



**Environment, Social, Health and Safety
Management System (ESHS MS)**

NON-COMPLIANCE AND CORRECTIVE ACTION PROCEDURE

**Document Number:
02/GP/PJ/PR/003/A02**

TABLE OF CONTENTS

1.0 PURPOSE.....3

2.0 SCOPE3

3.0 ACRONYMS AND DEFINITIONS.....4

4.0 RESPONSIBILITIES.....6

4.1 ALL PROJECT PERSONNEL.....6

4.2 ESHS COMPLIANCE MANAGER.....6

4.3 FIELD SAFETY AND ENVIRONMENTAL SUPERVISORS:6

5.0 REFERENCES6

6.0 IDENTIFICATION OF A NON COMPLIANT CONDITION6

6.1 INSPECTION.....6

6.2 MONITORING.....7

6.3 INTERNAL AUDIT.....7

6.4 EXTERNAL AUDIT.....7

6.5 CONTRACTOR CORRECTIVE ACTION SYSTEM.....7

7.0 REPORTING NON-COMPLIANCE7

7.1 CORRECTIVE ACTION REQUEST8

7.2 NON-COMPLIANCE REPORT.....8

7.3 OBSERVATIONS9

7.4 WORK IMPROVEMENT NOTICES9

7.5 TEMPORARY WORK SUSPENSION FOR CAUSE9

7.5.1 WORK SUSPENSION FOR CAUSE.....9

7.5.2 NOTICE OF TEMPORARY WORK SUSPENSION FOR CAUSE10

7.5.3 RELEASE OF THE TEMPORARY WORK SUSPENSION FOR CAUSE.....10

8.0 NUMBERING OF NON-COMPLIANCE REPORTS10

9.0 FOLLOW UP11

10.0 CLOSE OUT.....11

11.0 TREND MONITORING.....11

12.0 CHANGE NOTIFICATION.....11

13.0 REPORTING12

13.1 IFI REPORTING12

APPENDIX 1 – NON COMPLIANCE REPORT FORM.....13

APPENDIX 2 – PROCEDURE FLOWCHART14

1.0 PURPOSE

The purpose of this procedure is to define a systematic approach for Peru LNG (“COMPANY”) qualified personnel to identify, document, evaluate, and request CONTRACTOR to rectify and close-out non-compliances in the areas of Environment, Health and Safety (EHS)¹ that might occur during Project construction. Although persons beyond COMPANY organization (e.g., community members or CONTRACTORS) may and are encouraged to identify what might potentially be deemed an EHS non-compliant condition, it is only when they have reported the condition to a COMPANY qualified EHS person that the deficiency can be formally classified as a Project non-compliant EHS condition. In that case, the non-compliant condition is recorded in the Project’s Action Tracking Database and immediately activates the formal resolution procedure described herein.

2.0 SCOPE

To control all Project non-compliant conditions, equipment, processes procedural requirements or incidents by ensuring that all non-compliances are identified and corrected in a formalized and controlled manner. This procedure applies to all COMPANY personnel where they observe situations that do not comply with specified requirements.

This procedure is to provide a framework to:

- Identify the non compliance
- Document the non compliance
- Determine the required corrective action
- Allow CONTRACTOR a reasonable period to resolve a non-compliant condition by setting “Target [Resolution] dates”;
- Instruct CONTRACTOR to take remedial or corrective action by the Target Resolution Date;
- Prevent recurrence of non compliant issues by performing statistical analysis and developing reports on recurring issues;
- Follow up and close out of non compliant issues
- Report status of non-compliant conditions across appropriate levels of organization (internal), to corresponding CONTRACTOR(s), and externally, as deemed appropriate by COMPANY ESHS Manager(s).

This will ensure that the root causes of non-compliance are identified and corrective action(s) is taken to prevent recurrence.

CONTRACTOR shall implement their own processes for control of non-compliance and corrective actions.

¹ It may be noted that Social issues have been deliberately omitted from this document, as those are addressed independently by COMPANY Complaint Centers via the Project Complaint Procedure.

3.0 ACRONYMS AND DEFINITIONS

AREP	See Allowable Resolution Extension Period below.
CAR	Corrective Action Request form on which a significant or audit finding of a non compliance is written, a recommendation for corrective action of a deficiency is made agreed with CONTRACTOR, the action taken is recorded verified and closed out (see CAR form, Appendix 1).
TWS	Temporary Work Suspension Notice form on which CONTRACTOR will be informed of the reasons COMPANY has seen fit to suspend the work for cause due to immediate or imminent danger to personnel, environment or equipment.
WIN	Work Improvement Notice form on which field observations of non-compliances are written, a recommendation for corrective action of a deficiency is made, agreed with CONTRACTOR, the action taken is recorded, verified and closed out (see WIN form, Appendix 2).
Actionee	CONTRACTOR person responsible for ensuring the identified corrective action needed is closed out by the Target Resolution Date
Allowable Resolution Extension Period (AREP)	The timeframe (in days) by which COMPANY allows CONTRACTOR one of extension of the original <i>Target Date</i> for resolution of a non-compliant condition before triggering contractual repercussion(s) and/or COMPANY higher-level ESHS management response for the issue to be resolved.
Approver	COMPANY ESHS Personnel with the authority to approve the 'Non Compliance Tracking Form" and ensure that it is valid and can be delivered to the individual within CONTRACTOR organization that shall be held responsible for its follow-up and closure.
Corrective Action	The corrective measures to restore a system or process to the specified standard or to meet or exceed regulatory compliance
ESHS MS	Environmental, Social, and Health & Safety Management System
Individual Responsible for Closure	Person within CONTRACTOR organization with the authority and responsibility to authorize the actions, works, and corresponding expenditures that have been required within the 'Non Compliance Tracking Form'. He also ensures that status reports on the resolution of non-compliant conditions are delivered to COMPANY and individual responsible for tracking closure and that any change from resolution Target Date or AREPs have been justified to COMPANY ESHS Management.
Lenders	Financial Institutions providing financial support to the Project.
Level 1 Action Tracking Register	The Level 1 ATR is the database management tool developed for the Project to systematically track the resolution status major noncompliance's through to close out, utilized for TWS, NCRs and CARs. Deadlines for resolution target date and extension, if any, are automatically flagged by the system via email and/or other means. Preparation must be conducted by COMPANY ESHS Manager

Level 2 Action Tracking Register	<p>The Level 2 ATR is the database management tool developed for tracking the resolution status of a major noncompliance from its entry into the Action Tracking System through to its close out, utilized for OBS and WINs. Deadlines for resolution target date and extension, if any, are automatically flagged by the system via email and/or other means. Preparation is performed by COMPANY ESHS Field Personnel.</p>
Non-Compliance	<p>The non-fulfillment of a specific Project requirement [Note: Project Requirements are identified in the <i>Project Commitment Register</i>, other <i>Source Documents</i>, and <i>Contractor Management Plans</i>.</p>
Non Compliance Tracking Form -	<p>Form on which a significant non-compliance or audit finding of a non compliance is entered, a recommendation for corrective action of a deficiency is made, agreed upon with CONTRACTOR, the action taken is recorded verified and closed out (see Appendix 1).</p>
Originator	<p>COMPANY ESHS Personnel that by virtue of education, training, experience, and qualifications are authorized by COMPANY ESHS Manager(s) to identify a non-compliance (as defined above), determine its degree of severity (i.e., Level), enter non-compliance into system (i.e., Action Tracking System), promote its resolution by recommending actions and assigning completion target dates, and to track and report on its status.</p>
Permitted Resolution Period (PRP)	<p>This is the maximum amount of time allowable for the resolution of a deficiency without being raised to the next level of non-compliant category. The PRP is established upon recording of a non-compliant situation based on a pre-assigned period. The PRP could be extended at the discretion of COLP's appropriate EHS Manager(s) if it is deemed to be non-urgent. A PRP cannot be extended under any circumstance for non-compliant situation considered to be urgent or imminently threatening to the protection of life, limb, health of humans and wildlife. In such cases, only a TWS order might be issued.</p>
Source Documents	<p>The source documents are a suite of documents that make up the Contracts including the contracts, ESIA's, responses to observations and re-observations and Supplementary Lender Information Packages (SLIPs).</p>
Target [Resolution] Date	<p>Date first agree upon COMPANY and CONTRACTOR for the resolution of a specific non-compliant condition. The date must meet COMPANY "reasonableness test" that shall be established as part of the Commitment Register Document for each category of non-compliance that might be encountered. (see also Allowable Resolution Extension Period [AREP]).</p>
Verifier	<p>COMPANY ESHS person with the training and qualifications to review the 'Non Compliance Report Form' and to ensure all corrective action items have been completed as identified in order to recommend closure or further action to appropriate COMPANY ESHS Manager.</p>

4.0 RESPONSIBILITIES

4.1 ALL PROJECT PERSONNEL

Any COMPANY employees is responsible for contacting COMPANY ESHS Department representatives to report any deficient condition that he may have observed and deemed to be an EHS non-compliance resulting from Project construction activities. The responding ESHS representative shall be responsible for formally determining if conditions warrant the classification of a "Project noncompliance" and initiate its documenting and tracking process for its systematic resolution.

As Project CONTRACTORS are contractually required to establish or activate their independent ESHS Management System throughout the duration of the contract and to the extent specified in the individual agreements, they shall be responsible for establishing and maintaining their independent Action Tracking System. COMPANY may, at its discretion, audit CONTRACTOR's procedures, including comparing the status of resolution on non-compliant conditions between COMPANY and CONTRACTOR databases, and evaluating the overall effectiveness of a CONTRACTOR's system to require improvements.

4.2 ESHS COMPLIANCE MANAGER

The ESHS Compliance Manager shall oversee the action tracking registers to ensure that non-compliant issues are followed up and closed out.

The ESHS Compliance Manager may not be an individual position but two positions within the Environmental and Safety Departments. This shall be detailed in the [Roles and Responsibilities](#) section of the ESHS MS Manual.

4.3 FIELD SAFETY AND ENVIRONMENTAL SUPERVISORS:

The Field Safety and Environmental Supervisors shall oversee the level 2 action tracking register to ensure that non-compliant issues are followed up and closed out.

5.0 REFERENCES

The following documents are referenced within this procedure and constitute the suite of change control and non-conformity procedures:

- Management of Change Procedure
- Incident Investigation and Analysis Document
- Compliance Assurance Plan

6.0 IDENTIFICATION OF A NON COMPLIANT CONDITION

The majority of non compliant conditions will be identified during processes associated with the Assurance Plan. However, any employee may identify a non compliance situation during their normal working activities. Below is a summary of the assurance process;

6.1 INSPECTION

Inspections are scheduled to observe specific work activities. The inspections are carried out by the PLNG Field Personnel according to a schedule or as and when deemed necessary. CONTRACTOR personnel may be requested to attend the inspection.

The Inspectors may be able to deal with Non compliance issues on site without the requirement for formalized follow up action. Where this is the case the observation shall be recorded within the inspection checklist or local tracking register, if utilized or within the weekly or daily reports of the identifying individual. Where close out is not possible within 24 hours one of the tools identified within this procedure shall be implemented.

6.2 MONITORING

The monitoring program is designed to ensure all project requirements are met including but not limited to: noise levels, air emissions, turbidity levels, water quality, and sewage effluent quality. The majority of non compliances identified during the monitoring program will require long term solutions to be taken after the quick fix has been implemented i.e. turning off a generator until a sound barrier has been installed. It is likely that the WIN or OBS process shall have to be implemented to ensure close out.

6.3 INTERNAL AUDIT

The aim of the ESHS audits is to provide PLNG management with assurance that the CONTRACTOR's ESHS MS and their implementation of the ESHS MS conforms to all requirements specified in the Source Documents. It also provides assurance that the PLNG ESHS MS is fully implemented.

All findings shall be presented in a report with all significant findings being documented as CARs. All minor findings shall be documented as observations within the audit report. Third parties may also conduct internal audits on PLNG's behalf.

6.4 EXTERNAL AUDIT

External audits may be conducted by, but not limited to; regulatory authorities, Shareholder Representatives, consultants and the Lenders Group. Any non-compliance identified during external audits shall be recorded on the [Level 1 Action Tracking Register](#).

6.5 CONTRACTOR CORRECTIVE ACTION SYSTEM

All the CONTRACTORS shall implement a system for identifying, recording, rectifying and closing out non compliances identified through their assurance processes.

7.0 REPORTING NON-COMPLIANCE

ESHS contractual requirements are specified in the Construction Contract, ESIA and additional Source Documents. A large proportion of these requirements is procedural in nature and requires CONTRACTOR to implement processes and procedures to achieve outcomes that mitigate against ESHS impacts. There are some requirements that relate to standards and specifications for equipment and emissions. In addition occupational and community health and safety incidents have the potential to trigger non-compliance conditions.

Non-compliant situations can be identified from audits, inspections and monitoring. ESHS non-compliances can be identified, ranked and recorded at three levels. Once the level of a non-compliance has been established the appropriate tool shall automatically be selected for closing out the non-compliance. The actions required for each are detailed below; also a

temporary work suspension for cause may be enforced in case of Level A or B non-compliances.

Level A

A critical non-compliance situation, typically including material damage to or a reasonable expectation of impending material damage to an ecologically or socially sensitive resource or has the potential for a extreme health and safety incident, see Incident Investigation and Analysis Document # 02/GP/PJ/PR/004 for a full definition. Intentional disregard of project standards which may lead to a serious ESHS incident is also classified as Level A.

- Corrective Action Requests are classified as Level A non-compliances.
- Non-Compliance Reports are classified as Level A non-compliances.
- Temporary Work Suspension Reports are classified as Level A non-compliances.

Level B

A non-compliance situation that has not yet resulted in clearly identified damage or irreversible impact to sensitive important resource, or has the potential for a serious health and safety incident. It requires expeditious corrective action and site specific attention to prevent such effects. Repeated Level B non-compliance may become Level A non-compliance if left unattended or are continuously recurring.

Work Improvement Notices are classified as Level B non-compliances.

Level C

A non-compliance situation not consistent with the original requirements but not believed to present an immediate threat to an identified important resource, community or employee health and safety. Repeated Level C non-compliance may become Level B non-compliance if left unattended.

Field Observations are classified as Level C non-compliances.

7.1 CORRECTIVE ACTION REQUEST

CARs are intended for major system related deficiencies that are normally identified during audits. However, significant non compliances identified by the field team, including where PLNG management input may be required or when the definition for Level A non compliance is met, a CAR is to be raised. All corrective action requests shall be recorded on the [Level 1 Action Tracking Register](#)

7.2 NON-COMPLIANCE REPORT

Non-Compliance Reports are intended to be issued for major, technical, violations during construction against contract, specifications, procedures, etc. that may require CONTRACTOR or Supplier to rework, scrap or accept as is.

- R In the case of **rework**, the NCR means that the item cannot be returned to full compliance, but is still serviceable and meets the requirement of the specification.
- S In the case of **scrap**, the NCR means that it is not possible to utilize the item and that it has to be replaced in its entirety and returned to compliance.

- A In the case of **accept as is**, the NCR means that through a deviation request there is a probability that the non compliant condition can be technically accepted.

The non-compliance may also be of a procedural nature where CONTRACTOR has failed to implement specified requirements and actions. In this case, CONTRACTOR may need to take actions to ensure the procedural requirements are effectively implemented.

7.3 OBSERVATIONS

Field observations are divided into two sections, those of which can be dealt with immediately on site by CONTRACTOR and those which require a short period of time to close out (within 24 hours).

Observations that are closed out immediately or within 24 hours shall be recorded in the field staffs daily or weekly reports. All observations which require more than 24 hours to close out shall be recorded directly on the [Level 2 Action Tracking Register](#).

This will ensure that non compliances identified are recorded, resolved and closed out in a consistent manner. It will also ensure continuity during leave cycles and enable trend analysis to be carried out.

7.4 WORK IMPROVEMENT NOTICES

A Work Improvement Notice (WIN) is issued to CONTRACTOR when a major non compliance is identified. This may require a number of corrective actions to be identified to ensure satisfactory close out. Also a WIN may be issued when there is intentional disregard by CONTRACTOR of a project standard.

All corrective actions identified on the WIN shall be recorded directly on the [Level 2 Action Tracking Register](#). This will ensure that non compliances identified are recorded, resolved and closed out in a consistent manner. It will also ensure continuity during leave cycles and enable trend analysis to be carried out. Once all corrective actions are closed out with signatures by all parties, copied and distributed to the effected parties.

7.5 TEMPORARY WORK SUSPENSION FOR CAUSE

Temporary Work Suspension for Cause is to be enforced when there is a perceived immediate or imminent danger to worker or public Health and Safety, or there is a perceived immediate or imminent danger of a major Environment or Social Incident.

7.5.1 Work Suspension for Cause

If it is perceived by a PLNG representative that a sub-standard act or condition represents imminent danger to personnel or the environment, work shall be suspended for cause immediately in accordance with the terms of the relevant contract. Work shall be suspended for cause prior to notification to either PLNG or CONTRACTOR management.

If an immediate corrective action can be implemented and this is agreed to by CONTRACTOR, work can commence once the corrective action is implemented to the satisfaction PLNG Representatives. In the event that the corrective action is not satisfactorily implemented, COMPANY ESHS representative assigned to the work site (see definition for Originator) shall be contacted for him to enter the non-compliance into the system. Although any COMPANY personnel may require a Temporary Work Suspension for

Cause, only an authorized COMPANY ESHS Representative may initiate the procedure established herein.

CONTRACTOR shall be given the opportunity to implement their own Work Suspension system. If CONTRACTOR does not implement their system or if an immediate corrective action is not possible a Notice of Temporary Work Suspension for Cause shall be issued by the PLNG representative and recorded directly on the [Level 1 Action Tracking Register](#).

7.5.2 Notice of Temporary Work Suspension for Cause

Work of all personnel within the affected area shall cease until the sub-standard acts/conditions are resolved.

CONTRACTOR's Representative working with the PLNG Representative shall identify the required corrective actions. Part 1 of the Notice of Temporary Work Suspension for Cause shall be completed on site by the PLNG representative. Copies shall be distributed as detailed on the form.

7.5.3 Release of the Temporary Work Suspension for Cause

On completion, CONTRACTOR Site Representative shall notify the PLNG Representative that the corrective actions have been completed. The PLNG representative or their designee shall verify that all corrective actions are closed out.

Once the corrective actions have been verified, part 2 of the Temporary Work Suspension for Cause shall be released and work may commence. Photocopies of the completed form shall be distributed as detailed on the form.

In the event of a disagreement between PLNG Representative and CONTRACTOR's Representative, the view of the PLNG Representative shall prevail and work shall be suspended for cause. CONTRACTOR's Representative can record their disagreement on the Notice of Temporary Work Suspension for Cause.

8.0 NUMBERING OF NON-COMPLIANCE REPORTS

Each Non Compliance Report shall have its own identifying area and discipline codes and number, see below.

Area

Pipeline – PL

Plant – PT

Quarry and Marine – QM

Lima Office - LM

Discipline

CDB – CDB

MSM – Minera San Martin

CBI – CB&I

RDL – Ruen Drilling

GDR - Golder

Example 1: The 23rd pipeline WIN involving CDB will be numbered;
02/CDB/QM/WIN/023

Example 2: The 2nd Plant CAR involving the Ruen Drilling will be numbered; 01/RDL/PT/CAR/002

The ID numbers for WINs and OBSs shall be controlled by the Field ESHS Supervisors. ID numbers for CARs, TWAs and NCRs shall be controlled by the ESHS Compliance Manager. The identifying individual shall check the appropriate database for the next sequential number or call the appropriate controlling person.

NOTE: CONTRACTORS will be added to the Discipline list as required by the ESHS Department Managers.

9.0 FOLLOW UP

The issuer of a Non Compliance Report Form is responsible for the continued follow-up until the non-compliance has been resolved and that it is positively closed out.

10.0 CLOSE OUT

Each and every Non Compliance Report Form will be closed out on a progressive basis, until construction is completed. The Action Tracking Registers will be regularly monitored by management for implementation and closure of all corrective actions. Copies of these documents will be filed and kept for review by commissioning and operations.

Non Compliance Report Forms shall be verified and closed out by the originator or his designee. Correspondence referring to a proposed course of action shall be referenced and attached to the Non Compliance Report Form as appropriate and stored within the Action Tracking Registers.

The flowchart in Appendix 2 shows the flow and decision making processes for generating monitoring and closing out of all non-conforming situations

11.0 TREND MONITORING

Trends of non-compliances shall be monitored to identify and detect any systematic issues that require intervention for imposing change and recovery to systematic recurrences of specific types of non-compliance. Trend reports shall be presented to COMPANY on ESHS Manager on a monthly basis for action and distribution to CONTRACTOR and others, as part of the Cycle of Continuous Improvement (Plan, Implement, Review and Improve) and as needed to comply with government and/or IFI commitments.

12.0 CHANGE NOTIFICATION

If CONTRACTOR's recommends resolving a CAR by requiring a deviation or change from applicable Codes/Standards, Project specifications, Source Documents, materials or any COMPANY approved documentation, then CONTRACTOR must prepare and submit a Change Notification to COMPANY for its review and approval determination, as per the Management of Change Procedure. CONTRACTOR shall be solely responsible for initiating the processes of Change Notification and MOC.

13.0 REPORTING

COMPANY ESHS Department Managers shall issue a monthly report to COMPANY general manager and Construction Manager informing of new non-compliances and summarizing the resolution status of all NCRs, CARs, and WINs, and other non-compliant conditions. As might be required by Lender and/or governmental agreements, COMPANY ESHS Department Managers shall issue similar summary reports to the IFIs and/or regulatory agencies.

13.1 IFI REPORTING

COMPANY will report the following non-compliances to IFI's:

- Health and safety:
 - Fatalities.
 - Fire and explosion.
- Environmental:
 - Any significant event reported to Government Authorities.
- Social:
 - Strikes, unrest.
 - Any significant event which will require Government intervention

APPENDIX 1 – NON COMPLIANCE REPORT FORM



NON-COMPLIANCE REPORT FORM ACTION TRACKING MASTER CONTROL DOCUMENT

Date of Issue:	Document #:
Issued to:	Status:

(Insert type of Form Generated)

I. Description of Non-Compliance:

Originator:	Signature:
Approved By:	Signature:

II. Corrective Action Required	Target Date:	Completed Date:	Action By:

III. Responsible for (Insert type of Form Generated)

Signature:	Date:
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IV. Action Taken:

Action By:	Signature:	Date:
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V. Verification

Verified By:	Signature:	Date:
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NOTE: Non compliances to the obligations contained in the Contract can generate fines from OSINERGMIN or other competent authorities to COMPANY. In those cases, and in accordance to CONTRACTOR, COMPANY will be able to repeat the amount to CONTRACTOR, and take all the necessary actions as contemplated in the Contract. Not receiving written notification of non compliance from COMPANY shall not reduce the responsibility of CONTRACTOR to identify and correct any non compliance situation on the Project Site not mentioned in this communication.

APPENDIX 2 – PROCEDURE FLOWCHART

