

Instruction – Third Party Engagement

1. Objective and applicability

- 1.1 This Instruction outlines the responsibilities of the Nominator, the local compliance officer and the Chief Compliance Officer, in ensuring the execution of the Policy.
- 1.2 This Instruction must be read together with the Policy. All the capitalised terms used in this Instruction have the meaning as set out in the Policy, unless specifically stated otherwise in this Instruction. Special reference is made to the List of Red Flags and the Risk Assessment Matrix (Annex A).

2. Responsibilities

- 2.1. The general outline of the responsibilities for all HES Personnel, the Nominator, the local compliance officer and the Chief Compliance Officer is included in the Policy. This Instruction provides a more detailed description of the responsibilities for the Nominator, the local compliance officer and the Chief Compliance Officer when executing the Engagement Procedure.
- 2.2. The table below outlines the responsibilities the Nominator, local compliance officer and the Chief Compliance Officer have during the Engagement Procedure in relation to requirements and responsibilities for Third Parties with a Low, Medium and High Risk Rating. Mandatory due diligence requirements may in certain circumstances be waived by Chief Compliance Officer. Optional additional due diligence requirements will be at the discretion of Chief Compliance Officer.

Step	Task	Responsible
1	Third Party Registration Form	N, C
1	Due Diligence Questionnaire	N, C
1	Sanctions Screening	L, N
2	Risk Assessment	C
3	Recommendation	C
4	Mitigation Steps	N, C
5	Approval	C
6	Contracting	N, C
7	Monitoring	A, N, L
<i>A = All HES Personnel; C = Chief Compliance Officer; L= Local compliance officer; N = Nominator</i>		

3. Step 1: Process initiation and initial due diligence

- 3.1. The Nominator shall register a Third Party that HES wishes to engage by filling in the Third Party Registration Form.
- 3.2. The Nominator will send the Third Party the DDQ (Annex B to the Third Party Engagement Policy) and request the Third Party to complete the DDQ. All Third Parties with whom HES shall engage or extend or renew a contract are required to fill in the DDQ. The Chief Compliance Officer can waive the requirement to fill in the DDQ in the event a DDQ has recently been completed by a Third Party. The Nominator is responsible for the Third Party to completely fill in the DDQ and that the Third Party has included an organisational chart showing its ownership structure.
- 3.3. After receiving the completed DDQ from the Third Party, the local compliance officer must conduct screening of the Third Party using Integration Point in accordance with the procedures as set out in the Sanctions and Export Controls Compliance Policy. The Nominator must provide assistance to the local compliance officer, as the Nominator is best equipped to provide and acquire all the information relevant and required for the Sanctions Screening.
- 3.4. If HES, as a result of the screening findings generated by Integration Point, must refrain from engaging or conducting that specific business activity with that Third Party in accordance with the Sanctions and Export Controls Compliance Policy, the Engagement Procedure shall be terminated and the Third Party shall be denied. The outcome of the Sanctions Screening must be included on *the Third Party Registration Form and the record of the screening check must be retained for a minimum of seven years.*
- 3.5. The Nominator must forward the Third Party's response to the DDQ to the Chief Compliance Officer for review. Any follow-up questions by the Third Party shall be clarified by the Nominator, together with the local compliance officer.
- 3.6. In order to ensure that there is sufficient time available for the next steps in the Engagement Procedure, the Nominator should start this process initiation at the earliest opportunity. The Nominator should inform the Third Party at the earliest opportunity of HES' due diligence requirements.

4. Step 2: Risk Assessment and further due diligence

Initial checks

- 4.1. HES will only establish a business relationship with prior written approval of the Chief Compliance Officer with any Third Party that:
- Does not have licenses and/or certificates as required for its business by applicable laws and regulations.
 - Is convicted for corruption, money laundering, fraud, sanctions and/or other similar financial/economic crimes.
 - Fails to provide adequate identification information and/or disclose its financial operations.
- 4.2. Before conducting the Risk Assessment (which is described below), the Chief Compliance Officer, assisted by the Nominator, must perform the following initial checks:
- i. check to see if there is an existing relationship or contract between the Third Party and any HES business; and
 - ii. confirm there are no restrictions on engaging the Third Party. If the Third Party appears on the HES' blacklist, HES may not proceed further. The Chief Compliance Officer will determine whether the Third Party has worked with HES previously or is engaged by another business and will consult with that other business to assess the scope and applicability of any DDQ that has already been conducted.
- 4.3. At any time, the Chief Compliance Officer may request further documentation from the Third Party or the Nominator.

Risk Assessment

- 4.4. If there are no unresolved issues from the initial checks, the Chief Compliance Officer must proceed to perform the Risk Assessment. Firstly, the Chief Compliance officer determines the Third Party's Risk Rating, by conducting the Risk Assessment, using the Risk Assessment Matrix in Annex A. This will allocate a 'Low', 'Medium' or 'High' Risk Rating to the Third Party. The allocation of the Risk Rating is explained in the introduction comments in Annex A.
- 4.5. The Risk Rating resulting from the Risk Assessment Matrix is one part of the Risk Assessment. To determine a Third Party's risk level, all circumstances and information known must be taken into consideration. The Chief Compliance Officer can deem a Third Party to have a low risk level and issue a recommendation accordingly, even if the Risk Assessment Matrix results in a medium Risk Rating for that Third Party.

Resolving Red Flags

- 4.6. In addition to contributing to the Risk Rating, any Red Flags identified on the basis of information acquired during the Risk Assessment must be reviewed and resolved if possible. Not only Red Flags identified during the execution of this Instruction and the Policy must be taken into account, but also Red Flags identified during the execution of other HES policies (e.g. Anti-Money Laundering Policy and Anti-Corruption and Bribery Policy). Please refer to HES' non-exhaustive List of Red Flags, applicable to all HES' compliance policies.
- 4.7. When dealing with a Third Party, the Red Flag examples included in the List of Red Flags should always trigger concern and further review. These Red Flags may also arise during the life of a contract with a Third Party, and should be considered as part of the monitoring process (as outlined in section 8 of this Policy).
- 4.8. The Nominator, in close cooperation with the local compliance officer, must review, and resolve if possible, any Red Flags that have been identified via contacts with the relevant Third Party and/or other HES businesses or from any other source of information.
- 4.9. Whether or not a Red Flag can be resolved, depends on the nature of the Red Flag. For instance, the Nominator cannot alter the fact that a Third Party has recently been convicted for corruption and bribery related actions. However, there are Red Flags that can be resolved, for instance by acquiring more information on a Third Party.

Example 1: During the process initiation, the Nominator finds that a lot of organisational information on the Third Party is not in line with the information stated at its website. For instance the address and location of its business and the legal entity only appears to be a shell company. A further check does not result in more detailed information. This typically constitutes a Red Flag. However, upon contacting the Third Party, the Nominator could find out that the Third Party is in transition after a merger and is still in the process of updating its website, legal structure, etc. After obtaining confirmation through extracts from a chamber of commerce, this Red Flag would then be resolved.

Example 2: The Nominator learns that there are allegations and known convictions against a party that, based on its name and location, appears to be affiliated to the Third Party. This constitutes as a Red Flag, as it appears that the Third Party itself is the convicted/accused. After having received the filled in DDQ, this still is not clear. However, after performing further investigation, the Nominator can ascertain that the convicted/accused party has no relation with the Third Party and only used a version of its name to appear trustworthy. This Red Flag would then be resolved.

- 4.10. The rationale behind a decision to deem a Red Flag resolved, must be documented at all times.
- 4.11. Unresolved Red Flags will be taken into account during the Risk Assessment.

Further due diligence

- 4.12. Based on the outcome of the Risk Assessment, the Chief Compliance Officer decides on whether Third Parties are subject to further due diligence. Depending the specific circumstances of the situation, in particular the assessment of risks identified and their causes, the Chief Compliance Officer may undertake further due diligence, or instruct the Nominator to do so by including further due diligence in step 4: Mitigation Steps.
- 4.13. Further due diligence can consist of the following steps:
- a) Undertake news/media screening of both the key individuals and entities identified in the DDQ response or by using Integration Point and conduct internet-based research on the Third Party, including without limitation a Google search (or equivalent) and reviewing the Third Party's website.
 - b) Additional Sanctions Screening using Integration Point.
 - c) Request further documentation from the Third Party.
 - d) Commission an external due diligence report from external advisor. The scope of the due diligence report will depend on the Risk Rating, availability of information and specific unresolved Red Flags.
 - e) Request the Nominator to prepare a business case investigating the justification for engaging the Third Party.
 - f) Conduct a telephone or in-person interview with the Third Party's key personnel.

5. Step 3: Recommendation

- 5.1. The Chief Compliance Officer shall issue a recommendation based on the outcome of the Risk Assessment and any further due diligence steps set out above. The Risk Assessment has four possible recommendation outcomes:
- Low Risk: approval to proceed to contracting.
 - Medium Risk: undertake Mitigation Steps.
 - High Risk: undertake Mitigation Steps.
 - Stop the process and reject the Third Party (or advise the Nominator to exit the relationship if it is an existing Third Party, see section 7 of the Policy).
- 5.2. The recommendation will be issued by the Chief Compliance Officer using the Recommendation Form (Annex C to the Policy). This form will include the recommendation, accompanied by a substantiation of that recommendation, as well as any required Mitigation Steps. The specifics of the Mitigation Steps required will vary depending on the situation and to be determined by the Chief Compliance Officer.

6. Step 4: Mitigation Steps

- 6.1. Depending on the results of the Risk Assessment and due diligence, the Chief Compliance Officer could require the Nominator to take Mitigation Steps as set out below.
- 6.2. Such Mitigation Steps could include the following non-exhaustive steps:
- a) Requiring the Nominator to undertake further due diligence, as set out in step 2 of the Engagement Procedure.
 - b) Sending the Third Party electronic copies of HES' Code of Conduct;
 - c) Requiring Third Party staff to attend video compliance training;
 - d) Requiring the Third Party to complete a compliance certification at least annually, asserting its compliance with all relevant compliance laws as well as with all compliance representations and warranties within its contract;
 - e) Requiring the Third Party to produce verified evidence of the persons and entities that ultimately beneficially own or control it;
 - f) Requiring the Third Party to provide further evidence of the business relationships it holds with third parties;
 - g) Requiring the Third Party to provide verifiable evidence of the nature and purpose of its business relationships;
 - h) Requiring the Third Party to adopt and implement appropriate compliance policies and procedures or warrant that it already has these;
 - i) Conducting periodic performance reviews;
 - j) Requiring the Third Party to produce quarterly or annual activity reports;
 - k) Requiring Third Party staff to attend face-to-face compliance training;
 - l) Limiting the scope of work or type of activity within the contract;
 - m) Requiring the inclusion of certain contractual terms or rights in the contract with the Third Party;
 - n) Exercising contractual audit rights; and/or
 - o) Mandating Third Party payment pre-approval by Chief Compliance Officer.
- 6.3. The Mitigation Steps shall specify the required actions, the person(s) responsible for such actions, and a timeline for completion. The Mitigation Steps may include actions to be taken prior to any contract taking effect and/or actions to be taken after the execution of the contract. The Chief Compliance Officer will discuss any Mitigation Steps with the Nominator, who will be responsible for overall monitoring and execution of the Mitigating Steps. The

Nominator must report any actions that are not completed on time to local compliance officer for escalation to Chief Compliance Officer.

- 6.4. The Chief Compliance Officer shall in any case include further due diligence steps e) and f) in the event the Risk Assessment has resulted in a High Risk.

7. Step 5: Approval

- 7.1. A Low Risk Rating entails that no additional approvals are required allowing the Nominator to proceed directly to contracting (section 8).
- 7.2. A recommendation based on a Medium and High Risk Rating, will only allow the Nominator to proceed to contracting (section 8) when Chief Compliance Officer (or his or her delegate) has determined Mitigation Steps and agreed to its implementation and consequently approved of the engagement.
- 7.3. The Chief Compliance Officer will only agree to the implementation of the Mitigation Steps if the Nominator has properly filled in and returned the Recommendation Form to the Chief Compliance Officer.
- 7.4. If the Third Party is approved, Chief Compliance Officer will inform the Nominator of the approval. The Chief Compliance Officer will also promptly inform a Nominator when a Third Party is rejected.
- 7.5. If the Chief Compliance Officer has approved a Third Party, the Nominator may proceed to contracting (section 7).

8. Contracting

- 8.1. All contracts must be in writing and duly executed before payment of any kind can be made or goods/services can be provided under said contract. Please refer to HES Legal Reporting instructions for more details on informing HES International Legal Department of new contracts.
- 8.2. All contracts must accurately record:
 - the nature of the relationship between HES and the Third Party, including the precise nature of the activities to be undertaken and payments to be made;
 - any actions from Mitigating Steps that are appropriate to include in the contract; and
 - the compliance clauses included in Annex A of the Sanctions and Export Controls Compliance Policy.

In case a Third Party seeks to negotiate the compliance clauses, the Nominator should seek assistance from the Chief Compliance Officer, who must approve any deviation from the required compliance clauses.

- 8.3. Contracts with Third Parties must be executed within six months after the approval by the Chief Compliance Officer. After six months, the Engagement Procedure must be renewed or waived by Chief Compliance Officer, before execution of the contract with the previously approved Third Party.

9. Monitoring

- 9.1. Continuous monitoring takes place during the business relationship with Third Parties.
- 9.2. All Nominators should become familiar with possible unresolved Red Flags identified in connection with a Third Party relationship. The Nominator must also ensure that others who engage with the Third Party under the contract for which the Nominator is responsible, are also aware of possible Red Flags and the need to report any identified Red Flags to the local compliance officer.
- 9.3. The Nominator should maintain regular contact with the Third Party and escalate any concerns or new Red Flags to local compliance officer.
- 9.4. Third Parties with an existing business relation are required to fill in the DDQ every two years.
- 9.5. Once a Third Party profile is created in Integration Point, the Third Party will be automatically screened every night against sanctions lists. Any changes in the answers to the DDQ, must, pursuant to the DDQ, be informed to the Nominator by the Third Party. The updated information will be used to perform additional Sanctions Screening, when required.
- 9.6. The Nominator will be notified immediately of any new Integration Point alerts by the local compliance officer. When a Red Flag is raised, the Nominator must notify local compliance officer and work with them to take appropriate action to mitigate the risk identified. The Nominator must follow all instructions given by local compliance officer and only proceed with any business activities involving the relevant Third Party if approved to do so by the Chief Compliance Officer.
- 9.7. In case the nature of the relationship with a Third Party materially changes, including a substantive contract amendment, a contract renewal or change in control of the Third Party, or when a new Red Flag is identified in relation to an existing Third Party, a new Risk Assessment and DDQ must be conducted to determine whether the Third Party's Risk Rating has changed. In case the Risk Rating has changed, further due diligence may be required corresponding to the new Risk Rating.

10. Retention of records

10.1. To be recorded and retained during, in any case, the life cycle of an engagement:

- Completed DDQ.
- Filled Risk Assessment.
- Final Risk Rating for future references.
- Sanctions screening results
- Rationale of resolving Red Flags and Mitigation Steps and approval related choices.

11. Update history

Version	Revised By	Description	Revision Date

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ANNEX A

Risk Assessment Matrix

For each new Third Party, all of the factors listed below should be considered. Each factor should be attributed a numeric value between 1 and 3, with one representing the least and three the most risky. The total score determines the Third Party's Risk Rating, as follows:

- A. Rating of 1 up to and including 13 results in Low Risk Rating.
- B. Rating of 14 up to and including 18 results in Medium Risk Rating.
- C. Rating of 19 up to and including 33 results in High Risk Rating.

#	QUESTION	ANSWER	COMMENTS TO ASSIST WITH RISK ASSESSMENT	SCORE
	Organisational Risks			
1.	Is the relationship with the Third Party new or existing?		<p>New Third Parties should be subject to more thorough due diligence than existing Third Parties. This is not to say that existing Third Parties should not be subject to scrutiny to assess if the Risk Rating of the Third Party has changed.</p> <p>If existing, assign a score of 1 here and proceed with the assessment of the following questions to determine if further detailed diligence should be conducted.</p>	



2.	Is the Third Party involved in providing financial or other regulated services (including legal services) subject to mandatory reporting or anti-money laundering laws in an EU or OECD country?		<p>If yes and you have grounds to consider the risk to be low, assign a score of -1.</p> <p>If yes, assign a score of 1.</p> <p>If no, assign a score of 2.</p>	
3.	Is the Third Party a public company listed on a recognised stock exchange?		<p>If yes and you have grounds to consider the risk to be low, assign a score of -1.</p> <p>If yes, assign a score of 1.</p> <p>If no, assign a score of 2.</p>	
4.	Are there adverse media reports or other relevant sources of information about the Third Party, the Third Party's wider group or its executive board? For example, are there any allegations of criminality or terrorism against the Third Party, the Third Party's wider group or the executive board(s) of the same?		<p>If yes, assign a score of 2 or 3, depending on the nature of the adverse media identified.</p> <p>If uncertain, assign a score of 3.</p> <p>If no, categorise the company with a score of 1.</p>	
Country Risks				
5.	Is the Third Party established, or its directors located (if known), in a country regarded by the Financial Action Task Force as a high-risk or other monitored jurisdiction? ¹		<p>If yes, assign a score of 3.</p> <p>If no, assign a score of 1.</p>	

¹ As of March 2020, this includes North-Korea and Iran (both subject to a FATF Call for Action), as well as Albania, Bahamas, Barbados, Botswana, Cambodia, Ghana, Iceland, Jamaica, Mauritius, Mongolia, Myanmar, Nicaragua, Pakistan, Panama, Syria, Uganda, Yemen and Zimbabwe.



6.	Is Third Party established, or its directors located (if known), in a country ranked within a medium or high risk band within Transparency International’s Corruption Perception Index (the “Index”) ?		<p>To check this, search for the country to obtain the latest available rating in the Index at the following link: https://www.transparency.org/cpi2020</p> <ul style="list-style-type: none"> • Any country ranked within rank 1-60 is categorised as low risk and attributed a score of 1. • Any country ranked within rank 61-120 is categorised as medium risk and attributed a score of 2. • Any country ranked within rank 121-180 is categorised as high risk and attributed a score of 3. 	
7.	Does the proposed transaction/relationship with the Third Party involve a country (e.g., as origin of supply) ranked within a Medium or High risk band within Transparency International’s Corruption Perception Index (the “Index”) ?		<p>To check this, search for the country to obtain the latest available rating in the Index at the following link: https://www.transparency.org/cpi2020</p> <ul style="list-style-type: none"> • Any country ranked within rank 1-60 is categorised as low risk and attributed a score of 1. • Any country ranked within rank 61-120 is categorised as medium risk and attributed a score of 2. • Any country ranked within rank 121-180 is categorised as high risk and attributed a score of 3. <p>If the answer is uncertain, then assign a score of 3 and include appropriate safeguards relating to this uncertainty using the compliance clauses in the contract with the Third Party.</p>	
8.	Is the Third Party a government agency/body or a state-owned or controlled entity?		<p>If yes, assign a score of 3. If no, assign a score of 1.</p>	
Product/Services Risks				



9.	Does the Third Party or its wider group have links to sectors that are commonly associated with high corruption risk, such as construction, pharmaceuticals/healthcare, defence, the extractive industries or public procurement?		If yes, assign a score of 2. If no, assign a score of 1.	
10.	Will the Third Party need to engage with government officials as part of the proposed transaction/relationship? For example, in obtaining licenses, customs clearances etc.		If yes and on behalf of HES, assign a score of 3. If yes, but on own behalf, assign a score of 2. If no, assign a score of 1.	
11.	Do you or HES have any reason to believe that the Third Party will be using agents or intermediaries to perform any functions as part of the proposed transaction/relationship?		If yes, assign a score of 3. If no, assign a score of 1.	
Unresolved Red Flags				
12.	Have any other Red Flags, as included on the List of Red Flags, been identified in relation to the Third Party?		Depending on the Red Flags identified, assign a score of 1, 2 or 3 per Red Flag.	

Total score:	
Risk Rating:	