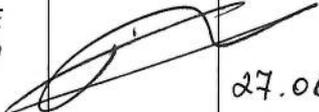
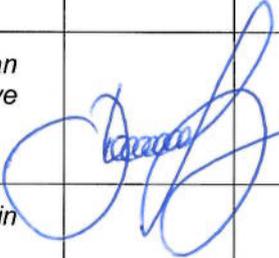




# Sakhalin Energy Investment Company Ltd. Controlled Document

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## 1 INTRODUCTION

### 1.1 PURPOSE

The Phase 2 Senior Lenders have acknowledged the Company's concern that Permitted Project Expansions and Project Expansions should not be inadvertently delayed by a lender approval process<sup>1</sup>. Indeed, both the Company and the Phase 2 Senior Lenders envisage that most Permitted Project Expansions will involve minimal input from the Phase 2 Senior Lenders because these works will have already been addressed through the ESHIA and Health, Safety, Environmental and Social Action Plan (HSESAP) or will be inherently low impact in terms of social and/or HSE matters.

The Phase 2 Senior Lenders and the Company have agreed that the Phase 2 Senior Lenders shall be notified of the applicable Permitted Project Expansions and Project Expansions and consulted where applicable on the HSE and social approach which the Company proposes to follow in relation to certain Permitted Project Expansions and Project Expansions in the manner set out in this Procedure. In relation to those Permitted Project Expansions and Project Expansions with a potentially high impact which fall outside the existing provisions of the ESHIA and HSESAP, the Phase 2 Senior Lenders and the Company have agreed that the independent environmental consultant to be appointed pursuant to the Common Terms Agreement shall be able to verify that the HSE and social approach agreed in relation to the applicable Project Expansions or Permitted Project Expansion has been implemented.

There shall be no public consultation process by the Phase 2 Senior Lenders in respect of any Project Expansion or Permitted Project Expansion that is not funded by them. The Phase 2 Senior Lenders shall be entitled to provide a link on their websites to any documents which are posted on the Company's website as part of the Company's public consultation processes in relation to any Permitted Project Expansions or Project Expansions

### 1.2 DEFINITIONS AND ABBREVIATIONS

The word **shall** indicates a requirement.

The word **should** indicates a recommendation.

<b>ESHIA</b>	Environmental Social Health Impact Assessment
<b>HSESAP</b>	HSE Social Action Plan
<b>RAM</b>	Risk Assessment Matrix
<b>HEMP</b>	Hazards and Effects Management Process
<b>ALARP</b>	As Low As Reasonably Practicable
<b>CTA</b>	Common Terms Agreement
<b>Intercreditor Agent</b>	Administrative body between the Lenders and the Company

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<sup>1</sup> Permitted Project Expansions will typically be lower value less complex works such as de-bottlenecking activities, or else activities which have already been provided for with the Project's ESHIA. Project Expansions are likely to be larger expansions.



## 2 PROJECT EXPANSIONS HSE PROCEDURE

The Company shall apply this Project Expansions HSE Procedure to assess the overall risk severity of each Project Expansion and shall re apply the applicable part of such Project Expansions HSE Procedure if it becomes aware of any fact, which could increase or decrease the severity of the overall risk classification of the Project Expansion pursuant to the Project Expansions HSE Procedure.

Where any Project Expansion referred to above has multiple applicable overall risk severity categories, each of which could have a different risk rating that Project Expansion will be ranked at the highest risk rating for any of the applicable overall risk severity categories.

The Company shall not amend the Project Expansions HSE Procedure without the prior consent of the Phase 2 Senior Lenders (acting reasonably).

### 2.1 GENERAL APPROACH TO PERMITTED PROJECT EXPANSIONS AND PROJECT EXPANSIONS

The Company will assess and manage HSE, reputational and social risks associated with Permitted Project Expansions and Project Expansions through the application of the RAM and the Hazard and Risk Management process described in HSESAP (0000-S-90-04-P-7070-01-E) and in respect of Project Expansions and Permitted Project Expansions at Section 2.2 (the Project Expansions HEMP) of this document. This requires that the hazards associated with all activities be properly identified and controlled in a manner that reduces significant risks to people, social matters, assets, the environment, and reputation to ALARP.

The provisions of the Common Terms Agreement (CTA) and the HSESAP will apply to all Project Expansions and Permitted Project Expansions.

### 2.2 THE PROJECT EXPANSIONS HEMP

The objective of the Project Expansions HEMP in the conceptualisation and development of Permitted Project Expansions and Project Expansions is to identify and assess hazards (including new hazards in non-routine operations) and effects that may be avoided, reduced or eliminated; to apply effective controls to manage potential hazards; and to develop and implement effective recovery preparedness measures in the event of an occurrence of a hazard.

The Project Expansions HEMP essentially follows six basic steps:

- (a) Identification of hazards to people, assets, the environment, social matters and the Project's reputation;
- (b) Assessment of HSE, reputational and social risk associated with each potential hazard that might occur during the lifecycle of the Permitted Project Expansion or Project Expansions, during normal or abnormal operating conditions, followed by a ranking of the risks. The ranking of risks for the purposes of Project Expansions and Permitted Project Expansions will be carried out using the RAM in the form set out in the document Methodology for Classifying and Remediating Incidents And Breaches (0000-S-90-04-O-0009-00-E, Appendix 9);
- (c) Development of controls (including mitigation measures) to reduce risks to ALARP. Controls identified will focus primarily on preventative measures that will reduce the likelihood and/or impact of the occurrence of a hazard;
- (d) ALARP evaluation to assess the sufficiency of the risk reduction controls. The concept and application of ALARP is further described in Section 2.4;
- (e) Plan recovery which entails identifying the means for responding to and recovering from realistic scenarios in the event that preventative controls fail. Controls identified focus primarily on mitigation measures that will reduce the consequence of the effects of a hazard that has occurred; and
- (f) Recording process whereby the Project Expansion HEMP evaluation is documented. For all severity level 5 risks associated with a Permitted Project Expansions or Project Expansion, a hazards and effects register will be maintained throughout the Permitted Project Expansions or Project



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Expansions lifecycle. The hazards, control and recovery measures identified during the design or planning phase are recorded in the hazards and effects register, for later transfer to the operator of the Permitted Project Expansions or Project Expansion

As part of its preparations to assist the taking of an informed commercial decision in relation to any Permitted Project Expansion or Project Expansion or in the period following such commercial decision, the Company shall apply the Project Expansion HEMP and determine what mitigation measures are likely to be required to procure that the HSE, reputational and social risks associated with the applicable Project Expansion or Permitted Project Expansions are ALARP.

### 2.3 ASSESSMENT OF HSE, REPUTATIONAL AND SOCIAL RISK

Assessment of HSE, reputational and social risk in relation to Permitted Project Expansions and Project Expansions is carried out using the Hazard and risk management process described in HSESAP (0000-S-90-04-P-7070-01-E), including the RAM that forms part of HEMP as indicated in the document Methodology for Classifying and Remediating Incidents and Breaches (0000-S-90-04-O-0009-00-E, Appendix 9), before the development of any controls and/or mitigation measures to reduce risks. The RAM is a tool that facilitates the categorisation of risk from potential threats to people, assets, the environment, social matters and the reputation of the Project. The RAM is used to assess the risks of all identified potential hazards and the effects of those hazards by assessing the likelihood of those effects occurring and their consequence; and to categorise each risk as low (blue), medium (amber) or high (red). In the event of the Company becoming aware of facts that could increase or decrease the severity of the risk categorisation of the Permitted Project Expansion or Project Expansion the Company will reapply the applicable part of the Project Expansions procedure.

### 2.4 RISK REDUCTION AND ALARP

The ALARP principle will be applied to Permitted Project Expansion and Project Expansions with the aim of reducing all risks to As Low As Reasonably Practicable (as described in 0000-S-90-04-P-7070-01-E). This principle is founded on the objective of the duty holders (in this case the Company) to reduce environmental risks to a point of diminishing returns where additional risk reduction would incur a disproportionate amount of cost, time and technical difficulty relative to the reduction in risk that might be achieved.

The demonstration of ALARP relies on the following:

- identification of various control options and an estimation of the cost of implementing each option;
- identification of any applicable qualitative or quantitative standards for controlling the particular risk;
- assessment of the level of risk that remains when each control is implemented; and
- balancing the reduction in risk achieved by use of specific controls against the effort and cost of achieving this risk reduction. ALARP represents the point at which the effect and cost of further reduction measures become unreasonably disproportionate to the additional risk reduction achieved.

### 2.5 NOTIFICATION TO PHASE 2 SENIOR LENDERS OF PERMITTED PROJECT EXPANSIONS

The focus of the Phase 2 Senior Lenders' interest in Permitted Project Expansions for HSE and social purposes is where these involve major changes to the Project, such as major process changes or the construction of new industrial facilities. The Phase 2 Senior Lenders and the Company envisage that most of the issues which fall within the Permitted Project Expansion concept will involve minimal input on the part of the Phase 2 Senior Lenders because these works will have been already addressed through the ESHIA and HSESAP (e.g. the additional wells, assuming cuttings are addressed as provided for in the ESHIA, or smaller projects such as installation of new or further generators) or will be inherently low impact in terms of HSE and social matters.

The agreed approach to notification of the Phase 2 Senior Lenders in relation to Permitted Project Expansions is set out below.

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## 2.6 NON-INDUSTRIAL PERMITTED PROJECT EXPANSIONS<sup>2</sup>

Non-industrial Permitted Project Expansions will be notified to the Phase 2 Senior Lenders through the monthly reports prior to Project completion and quarterly reports during the operations phase, together with the Company's rationale for determining that they are non-industrial. Such notification will take place prior to the implementation of the Permitted Project Expansions<sup>3</sup>. The Common Terms Agreement (CTA) and the HSESAP will apply to such non-industrial Permitted Project Expansions in any event and the Company will draw upon any relevant information contained in the ESHIA.

## 2.7 PERMITTED PROJECT EXPANSIONS CONTEMPLATED IN THE ESHIA AND THE HSESAP

Permitted Project Expansions which are addressed in the ESHIA and the HSESAP will be notified to the Phase 2 Senior Lenders through the monthly reports prior to Project completion and through the quarterly reports during operations phase, together with the Company's rationale for determining that they are already addressed in the ESHIA and the HSESAP. Such notification will take place prior to the implementation of the Permitted Project Expansion. The Common Terms Agreement and the HSESAP will apply to such Permitted Project Expansions addressed in the ESHIA and the HSESAP in any event.

## 2.8 PERMITTED PROJECT EXPANSIONS CONTEMPLATED IN THE ESHIA BUT NOT THE HSESAP

Permitted Project Expansions, the risks for which are addressed in the ESHIA but in respect of which the HSESAP does not incorporate (or does not materially incorporate) the mitigation measures stated in the ESHIA, shall be notified to the Phase 2 Senior Lenders through the monthly reports prior to Project completion and quarterly reports during operations phase, together with the Company's rationale for their determination as such<sup>4</sup>. As part of such notification the Company will specify the ESHIA mitigation measures it considers reasonably necessary or appropriate to apply to the Permitted Project Expansion and will agree these with the Phase 2 Senior Lenders (acting reasonably) prior to the implementation of the Permitted Project Expansion. The Company will comply with the mitigation measures so agreed in relation to the applicable Permitted Project Expansion during any implementation of the Permitted Project Expansion as if those measures were already incorporated within the HSESAP. In accordance with the provisions of the Common Terms Agreement the Company will transpose the applicable mitigation measures into the HSESAP so that the mitigation measures are incorporated into the HSESAP prior to completion of the implementation of the Permitted Project Expansion (subject to the Phase 2 Senior Lenders' consent not to be unreasonably withheld under the provisions of the Common Terms Agreement). The Common Terms Agreement and the HSESAP will apply to such Permitted Project Expansions contemplated in the ESHIA but not in the HSESAP in any event and the Company will draw upon any relevant information contained in the ESHIA.

## 2.9 OTHER PERMITTED PROJECT EXPANSIONS

For those Permitted Project Expansions that are industrial in nature and are not covered in the ESHIA and the HSESAP, the RAM will be used to assess risk. Application of the RAM will permit the Company to determine the HSE, social and reputational risks associated with the applicable Permitted Project Expansion as set out earlier in this Project Expansion Procedure.

<sup>2</sup> A non-industrial process shall include any development or activity that is residential, recreational or business (e.g. office building or warehouse), including any temporary storage of non-hazardous waste generated by such activities, but shall exclude any industrial activity such as the bulk use, handling, storage or transportation of any chemical or toxic industrial material, the construction and/or installation of new plant with a resulting material impact on environmental emissions, the construction of infrastructure (roads, bridges, pipelines, power lines) electricity or heat generation, any additional land-take save for the purposes of any development or activity that is residential, recreational or business, or any other activity that is not allowed in a residential or light commercial (i.e. business) area.

<sup>3</sup> In this document, the phrase "implementation of the Permitted Project Expansion" refers to design, construction and commissioning of the change.

<sup>4</sup> For example, facilities that were outlined in the ESHIA but were not (and have not been since) sufficiently developed in design to enable the inclusion of mitigation measures in the HSESAP.

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The Common Terms Agreement and the HSESAP will apply to all such Permitted Project Expansions that are industrial in nature and are not covered in the ESHIA and the HSESAP in any event.

### 2.9.1 Categorisation Process

The Company will apply the RAM to the applicable Permitted Project Expansion prior to or following its commercial decision to undertake the Permitted Project Expansion and will notify the Intercreditor Agent of the overall risk rating (prior to taking into account any proposed mitigation measures)<sup>5</sup> the Company has allocated to it. In the case of a Permitted Project Expansion for which a number of risks have been identified, the overall risk rating will be that which accords with the highest risk rating category identified.

In making the notification of the overall risk rating, the Company shall supply the Intercreditor Agent with

- (i) reasonable summary information about the Permitted Project Expansion;
- (ii) its reasons for applying the applicable overall risk rating;
- (iii) details of any applicable proposed mitigation measures and
- (iv) confirmation as to whether an environmental appraisal or impact assessment needs to be undertaken.

The Intercreditor Agent will have the right to challenge the Company's overall risk rating of a Permitted Project Expansion, setting out reasonable grounds for doing so. The Company will not unreasonably withhold consent to such a re-categorisation in the case of re-categorisation to high amber or red.

The Company shall re-apply the RAM to each applicable Permitted Project Expansion if it becomes aware of any fact, which could increase or decrease the severity of the risk classification of that Permitted Project Expansion. If any re-categorisation occurs following the re-application of the RAM in these circumstances, the Company shall notify the Intercreditor Agent of such re-categorisation in accordance with the provisions of this Procedure.

### 2.9.2 Blue and Low Amber Risk Permitted Project Expansions

Blue and low amber risk Permitted Project Expansions will be notified to the Intercreditor Agent through the monthly reports prior to Project completion and quarterly reports during operations phase as defined in the CTA as soon as reasonably practicable following the Company's commercial decision to undertake a Permitted Project Expansion. The Intercreditor Agent (acting reasonably) will have 30 days from receipt of such notification to question the categorisation under Section 2.9.1 above and, in the case of a low amber risk Permitted Project Expansion, to question any proposed applicable mitigation measures setting out reasonable grounds for doing so. If such a re-categorisation request and/or a query regarding any proposed mitigation measures is received from the Intercreditor Agent, the Permitted Project Expansion will not proceed to implementation until the request and/or query has been resolved and the parties shall undertake to resolve any request and/or query as soon as reasonably practicable, both parties acting reasonably. No response is to be deemed as acceptance and in such circumstances following the expiry of the 30-day period the Company shall be permitted to proceed with the Permitted Project Expansion.

### 2.9.3 High Amber Risk Permitted Project Expansions

High amber risk Permitted Project Expansions will be notified to the Intercreditor Agent as soon as reasonably practicable following the Company's commercial decision to proceed with a Permitted Project Expansion and in any event within 30 days of such commercial decision. The Intercreditor Agent (acting reasonably) will have 30 days from receipt of such notification to question the categorisation under Section 2.9.1 above. In relation to high amber risk Permitted Project Expansions there will be no deemed acceptance by the Intercreditor Agent if the Intercreditor Agent fails to respond within such 30 day period. The high amber risk Permitted Project Expansion will not proceed to implementation until conclusion of the process set out in Sections 2.9.4 to 2.9.6 (inclusive) below to the extent applicable to the relevant high amber risk Permitted Project Expansion.

<sup>5</sup> As referred to in Section 2.2, this is the risk assessed in the second step of the Project Expansions HEMP (Section 2.2) and is prior to development of any controls and/or mitigation measures.



#### 2.9.4 Environmental Appraisals and Assessments of Permitted Project Expansions

For high amber risk Permitted Project Expansions and some low amber risk Permitted Project Expansions the Company is likely to be required to undertake an environmental appraisal or impact assessment for the purposes of Russian law and it will also need to undertake any work that is required to procure the Permitted Project Expansions compliance with the Common Terms Agreement.

In the event that such an appraisal or assessment is required, the Company will provide the Intercreditor Agent with its proposed terms of reference for this appraisal or assessment, including the Company's public consultation proposals, any method statement or work plan for the appraisal or assessment and such summary information about the Permitted Project Expansion as is reasonably necessary to enable the Intercreditor Agent to review the terms of reference. The Intercreditor Agent (acting reasonably) will be entitled to request amendments to the terms of reference and the Company will not unreasonably withhold its consent to such amendments. The Intercreditor Agent will be required to supply any such proposed amendments within 30 days of receipt of the proposed terms of reference from the Company and the parties, each acting reasonably, shall finalise the terms of reference as soon as reasonably practicable thereafter. This shall not preclude the Company from implementing its terms of reference while awaiting lender comments.

In the event that no such appraisal or assessment is required, the Company will provide the Intercreditor Agent and the Phase 2 Senior Lenders with details of the mitigation measures it considers reasonably necessary or appropriate to apply to the proposed Permitted Project Expansion will agree these with the Phase 2 Senior Lenders (acting reasonably) prior to the implementation of that Permitted Project Expansion. The Company will comply with the mitigation measures so agreed in relation to the applicable Permitted Project Expansion measures were already incorporated within the HSESAP. In accordance with the Common Terms Agreement, the Company will transpose the applicable mitigation measures into the HSESAP so that the mitigation measures are incorporated into the HSESAP prior to completion of the implementation of the Permitted Project Expansion (subject to the Phase 2 Senior Lenders' consent (not to be unreasonably withheld or delayed) under the Common Terms Agreement).

#### 2.9.5 Review of Environmental Appraisal or Assessment for Permitted Project Expansions

The independent environmental consultant will be required to report as to the material compliance of any environmental appraisal or impact assessment undertaken pursuant to Section 2.9.4 with the agreed terms of reference and the material compliance of the design of the Permitted Project Expansion with ALARP and the Common Terms Agreement (including the applicable elements of the HSESAP). The independent environmental consultant shall give reasons for any finding of material non-compliance. The timescale for delivery of this report to:

- (i) the Phase 2 Senior Lenders will be within 45 days; and
- (ii) the Company shall be within 60 days,

of receipt of the Company's environmental assessment or impact assessment documentation for review by the independent environmental consultant save where, having regard to the nature of the Permitted Project Expansion, the Intercreditor Agent and the Company, each acting reasonably, agree that a longer period is required. In such cases, this longer period shall be agreed at the time that the terms of reference for such environmental assessment or impact assessment are finalised. Where the independent environmental consultant considers the environmental appraisal or impact assessment is not materially compliant with the agreed terms of reference or the design of the Permitted Project Expansion is not materially compliant with ALARP and the Common Terms Agreement (including the applicable elements of the HSESAP) there shall be a further period of consultation between it, the Company and the Intercreditor Agent and all parties shall be under an obligation to discuss and close out the outstanding issues in dispute as soon as reasonably practicable, each acting reasonably.



### 2.9.6 Mitigation Measures Identified in the Environmental Appraisal or Assessment for Permitted Project Expansions

Any requisite mitigation measures identified in any environmental appraisal or impact assessment produced for a Permitted Project Expansion will need to be incorporated into the HSESAP. In accordance with the Common Terms Agreement the Company will transpose the applicable mitigation measures into the HSESAP so that the mitigation measures are incorporated into the HSESAP prior to completion of the implementation of the Permitted Project Expansion (subject to the Phase 2 Senior Lenders' consent (not to be unreasonably withheld) under the Common Terms Agreement).

### 2.9.7 Red Risk Permitted Project Expansions

Permitted Project Expansions which are identified as involving red risks can generally only proceed under internal Company policy if the mitigation measures defined for them reduce the risks to high amber, low amber or blue. All Permitted Project Expansions which are originally categorised as a red risk Permitted Project Expansion have to comply with the Common Terms Agreement and the HSESAP in any event.

Notwithstanding this, in some circumstances there may be sufficient justification for proceeding with a red risk Permitted Project Expansion where the mitigation measures do not reduce the risks (for example, where the issue driving the red risk categorisation is related to road traffic risks). In such circumstances the onus shall be on the Company to provide sufficient justification to satisfy the Intercreditor Agent (acting reasonably) as to the need to proceed with such a red risk Permitted Project Expansion having regard to the mitigation measures proposed by the Company to address that risk. Red risk Permitted Project Expansions which would remain red after application of proposed mitigation measures but for which the Company believes there is sufficient justification to proceed will be notified to the Intercreditor Agent as soon as reasonably practicable following the Company's commercial decision to proceed with that red risk Permitted Project Expansion and in any event within 30 days of such commercial decision. The Intercreditor Agent will have 30 days from receipt of such notification to determine (acting reasonably) whether it considers that the need to proceed with such red risk Permitted Project Expansion is justified. In relation to such red risk Permitted Project Expansions there will be no deemed acceptance by the Intercreditor Agent if the Intercreditor Agent fails to respond within such 30 day period. If the Intercreditor Agent asking reasonably determines that the need to proceed with such red risk Permitted Project Expansion is justified, the procedures set out in Sections 2.9.4 to 2.9.6 (inclusive) above shall apply. The red risk Permitted Project Expansion will not proceed to implementation until conclusion of the process set out in Sections 2.9.4 to 2.9.5 (inclusive) above to the extent applicable to the relevant red risk Permitted Project Expansion.

A Permitted Project Expansions which is categorised as a red risk Permitted Project Expansion but which the Company believes can be reduced to a high amber, low amber or blue risk Permitted Project Expansion through the development of appropriate mitigation measures, will be notified to the Intercreditor Agent as soon as reasonably practicable following the Company's commercial decision to proceed and in any event within 30 days of such commercial decision. The red risk Permitted Project Expansion will not proceed to implementation until conclusion of the process set out in Sections 2.9.4 to 2.9.5 (inclusive) above to the extent applicable to the relevant red risk Permitted Project Expansion

### 2.9.8 Time Limits

Where the Intercreditor Agent or the independent environmental consultant is required to act within a particular time, such time shall run from the date on which the Intercreditor Agent or the independent environmental consultant (as appropriate) receives substantially all the information identified above which is necessary for it to form a view on the applicable classification, terms of reference, appraisal or assessment.

## 2.10 PROJECT EXPANSIONS

The provisions applicable to Permitted Project Expansions set out in Section 2.9 shall apply to Project Expansions save that references to "Permitted Project Expansion" and "Permitted Project Expansions" shall be construed as reading "Project Expansion" and "Project Expansions" respectively for the purposes

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of this Section 2.10.