

Appendix 3: Site Visit Terms of Reference and Schedule

Terms of Reference – IEC Audit and Monitoring VisitSeptember 2013Background

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 both:

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.

In September 2013, the IEC, Oil Spill Consultants and Lenders’ representatives will conduct a site visit that includes both a Level 1 Audit of the OPF and PA-A assets and a Project Monitoring visit to a range of other project assets.

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:**
 - OPF Site
 - PA-A Platform
 - Company’s Oil Spill Response Capabilities and facilities (including Nogilki PMD, Marine Operations Base, Stand-by OSR Vessel, wildlife rehab facility storage and Oiled Wildlife Response equipment at Prigorodnoye)

- **Monitoring Visit:**

Areas/facilities:

- Pipeline RoW (river crossings, biological reinstatement)
- LNG Site
- Landfills
- Communities/dachas (social impacts)
- Company’s information centres
- Nogilki PMD

Topics:

- Projects, including Sakhalin-3, South Pitun, OPF Compression Project
- Waste Management, including Company's Waste Strategies, progress on OPF camp and legacy waste issue
- Row vegetation cover, maintenance, river bank erosion, technical reinstatement, and known high risk locations
- Installation of Permanent Treatment System at OPF
- STPs, particularly PA-B and LUN-A
- Biodiversity programmes, WGWAP
- Social Performance Compliance, including contractor management; indigenous peoples; community liaison and engagement; social investment; protection of cultural heritage; impact assessments for project variations; internal and contractor roll-out of compliance/performance requirements.

Parties involved in this audit

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

Project Monitoring Visit	
ENVIRON personnel	Sakhalin Energy Personnel
Jon Hancox (Overall team leader)	Roman Dashkov (CEO, Audit Sponsor)
Paul Bochenski (environmental issues)	Rob Van Velden (Finance Director, Auditee).
Tatyana Vassilevskaya (social issues)	Zhanna Lyubaeva (Senior Loan Compliance Officer, Audit Focal Point (Project Finance))
	Johann Moller (HSE Assurance Manager, Audit Focal Point HSE).
	Assurance Coordinators: Elena Klishina (HSE); Marina Ee (Social).
Level 1 Audit – OPF Site	
ENVIRON personnel	Sakhalin Energy Personnel
Jon Hancox (Lead Auditor)	Bill Bryson/Kevin Giles (OPF Asset Managers)
Andy Bloss (Auditor)	Konstantin Ozhog/Sergey Savenkov (OPF HSE Manager)
Level 1 Audit – PA-A Platform	
ENVIRON personnel	Sakhalin Energy Personnel
Marcus Reynolds (Lead Auditor)	Kevin Craig (Offshore Asset Manager)
	Marat Rezyapov/Jim Wrathall (PA-A Offshore Installation Managers)
	Victor Spitsyn (Offshore HSE Manager)
Level 1 Audit – OSR	
ENVIRON personnel	Sakhalin Energy Personnel
Frank Marcinkowski (Lead Auditor)	Sergey Litvinov (Compliance Manager)
Rick Muth (Auditor)	Alexander Gutnik (ER Manager)

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

Standards and special conditions

The Level 1 Audits and 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 below.

Methodology, Communication of Results, Report and Report Distribution

- **Audit methodology.** The Level 1 Audits shall be conducted in line with the principles of ISO 19011 (as they apply to the scope of the Level 1 Audits).
- **Close out meetings:**
 - Local close-out meetings will be held at the PA-A Platform and OPF site respectively. At the close-out meeting the Lead Auditor will provide the auditees with a key issues summary (KIS) that will briefly document the key issues that will be raised in the subsequent audit report.
 - 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 and the Level 1 Audits 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, Company's Oil Spill Response Capabilities 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 JBIG, copied to Sakhalin Energy.
 - The Role Bank, JBIG 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 JBIG, copied to the Sakhalin Energy.

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IEC Audit and Monitoring Visit Schedule (excluding aforementioned OSR Audit, reported separately)

Date/Team	Team 1 – RoW, Bochenski	Team 2 – Social Performance, Vassilevskaya	Team 3 – OPF Audit, Hancox & Bloss	Team 4 – PA-A Audit, Reynolds
28 Sept 13	Arrive Introductions Opening presentations			
29 Sept 13	RoW southern Section 4			
30 Sept 13	RoW north of Nogliki			
1 Oct 13	Far north RoW / Chaivo	Arrive Introductions Opening presentations	Arrive Introductions Opening presentations	Arrive Introductions Opening presentations
2 Oct 13	RoW Sections 1B and C between Nogliki and OPF	Meetings with CLO and IP CLO in Nogliki Info Centre GTT North and Boatasino	Nogliki PMD Nogliki landfill	[No travel due to bad weather]
3 Oct 13	RoW Sections 1C and 2	Visit to Nysh settlement Social Performance monitoring at OPF	Audit OPF Day 1	[No travel due to bad weather]
4 Oct 13	RoW Section 2	Poronaisk, Yasnoye and Pobedino Info Centres	Audit OPF Day 2	PA-A Audit
5 Oct 13	RoW northern Section 3	Makarov Info Centre	Audit OPF Day 3 RoW OPF to landfall and beach landing site	PA-A Audit
6 Oct 13	RoW southern Section 3 and northern Section 4	Meeting with the Head of the IP Group – Engagement with Sakhalin Indigenous People	Prepare for close out meeting	Prepare for close out meeting

7 Oct 13	Prepare for close out meeting	Prepare for close out meeting	Office meetings	LNG Monitoring Visit
8 Oct 13	Close-out meeting Depart	Close-out meeting Depart	Close-out meeting Depart	Close-out meeting Depart