



Sakhalin Energy Investment Company Ltd.

Contracting and Procurement Policy

**(Политика в области организации
материально-технического обеспечения и подрядных работ)**

2012

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Introduction

This Policy applies to all Company staff and contractors. It is specifically targeted at all Company staff involved in supply chain management.

This policy applies to all Company spend on goods service and works.

CED / CEO by CED mandate have responsibility for the approval of this Policy.

The Supply Chain Manager – ensures that the Company's contract models contain relevant terms and conditions, adequate control is established to implement this Policy, and any other documents based upon it, by the introduction of effective contracting and procurement processes and procedures.

It is incumbent upon all the Company employees to report if at any time SCM operations do not comply with this Policy.

Purpose

- To define company's approach and the principles to be applied in Supply Chain Management (SCM) ;
- Alignment of SCM with the framework of the PSA (Production Sharing Agreement), Company business principles, policies and standards;
- To satisfy demand in a timely manner, providing the required goods services and works supply: in the right place, with the right quality, in the right quantities, at the right price and safely;
- Establishment of a company-wide approach towards ethical issues related to SCM.

Principles

- Safety – no harm to people, the environment and to property. Ensure Contractors adhere to HSE and SP requirements (Health, Safety, Environment and Social Performance);
- Value Add in SCM – value maximization, economic efficiency, commerciality;
- Elimination of bribery and corruption in all Supply Chain operations;
- Competition – development of open competition in markets. Russian Content maximization and development of Russian Contractors;
- Human Rights –ensure respect, support and promotion of human rights by all Contractors;
- Sustainable Development – secure sustainable development in the Suppliers market.

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Regulation

The performance of the SCM function is measured by reporting regularly on a set of KPI's.

The Company uses a number of HSE and SP performance criteria when selecting contractors and placement and management of contracts.

The importance of HSE and SP is clearly outlined in contracts and to contractors. The consequences of any breach of HSE and SP requirements is included in the tender documents, contract terms and conditions.

Maximize business value and the achievement of long-term commercial benefits are delivered via the following efforts:

- Effective management of the demand for goods, services and works;
- Reduction of Costs from third-party spend and the lowering of risks associated with the supply of goods, services, and works;
- Timely and effective contracting and procurement support to the business.

All the SCM processes are **transparent and controllable**. The Company develops and implements procedures and control frameworks to adequately screen all contractors prior to awarding contracts to ensure they are a credible business entity.

Supply chain transparency and performance is reported to the shareholders monthly through a suite of agreed KPI' and various reports, together with shareholders participation in collegiate bodies.

Efficiency of the Company's Supply chains is supported by the application of tools and techniques including the concept of total cost of ownership (TCO) by the application of the category management methodology and other commercial instruments and approaches.

Continuous efficiency and performance improvement is supported by:

- Development of staff competency;
- Applying advanced international SCM practices, including application of Category Management processes ;
- Where applicable the engagement of external expertise to develop and implement best practices etc.;
- Effecting benchmarking within the industry;
- Internal reviews to eliminate existing poor practices.

Anti Bribery and Corruption (ABC) measures are supported by the following:

- Ensure that Company employees are fully aware of the consequences of any infringement of ABC principles;
- Ensure that all contractors are aware of the Company's requirements regarding any infringement of ABC principles;
- Conducting audits, in particular for those activities which are the most vulnerable to potential breaches of the Company's ABC requirements for example selection of contractors, pre-qualification assessment, tender evaluation , etc.

Fair Competition in the market is promoted via the recognized category management processes of contractor selection.

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While considering fair competition and in order to **maximize Russian content and develop Russian contractors** the Company will give preference to Russian contractors during contractor selection. In the absence of any Russian contractors the Company will give due consideration and preference to international contractors who can demonstrate high levels of Russian content in the fulfillment of a contract scope.

Long-term partnering relationships in order to receive mutual benefits are developed by:

- Assessing contractors performance through the management of key performance indicators;
- Setting and assessing development and improvement goals for key contractors.

Respect, support and promotion of human rights are achieved by:

- Ensuring that business partners are aware of and share the human rights standards described in the Sakhalin Energy Code of Conduct, Human Rights Policy and Security Policy;
- Evaluating policies and behavior of potential partners regarding with respect to human rights before entering into a partnership or contract;
- Screening contractors for their past performance with reference to compliance with human rights standards;
- Incorporating the relevant clauses with reference to Sakhalin Energy Human Rights Policy in contracts;
- Ensuring that any security arrangements respect human rights and are consistent with Voluntary Principles on Security and Human Rights;
- Ensuring that security personnel (employed, contracted or sub-contracted) are trained in adherence to standards of human rights.

Sustainable development is supported through the use of economic, ecological, social and cultural criteria for contractor selection, setting development goals for contractors and assessing their performance.