

APPENDIX 1

TERMS OF REFERENCE AND VISIT SCHEDULE

Background

Under the Common Terms Agreement between Sakhalin Energy and the Phase 2 Senior Lenders (CTA), the Company commits to comply in all material respect with HSESAP which has been developed for the Sakhalin-2 Phase 2 Project.

The HSESAP consolidates the commitments from the Environmental, Health and Social Impact Assessments. It details the measures agreed between the Company and the Phase 2 Senior Lenders to eliminate, mitigate or manage identified adverse HSE and social impacts to acceptable level.

ENVIRON, is the Independent Environmental Consultant (IEC) acting on behalf of the Lenders to the Sakhalin-2 Phase 2 project (the 'Project'). Under the CTA, the IEC and Lender representatives undertake:

- Level 1 Audit once every two years (see CTA clause 4.6.1):

"Following the Completion Date and once every two years thereafter, the Company shall at its expense arrange for a Level 1 audit to be carried out by the Independent Environmental Consultant in accordance with the provisions of paragraph 4.6.3 below. Such audit shall focus on any of the Project Facilities or any Project Expansion Facilities or any major issues affecting or arising from the Project or any Project Expansion which shall be selected by the Phase 2 Senior Lenders in their discretion. The audit shall review the Company's compliance with material Environmental Law, Environmental Consents, Project Expansion Environmental Consents and/or Interim Environmental Permissions and the HSESAP. The Independent Environmental Consultant shall, whilst on or at any Project Facilities or any Project Expansion Facilities only, be accompanied at all material times by representatives of the Company.

The Company shall obtain the prior consent of the Phase 2 Senior Lenders (acting Reasonably) to the terms of reference of the Independent Environmental Consultant's audit or review which shall (a) specify the timetable for preparation, comment on and final delivery of the report, (b) make provision for access for the Phase 2 Senior Lenders to the Independent Environmental Consultant for the purposes of consultation provided that any requests from the Phase 2 Senior Lenders for the Independent Environmental Consultant to carry out any additional work beyond the agreed terms of reference of such audit or review shall be subject to the prior approval of the Company (acting reasonably), and (c) include an obligation upon all parties thereto to act expeditiously in the planning, undertaking and closing out of any audit process and to use all reasonable endeavours to ensure that all Level 1 audit reports prepared under this paragraph 4.6.3 are delivered directly to the Phase 2 Senior Lenders and copied to the Company."

- Annual Project Monitoring visits (see CTA clause 4.5):

"...one site visit during each 12 (twelve) month period after the Completion Date by the Nominated Representatives to monitor the progress of the Project or any Project Expansion and the Project Facilities or any Project Expansion Facilities insofar as Environmental Matters or Social Matters are concerned and the Company's compliance with material Environmental Law, Environmental Consents, Project Expansion Environmental Consents and/or Interim Permissions, the Pre-Signing Remedial Action Plan, any Remedial Action Plan and the HSESAP. The focus and timing of each visit shall be determined by the Phase 2 Senior Lenders (following consultation with and, with respect to timing, having due regard to any reasonable views expressed by the Company) and they shall give the Company reasonable prior notice of the planned dates of such visits which visits shall, whilst on or at any Project Facilities or any Project Expansion Facilities only, be accompanied at all material times by representatives of the Company."

While there are many similarities in the nature of 'Level 1 Auditing' and 'Project Monitoring', in broad terms the two processes may be distinguished as follows;

- Level 1 Audits are in-depth audits of selected individual Project facilities
- Project Monitoring visits on the other hand are typically higher level in their detail but at the same time are broader in scope, covering both a wider range of Project facilities and also Project-wide issues, programmes and plan, and also relevant third party stakeholders.

The Company sees several benefits from the Level 1 audits and annual monitoring visits, including demonstrating environmental and occupational health and safety commitments to staff and external stakeholders, regular focus through management review to help us maintain controls and improve performance, regular external review and evaluation, assurance of conformance to requirements, improved staff awareness and commitment, and improved reputation of the Company.

Objectives

The overall purpose of the Level 1 Audit and Project Monitoring visit is to determine conformance with the HSESAP requirements in managing the identified HSE and Social Performance (SP) risks, compliance with legal and other requirements and continual improvement.

Scope

This site visit will be focused on the following selected sample project facilities, areas and topics:

Level 1 Audit:

Areas/facilities:

- OPF
- PA-A Platform

Monitoring Visit:

Areas/facilities:

- Pipeline RoW, to include rivers, wetland locations and repair works
- OPF-Compression
- LNG Plant
- Train-3 locations
- Social performance

Office Discussion Topics:

- General project status, including:
 - ✓ Production issues

- ✓ Significant maintenance activities in last year and major planned maintenance
- OPF-Compression update, including:
 - ✓ Overview of project status
 - ✓ Status of Environmental and Social Management Plans
 - ✓ Stakeholder Engagement Plans (both internally and publicly disclosed versions)
 - ✓ Environmental and social challenges
- Train-3 update, including:
 - ✓ General project overview (e.g. timetable, source of gas, market, key challenges, project schedule, etc)
 - ✓ ESHIA status and discussion of Ramboll Environ's ongoing review
 - ✓ Timing of stakeholder engagement meetings
- RoW update
- Biodiversity update, including:
 - ✓ Monitoring programs results: OPF, OPF-C, Pipelines, LNG plant, Offshore
 - ✓ Update on Monitoring Programmes (ambient environment) and Monitoring Strategies: Ballast water monitoring, Environmental monitoring strategy
 - ✓ Train 3 Critical Habitat Assessment
 - ✓ Offset Strategy
 - ✓ Wider Company BAP
- HSE update including:
 - ✓ Performance against scorecard/permits
 - ✓ Internal HSE audit programme and corrective action management process
 - ✓ HSE-MS certification status, including status on transition to ISO 14001:2015
 - ✓ Regulatory compliance status (including details of any violations or significant discussions with regulators)
 - ✓ STP update
 - ✓ Update on Environmental legislation
 - ✓ Compressor NOx emission issues
 - ✓ HSE staffing and resources
- 4D Seismic survey and WGW, including:
 - ✓ Timing of survey
 - ✓ ESIA status
- Social performance
- Waste management, including:
 - ✓ Waste management strategy
 - ✓ Update on landfill capacity and medium-term and long-term strategic waste management planning
 - ✓ Mainland (Vladivostok) landfills environmental performance
 - ✓ Waste minimisation initiatives
 - ✓ For Nogliki landfill:
 - Permit compliance (operator details, limits, pollution control measures, monitoring)

- Waste reception, acceptance, classification and testing (SE waste tracking and documentation system/ Landfill Code), plus non-approved/restricted wastes (e.g. medical wastes, hazardous wastes, wastes that can be recycled)
 - Environmental Monitoring Programme and reporting
 - Nuisance complaints
 - Landfill Monitoring Plan
 - Remediation and restoration programmes
 - Upgrade activities / expansion plans (new cell design)
- Review of open findings from previous visits

Parties involved in this audit:

The site visit team will be provided by Ramboll Environ and the parties involved will be as described below:

Project Monitoring Visit	
Ramboll Environ Personnel	Sakhalin Energy Personnel
Alan Fowler (Overall team leader, environmental issues) Peter Burston (Ecology issues) Katya Sladkova (Social issues) Andrew Snow (Environmental issues)	Roger Hickman (Finance Director, Audit Sponsor) Natalia Matveenko (Treasurer, Auditee) Zhanna Lyubaeva (Senior Loan Compliance Officer, Audit Focal Point in Project Finance) Elena Solonenko (Loan Compliance Specialist, Audit Focal Point, Audit Coordinator in Project Finance) Stephanie Lock (HSE General Manager, Audit Focal Point in HSE) Anzhelika Vasilyeva (HSE Assurance Manager, Audit Focal Point in HSE) Olga Melnik (HSESAP Specialist, Audit Assurance Coordinator) Natalia Gonchar (Head of Social Performance Subdivision, Focal Point SP) Marina Ee (Lead Specialist of Social Performance Subdivision, Visit Assurance Coordinator SP)
Level 1 Audit – OPF Site	
Ramboll Environ Personnel	Sakhalin Energy Personnel
Alan Fowler (Overall team leader, environmental issues)	Alexander Singurov (Onshore Asset Manager) Timur Dautov (OPF Installation Manager) Anatoly Khristenko (OPF Head of HSE)
Level 1 Audit – PA-A Platform	
Ramboll Environ Personnel	Sakhalin Energy Personnel
Andrew Snow (Environmental issues)	Paul Eykhout (Offshore Asset Manager) Andrey Klimov (PA-A Offshore Installation Manager) Dmitry Pezhemsky (PA-A Head of HSE)

The monitoring and audit report(s) will be subject to peer review by Andy Garland (ENVIRON).

Standards and special conditions

The Project Monitoring Visit shall determine conformance with the requirements of the HSESAP and applicable environmental laws and consents

Timing/Schedule

A detailed audit programme is attached (Appendix 1 [to this ToR]).

Methodology, Communication of Results, Report and Report Distribution

- *Close out meetings:*
 - A final close-out meeting for the overall site visit will be undertaken on the final day where the summary findings of the Project Monitoring visit will be presented.
- *Reporting.* Following the site visit a single report will be provided. This report will provide:
 - A summary of the findings of the Project Monitoring visit
 - Audit reports for the Level 1 Audits of the PA-A platform and OPF site (these will be provided as appendices)
 - A combined tabulated summary of all recommendations and actions.

In line with the requirements of the IEC Schedule Contract Scope of Work the timetable for preparation, comment on and final delivery of the site visit report will as follows:

- Within 10 working days of the conclusion of the site visit the IEC will provide an initial draft of the report to the Role Bank (Mizuho) and JBIC, copied to Sakhalin Energy.
- The Role Bank, JBIC and Sakhalin Energy shall provide any comments on the report to the IEC within 10 days of their receipt of the draft report.
- The IEC shall amend any factual errors in the report brought to their attention and shall consider any reasonable comments made by the reviewers.
- The IEC will produce a final version of the site visit report within 5 working days of receiving comments and shall issue this to the Role Bank and JBIC, copied to Sakhalin Energy.

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Appendix 1 to ToR – IEC Audit and Monitoring Visit Schedule [Revised to reflect actual schedule]

Date/Team	Team 1 – Alan Fowler	Team 2 – Peter Burston	Team 3 – Andy Snow	Team 4 – Katya Sladkova
10 Sep 17	Arrive in Yuzhno-Sakhalinsk	Arrive in Yuzhno-Sakhalinsk	Arrive in Yuzhno-Sakhalinsk Overnight train to Nogliki	Arrive in Yuzhno-Sakhalinsk
11 Sep 17	Office meetings	Office meetings	Nogliki landfill visit	Office meetings
12 Sep 17	Office meetings	Flight to Nogliki Visit RoW near Nogliki	Travel to PA-A then commence audit	Office meetings
13 Sep 17	LNG monitoring visit	Visit RoW and OPF-C site	PA-A audit	Flight to Nogliki then visit OPF-C
14 Sep 17	Flight to Nogliki Commence OPF-C monitoring	Visit RoW	PA-A audit	Visits to Tymovskoye, Yasnoe and Poronaisk
15 Sep 17	Conclude OPF-C monitoring Commence OPF audit	Visit RoW	PA-A audit then travel to Yuzhno-Sakhalinsk	Visits to Poronaisk and Gastello
16 Sep 17	OPF audit	Visit RoW	-	Visit Prigorodnoye facility and adjacent areas
17 Sep 17	Conclude OPF audit Overnight train to Yuzhno-Sakhalinsk	Visit Aniva Bay	-	-
18 Sep 17	Depart Yuzhno-Sakhalinsk (one day early due to bereavement)	Closing meeting	Closing meeting	Closing meeting
19 Sep 17	-	Depart Yuzhno-Sakhalinsk	Depart Yuzhno-Sakhalinsk	Depart Yuzhno-Sakhalinsk

