Sakhalin Energy Investment Company Ltd.
Safety Consequence Management Standard

(Стандарт по управлению последствиями нарушения требований охраны труда)

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<td>R.Caspers</td>
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<td>March 2012</td>
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### Revision Details

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1 INTRODUCTION

1.1 Purpose
It is essential that all Sakhalin Energy personnel, including contractors, agency personnel and personnel nominated by Shareholders for work at the Company, comply with the HSE rules applicable in the Company. To promote compliance Company will reward the safety behaviours which lead to good performance and will impose disciplinary actions for violations of specific identified rules deemed essential by the Company and/or Labour Code of the Russian Federation.

The applicable labour safety requirements are stipulated in labour safety legislation, Company’s HSE-SP Policies and Standards and in site-specific instructions.

In accordance with Russian Federation Labour legislation:
• It is the duty of all employees to observe labour safety requirements established by laws and other regulations, as well as by labour safety rules and instructions.
• Sakhalin Energy requires that employees comply with internal labour protection and safety rules and instructions.
• A failure to follow applicable labour safety requirements is considered to be a breach of labour discipline.
• Sakhalin Energy applies disciplinary sanctions against employees for disciplinary offences.

For the majority of violations to labour safety requirements, disciplinary sanctions will be decided by line management on a case-by-case basis in compliance with the current RF Labour legislation and Sakhalin Energy Instruction “Disciplinary action procedure”.

This policy highlights a number of specific violations for which disciplinary sanctions are mandated throughout the Company.

1.2 Scope

The Standard applies to all categories of Sakhalin Energy personnel, including contractors, agency personnel and personnel nominated by Shareholders for work at the Company.

This document applies to all Sakhalin Energy Assets, Facilities, Operations, Projects and Activities, including activities undertaken by any Contractor on behalf of the Company.

1.3 User Notes

Non-compliance shall be authorized using the Deviation Procedure described in Chapter 8 of the Corporate Document Control Procedure (0000-S-90-01-P-0078-00-E).

A controlled copy of the current version hereof is available in LiveLink via the Sakhalin Energy website. Before using this document, it is the User’s responsibility to ensure that the hard or electronic copy hereof is current. The Document Custodian should be contacted for assistance and any feedback.
2 Risk and Controls

The consequence management policy aims to control the following Risks:\(^1\)

- Non-compliance with key provisions of the Sakhalin Energy Investment Company (hereinafter referred as Company) HSE-SP Policies and Standards.
- Non-compliance with RF legislation concerning labour, road or industrial Safety.

The control of HSE relies on compliance with Russian Federation Labour legislation and with the Sakhalin Energy HSE-SP Management System and associated control documents. HSE incidents, near misses and non-compliances occur when violations of these control documents take place.

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\(^1\) Italicized terms in this document are included in the Sakhalin Energy HSE Glossary.
3 Requirements – General

Managers and Supervisors and Contract Holders (hereinafter referred to as CH) are accountable for requirements 3.1 – 3.3 in their own organization:

3.1 This Standard shall be communicated, implemented and enforced for Company staff including direct-hire, contract-hire and shareholder secondees.

3.2 If any of the violations stated in section 4, 5 of the present Standard come to the attention of the line manager, the appropriate HR Business Partner shall be contacted and the disciplinary actions to be invoked according to RF labour legislation requirements and Company instruction "Disciplinary action procedure". In case of contractor staff, the relevant contract holder shall be contacted.

3.3 Fair and properly documented investigation shall be conducted in case of the standard violation in compliance with the legal requirements and Company’s Incident Reporting and Follow-up Standard.

Contract Holders are accountable for requirements 3.4 – 3.6:

3.4 This Standard or an equivalent procedure shall be implemented for contractors and subcontractors working for Sakhalin Energy.

3.5 If any of the violations stated in section 4, 5 of the Standard come to the attention of the contractor, the contractor shall be notified of the appropriate consequence management in writing with a copy to the contract file.

3.6 In case of violations stated in section 4, 5 of the Standard by contract-hire personnel, the meeting between Contract responsible Sakhalin Energy director and contractor management shall be arranged to discuss consequences management and improvements.

Company direct hire personnel, is accountable for requirements 3.7 – 3.8, and contractors and agency personnel are responsible for requirement 3.7.:

3.7 Company direct hire personnel, personnel nominated by Shareholders for work at the Company, Contractors and agency personnel shall stay in compliance with the law, with the labour safety rules specified in the Sakhalin Energy local normative acts, Sakhalin Energy HSE Standards and procedures, Internal Working Rules and Labour Safety Instructions.

3.8 Company direct hire personnel, personnel nominated by Shareholders for work at the Company are obliged to report all incidents occurring in activities executed for Sakhalin Energy within 24 hours.
4 Requirements – Policy

Managers, Supervisors and Contract Holders are Accountable for requirement 4.1 and 4.2 in their own organization:

4.1. Recognition of good HSE performance

Through various initiatives, the following good HSE performance shall be recognized:

- Any out of the ordinary intervention by an individual.
- Outstanding periods of high safety performance by teams.
- Initiatives that have led to a demonstrable increase in safety awareness and/or performance.
- Individuals or groups who have a track record of exemplary personal leadership in safety through their actions and behaviours.
- Any other safety achievement that warrants recognition.

4.2. Disciplinary Actions

4.2.1. The following violations shall always incur disciplinary action:

- Appearing at work under the influence of drugs or alcohol.
- Smoking or carrying or use of ignition sources in active hydrocarbon areas.
- Walking under a suspended load
- Violating requirements of permit to work.
- Failure to wear a seatbelt when travelling in a vehicle.
- Driving on company business without a valid defensive driving training and journey authorisation.
- Exceeding the speed limit.
- Using communication devices whilst driving.
- Reckless violations of other HSE requirements specified in Company standards and procedures, including but not limited to:
  - Unauthorized overriding or disabling safety critical equipment including seatbelts.
  - Working above 1.3 m without secured fall protection.
  - Bringing unauthorized weapons onto company premises.

The implementation details are specified in Section 5 of this Standard.

4.2.2. The disciplinary action shall consist of admonition, reprimand or dismissal, and be performed according to RF Labour Code. For appearing at work under the influence of drugs or alcohol or for violations that lead, or could lead to disastrous consequences, a single violation shall lead to dismissal.

4.2.3. For all Company direct hire personnel, personnel nominated by Shareholders to work at the Company an admonition or reprimand for violations listed in this Standard shall also affect the individual’s overall performance appraisal. For admonition the individual’s IPF shall be capped at 0.8 and for a reprimand the individual’s IPF shall be capped at 0.0. It is expected that contractors applied similar graduated disciplinary measures for violations by their staff.

4.2.4. If the violation is due to Manager’s or Supervisor's dereliction of duty, i.e. provision of a vehicle not fitted with seatbelts, giving orders in conflict with Company standards or procedures, disciplinary actions will apply to the Supervisor or Manager and not to the Employee or contractor.
5 Requirements – Implementation

5.1 I will not appear at work under the influence of drugs or alcohol

Company direct hire personnel, personnel nominated by Shareholder for work at the Company, Contractors and agency personnel are responsible for requirements 5.1.1 –

5.1.1 Appearing at business premises or acting on company business shall be prohibited:
- with Blood Alcohol Content (BAC) level determined to be equivalent to or greater than 0,5 Pro Mille or 0,25 mg per litre of exhaled breath;
- in a state of drug intoxication resulted by use of illegal or misuse of legal drugs.

5.1.2 Company direct hire personnel, personnel nominated by Shareholder for work at the Company, contractors and agency personnel shall cooperate in case of a request for an alcohol or drug check by line manager, Contractor Holder, security or medical staff.

Managers and Supervisors are responsible and Contract Holders are accountable for requirements 5.1.3 – 5.1.5 in their own organization.

5.1.3 Screening, testing and searches for alcohol and drugs shall be conducted in accordance with the Management of Alcohol & Drugs at Work Specification.

5.1.4 Evidence of this violation shall be established by the opinion of a medical professional, a physiological test/analysis, a biochemical test/analysis, including alcohol and drug tests. Other adequate evidence to detect or confirm violations, such as testimonies or reports of witnesses, can only be used as advised and approved by Sakhalin Energy Legal Directorate.

5.2 I will not smoke or carry or use ignition sources in active hydrocarbon areas

Company direct hire personnel, personnel nominated by Shareholder for work at the Company, Contractors and agency personnel are responsible for requirements 5.2.1 – 5.2.4

5.2.1 Smoking in an active hydrocarbon area, including the use of matches, lighters or any other means to ignite smoking materials, shall be prohibited.

5.2.2 Carrying or using personal electronic devices or other ignition sources in an active hydrocarbon area shall be prohibited.

5.2.3 The professional use of electronic devices, excluding explosion proof or intrinsically safe, shall be performed under a Cat 2 Hot Work Permit to Work and gas test shall be done as specified in the permit.

5.2.4 Every type of explosion-proof or intrinsically safe electrical equipment shall be inspected and approved by site authorized electrician prior to its use without a permit to work.

Site controllers are accountable for requirements 5.2.5 – 5.2.8 in their own organization

5.2.5 Active Hydrocarbon areas existing in all facilities used for the production, transport and processing of hydrocarbons shall be clearly defined and communicated to every person visiting the asset.

5.2.6 Any items considered as ignition source shall be recorded in the duty log and secured by site security or person in charge until the individual leaves the site.

5.2.7 Electrical equipment (machines, units or devices), instrumentation, electrical lights, shut-off devices, telephones, radio stations and their alarms, installed in the hazardous areas shall be explosion-proof and have explosion safety level as required by PUE-00 (Electrical Installation Code) regulations. The type of explosion protection shall correspond to the class and group of explosive mixture in the area.

5.2.8 Every type of explosion-proof electrical equipment manufactured abroad shall have the test certificate, issued by the Russian test laboratory, validating compliance of this equipment with the Russian regulations for the hazardous zone application. RTN permit shall be required to authorize the use of such equipment.

5.3 I will not walk under a suspended load

Company direct hire personnel, personnel nominated by Shareholder for work at the Company, Contractors and agency personnel are responsible for requirements 5.3.1 – 5.3.4.
5.3.1 Walking or any activity under a load that is temporary lifted shall be prohibited.
5.3.2 Due to the nature of Drilling Operations for rig floors prohibited areas are defined by Shell Dropped Object Prevention Manual (EP2009-9039) with clear No-Go and Red Zones requirements. A violation is only when an unauthorized person enters a prohibited area.
5.3.3 Unauthorized crossing of a barrier or entering an area with suspended loads without the clear agreement of the person in charge of the lift shall be prohibited.
5.3.4 When participating in lifting operations everyone shall ensure that they:
   • are in a safe position in case the load falls or swings;
   • understand the signalling methods and agreed communication methods;
   • are not under the load unless it is specifically authorized in the approved lift plan.

Managers and supervisors are responsible for requirements 5.3.5. – 5.3.6.
5.3.5 Prior to each lift flagman or person in charge of the lift shall make sure the lift area is controlled by barriers in accordance with Pan Asset Barrier Philosophy and everyone is clear if the load swings or falls.
5.3.6 If the only option is to conduct the lift over buildings occupied by persons, the Corporate Procedure for lifting operations over live process areas shall be applied.

5.4 I will comply with the requirements of Permit to Work
Managers and supervisors are responsible for requirements 5.4.1 – 5.4.4.
5.4.1 Formal documented Permit to Work procedures shall be implemented to cover all situations where hazardous or non-routine work is conducted.
5.4.2 Permit to Work requirements as per Permit to Work Manual (ISSOW), & Permit to Work Procedure shall be communicated to workforce to ensure that all specified activities are covered by Permit to Work.
5.4.3 The correct level of risk assessment shall be used to identify normally required controls including but not limited to isolations, gas tests and equipment. The level 2 risk assessment shall be conducted by the people required for identification of appropriate controls.
5.4.4 All controls specified in Work Control Certificates shall be explained to work party by means of a pre-job toolbox talk.

Company direct hire personnel, personnel nominated by Shareholder for work at the Company, Contractors and agency personnel are responsible for requirements 5.4.5 – 5.4.7.
5.4.5 All non-routine or hazardous construction, modification, inspection, maintenance, repair, testing, or dismantling work shall be covered by a documented Permit to Work as per Permit to Work Manual (ISSOW), & Permit to Work Procedure.
5.4.6 Requirements stated in ISSOW Work Control Certificates for the job shall be followed by work party at all times. If following the requirements is not possible, the work shall be suspended until the matter is resolved.
5.4.7 All required isolation shall be in place and verified before start of work.

5.5 I will wear a seatbelt when travelling in a vehicle
Company direct hire personnel, personnel nominated by Shareholder for work at the Company, Contractors and agency personnel are responsible for requirements 5.5.1 – 5.5.2.
5.5.1 All employees shall wear seatbelts when travelling in a Company vehicle, as per Road Transport HSE Management Standard.
5.5.2 Any modification or disabling of a seatbelt are prohibited and may lead to dismissal.

Managers and supervisors are responsible for requirement 5.5.3
5.5.3 All vehicles operated on behalf of the Company shall be equipped with the proper type of seatbelts as per Road Transport HSE Management Standard.
5.6 I will only drive on company business with a valid defensive driving training and journey authorisation.

Drivers, both Company and Contractors, are responsible for requirements 5.6.1 – 5.6.3.

5.6.1 Persons driving a Company or Contractor supplied vehicle shall have valid Defensive Driving Training course certificate for this type of vehicle, as per Drivers, Driving and Defensive Driving Training (Appendix 4 of Road Transport HSE Management Standard).

5.6.2 Journey shall be executed only with the required Journey Authorisation as per Safe Journey Management (Appendix 5 of Road Transport HSE Management Standard).

5.6.3 Deviating from the approved route description in the Journey Plan shall be prohibited unless necessitated by an emergency.

Managers and supervisors are responsible for requirement 5.6.4.

5.6.4 Necessary arrangements shall be made for the drivers to be able to timely pass required Defensive Driving Training and obtain proper journey authorisation prior to the travel.

5.7 I will not exceed the speed limit

Drivers, both Company and Contractors, are responsible for requirement 5.7.1

5.7.1 Drivers shall follow the requirements to comply with speed limits set by Road Transport HSE Management Standard

5.8 I will not use communication devices whilst driving

Drivers, both Company and Contractors, are responsible for requirement 5.8.1

5.8.1 Drivers shall follow the requirements to mobile communication devices as described in Road Transport HSE Management Standard

5.9 Reckless violations of other HSE Requirements

Company direct hire personnel, personnel nominated by Shareholder for work at the Company, Contractors and agency personnel are responsible for requirements 5.9.1-5.9.4.

5.9.1 Safety critical equipment shall not be disabled without obtaining the required authorisation. Examples of safety critical equipment include isolation devices/emergency shutdown valves, trip systems, relief valves, fire and gas alarm systems, certain level Controls, alarms, crane computers, and In Vehicle Monitoring Systems (IVMS).

5.9.2 Fall protection equipment shall be used when working above 1.3. m as per Pan Asset Procedure - Working at Height and Over Water

5.9.3 It shall be prohibited to bring unauthorized weapons on Company premises.

5.9.4 All Company HSE Standards and procedures shall be adhered to, and interventions shall be made in case of any doubts.

6 Reporting

Company direct hire personnel, personnel nominated by Shareholder for work at the Company, Contractors and agency personnel are responsible for requirement 6.1.

6.1 Reporting of Violations shall be done by all staff as described by Incident Reporting and Follow-Up Standard or in Whistle Blowing/Grievance procedure.

Some violations may also be reported through compliance monitoring of the Road Safety Monitoring Teams as per: Road Safety Assistance and Monitoring Team (RSAM) Procedure.

Violations may also come to light as a result of incident investigations, audits, reviews or inspection of Company records.

Managers, supervisors and Contract Holders are responsible for requirement 6.2.

6.2 Evidence of violations should be recorded as per the incident investigation or whistle-blowing
procedures referred to in article 6.1.
7 References

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