision/inspection by Company to help the Contractor achieve the HSES-SP performance agreed in the Contract.
 - e. Recognize good HSES-SP performance and apply consequence management.
 - f. For Mode 2 HSES-SP Critical Contracts:
 - Review yearly, and as appropriate, the Contractor HSES-SP Stoplight Banding.
 - Review yearly, and in case of scope change, the Contract HSES-SP Management Plan.
15. At the end of the Contract, assess the Contractor's overall HSES-SP performance and determine their suitability for consideration for future contracts by reviewing Contractor HSES-SP Stoplight Banding.

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