



Fifth Independent RAP Monitoring

**Sakhalin Energy Investment Company
Limited**

Final Report

June 2010

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Sakhalin Energy Investment Company Limited

Fifth Independent RAP

June 2010

Reference I7260

For and on behalf of ERM

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The Sakhalin Energy Investment Company Limited (will be referred to as Sakhalin Energy or “Company”) was established in 1994 to develop the Piltun Astokhsk (PA) and Lunskoye (Lu) oil and gas fields in the sea of Okhotsk, off the north-eastern shores of Sakhalin Island, in the Russian Far East. As a result of the project, there were social impacts as well as resettlement of families, which led to the preparation of a Resettlement Action Plan. The RAP had been prepared in accordance with the World Bank Group’s Operational Directive 4.30 on Involuntary Resettlement (OD 4.30).

A part of the commitment of the RAP was to engage an independent external resettlement specialist to undertake a semi-annual audits of the project related resettlement activities. ERM has been engaged as that independent consultant, and has since completed 4 independent semi-annual audits of the project. This is the fifth audit report for the period between September 09 and December 09.

1.1

A BRIEF PROJECT DESCRIPTION

Sakhalin has a total area of 76,400 km². A long narrow island, it stretches 948 km from north to south, with a maximum width of approximately 160 km and a minimum width of about 30 km. Layout of the Sakhalin-2 Project has been largely driven by:

- The location of Sakhalin-2 Project oil and gas fields off the northeast coast;
- The need to transport oil and gas from these fields to a year-round, ice-free export port in the south.

Oil and gas fields on the island are located primarily in the two northern-most districts of Okha and Nogliki Districts. Onshore development and commercial production of these fields has a long history dating back to the early 1900s.

Oil from Sakhalin has historically been transported to the Russian mainland via a sub-sea line extending from Okha District to De Kastri. Gas is also transported to the mainland where it is used for industrial and domestic purposes in the Russian Far East. The Sakhalin I Project oil pipeline follows this established route.

With the exceptions of the Offshore Platforms and Pipelines, the Sakhalin-2 Project is sited entirely on Sakhalin Island. The Project’s oil and gas pipelines generally follow the island’s existing north-south transportation corridor. The pipelines terminate at an LNG Plant /Oil Export Terminal site on the southern end of the island at Prigorodnoye, Korsakov District. The length of the on-shore route followed by the Sakhalin -2pipelines is approximately 816 km.

1.1.1 *Project Components*

Sakhalin-2 Phase 2 has offshore and onshore components. The principal offshore components include the following:

- A new oil and gas production and drilling platform (PA-B) in the Piltun-Astokhsk Field with separate sub-sea oil and gas export pipelines to a landfall at Piltun,
- A new gas and condensate/oil rim production and drilling platform at Lunskeye (LUN-A), and
- Export pipelines from the LUN-A platform to the Onshore Processing Facility together with a mono-ethylene-glycol (MEG) flow line and combined power and fibre optic cables.

The main onshore facilities for Phase 2 include:

- An Onshore Processing Facility close to Lunskeye Bay in eastern Nogliki District;
- Gastello Booster Station in Poronaisk District, Central Sakhalin;
- A Liquefied Natural Gas plant at Prigorodnoye, Korsakov District, in the south of Sakhalin;
- An Oil Export Terminal, also at Prigorodnoye;
- Pig trap stations at Piltun landfall and within facility sites at the Onshore Processing Facility, Gastello Booster Station and LNG/OET;
- Gas pipelines and compressor stations to convey gas from PA-A, PA-B and the Onshore Processing Facility to the LNG plant at Prigorodnoye, and onwards to the Offshore Export Terminal;
- Oil pipelines and booster stations to transport oil from the platforms and the Onshore Processing Facility to the Oil Export Terminal at Prigorodnoye, and from there to an offshore Tanker Loading Unit to be located in Aniva Bay; and
- Supporting power, fibre-optic and telecommunications infrastructure.

In addition to these elements of the Project, a substantial Infrastructure Upgrade Project (IUP) has taken place, which has upgraded roads, bridges, railways, ports and an airport hospitals and landfills to support logistical activities for Project construction and operations. Much of this work has been carried out in partnership with local authorities.

1.2 *OBJECTIVE OF THE EXTERNAL MONITORING*

The specific objective of the RAP, as outlined in the RAP includes:

- To assess overall compliance with the RAP and World Bank OD 4.30;
- To verify that measures to restore or enhance project affected people's standard of living and livelihood are being implemented and to assess their effectiveness;
- To assess the extent to which livelihood restoration has been achieved and to advise when Project livelihood restoration is effectively complete; and

- To recommend any corrective actions necessary to achieve compliance with the RAP and OD 4.30, or to improve RAP implementation.

1.3

APPROACH AND METHODOLOGY

The external monitoring was expected to continue till such time that the objectives of the monitoring are met. From the last 4 monitoring rounds it is evident that most of the RAP related activities, including grievance redressal, are now in the process of closure. As a result it was decided that the December 09 round of monitoring would be desk based and would not need a full fledged field trip. The desk based review would include telephonic interviews with the key social performance staff and the LNG EA team (including Korsakov CLO) and review of the internal monitoring report prepared by the social performance team. The 6th monitoring visit is however expected to resume the field based. That is proposed to the pre-final round of monitoring by the External Monitor for the project.

This (fifth) monitoring was therefore approached as a progress monitoring visit, with focus on following up with any key issues identified during the fourth visit. The following tasks were undertaken:

- Telephonic interviews with the social performance team on the progress of the RAP and the findings of the internal monitoring report;
- Telephonic interview with the grievance redressal team to understand the status of any pending grievances or any new grievance registered between September 09 and December 09;
- Telephonic interview with the members of the LNG EA team to understand the status of engagement with the dacha owners; and
- Review of the monitoring report prepared by the Social Performance Advisor based on a socio-economic survey of a sample of PAFs and a limited and comparative assessment of a control group.

Issues discussed in the first four monitoring reports have been briefly reviewed wherever necessary, but not repeated in detail. In case those issues need to be referred to, please look up the various monitoring reports in the Sakhalin Energy website <http://www.sakhalinenergy.com> (in English) and <http://www.sakhalinenergy.ru> (in Russian)/.

STATUS OF THE IMPLEMENTATION OF THE RAP AND PENDING ISSUES

The project has been undertaking compensation and resettlement/ rehabilitation activities since 2002. These activities were carried out within the framework of an international standard Social Impact Assessment and Supplemental Assistance Programme developed in 2002. The Resettlement Action Plan as a document was formally adopted in November 2005. This section highlights the progress in the process of compensation, resettlement and rehabilitation in the project between September 2009 and December 09, as committed in the RAP.

Key findings and compliance against the RAP commitments and discussion on specific issues have been provided in Section 3.

2.1 PROGRESS IN LAND ACQUISITION

2.1.1 Land requirement

At the onset the Sakhalin-2 project Phase 2 was expected to acquire rights of 4,340 ha of land for a 3-year period to construct the natural gas and crude oil production infrastructure. In addition about 275 ha of land were required for a period of six-months to five years for temporary construction facilities. This project also required 273 ha of land for permanent facilities.

All land required for the project, both on temporary and permanent basis, has been taken by Sakhalin Energy.

2.1.2 Current status

Additional land has been taken on short term and long term lease from the Municipal entities (being at the disposal of municipal entities) or the Forest Department (land in federal ownership) respectively. These are required for components like access roads and for laying down cables, etc. Currently the lease and transfer process is underway. The Company has ensured access to the oil and gas pipelines and each of the block valve stations and by August 2009 Rostekhnadzor (Federal Technical Supervisory Authority) inspected the pipelines and access roads for compliance to design documentation. Conclusion of the final inspection was received in February 2010)

The status of land as on December 2009 taken on lease for various purposes is shown in the following table:

Table 2.1 Total Land on Lease with Sakhalin Energy (As in December 09)

Component	Area of land leased (ha)
Pipeline and FOC (Pipelines, BVS, CPS, pig launchers/receivers, access roads, soil storages, monitoring pits, helipads, etc)	4025 <ul style="list-style-type: none"> • 1238 ha Lands at the disposal of municipal entities • 2787 ha Lands in the federal ownership
Other large assets (LNG-OET, OPF, BS2 etc)	605 <ul style="list-style-type: none"> • 420 ha - for LGN/OET Lands at the disposal of municipal entities; • 20 ha -for Prigorodnoye Port Lands at the disposal of municipal entities • 134 ha - for OPF (64 ha- Lands at the disposal of municipal entities, 70 ha- Lands in the federal ownership) ; • 31 ha - for BS2- Lands in the federal ownership
PMD	44
Accommodation and Offices	59 <ul style="list-style-type: none"> • 54 ha in Yuzhno Lands at the disposal of municipal entities • 5 ha in Korsakov Lands at the disposal of municipal entities
Other Facilities (small facilities, FOC branches, water wells, Camps, etc.)	29
TOTAL	4762

Source: Central Approvals Team
FOC: Fibre Optic Cable
BVS: Block Valve Station
CP: Cathodic Protection
BS2: Booster Station 2
PMD: Pipeline Maintenance Depot

2.2 NUMBER OF HOUSEHOLDS AND ENTERPRISES IMPACTED BY THE PROJECT ACTIVITIES

The RAP states that about 125 households (432 individuals) were impacted by the project, of which 117 households will face only short-term or temporary impacts during the pipelines construction phase. In addition to households, there were 66 enterprises that were impacted.

10 households (including 2 farms) and 13 enterprises have been permanently impacted and resettled to make way for permanent above ground facilities or Sanitary Protection Zones and Safety Exclusion Zone.

2.2.1 Current status

The total number of project affected households and persons have reportedly not changed from the numbers provided in the RAP. The additional land being taken for access roads are not private land, hence no families are

expected to be impacted. It is also reported that none of the Federal lands or lands at the disposal of Municipal entities that are being taken on lease have any issue of private use for any purpose, hence there would be no social impacts on the lease of such lands.

2.3 *RESETTLEMENT*

Of the 10 households that were resettled:

- 3 permanent households were moved from the LNG/OET site ;
- 2 farms were moved, 1 from the LNG/OET site and 1 from the Sanitary Protection Zone of LNG/OET;
- 1 household moved from the pipeline Safety Zone;
- 4 summer dachas users, 2 from LNG/OET site and 2 from pipeline construction site.

2.3.1 *Current status*

Resettlement of all families had been completed, with a majority of them being resettled between 2003 and 2005. The last resettlement was completed in December 2007, and the legal formalities of transfer of land and house titles to the family were completed in August 2008. This was the family displaced from the Safety Zone of the pipeline.

The Company has completed all the commitments made to the last family, including minor construction works and provision of fertilizer for the family's kitchen garden. The family reported satisfaction with the completion of all commitments and of the support provided by the company through the resettlement process.

With the completion of resettlement of this last family, all the physical resettlements as a result of the project, as identified in the RAP, have been completed.

2.4 *PAYMENT OF COMPENSATION AND SUPPLEMENTAL ASSISTANCE*

2.4.1 *Affected Land Users*

The Approvals team reports that all affected households have been paid full compensation due to them along with the additional Supplemental Assistance (SA) wherever required. This had been confirmed from the household level discussions the consultant had. Wherever additional supplemental assistance was provided, an agreement was signed with details on the amount of land required, the purpose for which it was being taken, and the method to calculate the SA. Compensation has been paid for:

- Land plot withdrawal for project needs, for temporary and/or permanent purposes;
- Renewal of land user agreements for the project;

- Socio-economic impacts from project activities; and
- Grievances and complaints on specific damages.

Current Status

Between September to December 2009, the Company finalised and completed payment of compensation under Supplemental Assistance to 3 dacha owners, whose unregistered potato land plots were impacted by the access road construction. The Company reportedly paid compensation for the full plot even though only part of the parcel was impacted. The compensation process has been since completed.

No other compensation was required to be paid by the company in this period.

2.4.2 *Fishing enterprises*

3 Fishing enterprise operating where the LNG plant is currently located, have been impacted. These are Lenbock, Calypso and Contract. Full compensation has been paid to all enterprises based on several rounds of negotiations.

Compensation was paid for:

- Loss of income, justified and based on the value of the catch averaged over a period of time;
- Cost of removal and relocation of fishing equipment;
- Assistance and compensation for applying for new fishing licence issued by the relevant state agencies; and
- Tax

Of the three, Lenbock has moved operations to another location, Calypso continues operation at their original location with two nets, and Contract continues operation with one net.

Current status

All the three companies continue with their fishing activity, though at a smaller scale than before. Channels of communication have been established between Sakhalin Energy and the fishing companies on shipping routes and location of nets. In general the fishing enterprises report that the volume of fish production has declined over the years. However in the fishing season of 2009, it is reported that the salmon quantities have been unprecedented as compared to the last many years, and that this has been a very profitable year for fishing enterprises and fishermen.

2.4.3 *Other enterprises*

There were 16 agricultural enterprises, 9 forestry and 11 other enterprises. All the enterprises have reportedly been fully compensated. 4 agriculture enterprises have been additionally compensated in 2008 because of the delay

in restoration of land and handing them back to the enterprises. The lease agreements in such cases have been extended. No additional compensation was required to be paid to this group till the end of 2009.

2.4.4 Prigorodnoye Beach

The construction of the LNG/OET required the withdrawal and closure of a part of the Prigorodnoye beach, which has been a popular recreational spot for the local residents of Korsakov and nearby areas. The people continue to use the remaining part of the beach for recreation (bathing and fishing). Sakhalin Energy had agreed to pay a compensation of US\$800,000 to the Korsakov administration to support the development of a local park in lieu of the impacts on Prigorodnoye beach. This alternate was chosen after a series of consultations and negotiations with the Korsakov administration as well as the community of Korsakov. An Initiative Group was formed to discuss and reach a decision on the alternatives. The agreement that was reached in 2003 included:

- Infrastructure;
- Administrative building;
- Utilities;
- Paved roads and sites for attractions;
- Toilets;
- Fencing and a rotunda at the main entrance; and
- Transformer substation.

Current status

Sakhalin Energy has fulfilled its obligations. The park upgrade process has been performed as committed in the RAP. Due to the change in the Rouble-USD exchange rate, the US\$800,000 was revaluated by Sakhalin Energy's own initiative at approximately US\$ 930,000 in December 2007, which has been welcomed by the local government as well as the citizens. Facility is a municipal property and all works were controlled by Korsakov Administration. Queries on the upgrade works are now directed to Korsakov Administration and it is they who need to provide responses. Korsakov District Assembly (Council consisting of elected deputies) requested the Company for the information regarding park upgrade and official response was provided. Sakhalin Energy reports that it continues to respond to the questions about park upgrade during public, focused and individual meetings with stakeholders.

2.4.5 Prigorodnoye Dacha community

In addition to the landowners directly impacted by the LNG and pipeline who have already been compensated and/or resettled, there are about 73 Prigorodnoye beach area dachas, with approximately 230 members, that had concerns about being impacted by the project activities. The dacha residents belong to the Stroitel community.

In 2005, there was an agreement with the Dacha Executive Committee to do the following:

- Evaluate the loss of value of land and crops and compensate losses;
- Give an option of voluntary “waiver of rights” which would allow the dacha owners to give up claims over the property in turn for getting compensated by Sakhalin Energy for residual market value of their property. The understanding was that after waiver, the dacha owner would not be able to lay claims on any other compensation, even if the SPZ is increased in future for any reason;
- Provide a targeted social investment programme; and
- Develop a mitigation package.

As a result of the above a targeted compensation programme was developed and implemented for the dacha owners/users of Stroitel cooperative even though they have no legal right for compensation under the RF Law.

Current Status

As reported in the earlier monitoring report, all the 71 Dacha owners have made their choices on the basis of the 2005 agreement, and have been duly compensated by May 2008. Of those, 28 agreed to take the compensation for loss of value as well as for waiver of rights, while 71 opted to take only the compensation of loss in value. Of the remaining 2 dacha owners, one showed no interest in progressing compensation, and one dacha owner died prior to the Company’s engagement with the community. No nominee has been identified till date.

Quality of Life Monitoring

The issues of dust (air pollution) and noise have been issues of concern to the dacha owners. Sakhalin Energy, in consultation with the Dacha owners, agreed to develop Quality of Life indicators, which included air and noise monitoring.

Licensed Contractors undertake air and noise monitoring in the presence of the dacha cooperative representatives, during the dacha season. The monitoring results in 2009, as in the previous year, do not show any of the monitoring parameters exceeding permissible limits. During the previous monitoring visits the Dacha owners had made the following complaint to the External Monitor:

- The location of the monitoring stations could be biased and may not capture some emissions;
- The timing of the monitoring was such that it was not held during start up activities, when the LNG flare is high, which means the data is biased.

In response, Sakhalin Energy increased the number of monitoring locations to take in locations suggested by the dacha community. Licensed contractor also conducted additional monitoring in the same month (example in June 2009,

two monitoring rounds were undertaken) to capture emissions during certain start-up activities accompanied by increased flaring. The monitoring results however have shown no major differences, with emissions still within the permissible limits. The table below captures the monitoring results in June 2009 as an example.

Table 2.2 *Ambient Air Monitoring Results, 7-8 October 2009 (Location Stroitel-1)*

Identified Substance	Unit of measurement	Maximum Permissible concentration	Results on 7.10.09
Sulphur Dioxide	Mg/m ³	0.5000	0.016
Carbon Monoxide	Mg/m ³	5.000	1.2
Nitrogen Dioxide	Mg/m ³	0.200	<0.020
Soot	Mg/m ³	0.150	<0.025
Formaldehydes	Mg/m ³	0.035	<0.010
Benzopyrene	Mg/m ³	1.0*10 ⁻⁶	0.2x10 ⁻⁶
Hydrocarbons	Mg/m ³	1.000	< 0.1

Results of Monitoring conducted by Sakhalin Hydrometeorological Agency (INPO Sakhalin Meteoagency), an Independent Licensed Organisation.

During the last monitoring visits, the dacha cooperative reported that they have initiated their own monitoring of air quality, soil and snow samples by labs they did not disclose the credentials of, but claimed that they used certified agencies. Till date those findings have not been shared, either with the LNG EA team or with the external RAP Monitor.

Crop quality assessment

The dacha owners had raised concerns about presence of arsenic in soil in 2006 and attributed it to the LNG construction and flaring activity. In response to that, Sakhalin Energy had agreed to undertake an additional soil survey in 2007 to check the arsenic level and reason for their presence. The independent study concluded that the arsenium concentration in the land parcels posed are within permissible limits and no risk of possible accumulation in the area, and could not be attributed to the LNG activity. The Dacha owners however continue to express concerns about the impacts on their fruit trees and crops.

Access to Public Transport

Sakhalin Energy had committed to providing a transport service to the dacha owners from Korsakov to Prigorodnoye during the construction phase as a part of mitigation measures identified during the QLI monitoring. The bus service was made available for two years three times a week during dacha season, after which it was discontinued for various reasons discussed in the previous monitoring reports. The bus service was started again between September and October 2008, and has been since stopped after the completion of the construction phase, as committed in the RAP. The dacha owners continue to request for the continuation of the bus service. The Company however responds that that post demobilization of the construction workforce,

there is now less pressure on public transport to the LNG site/dachas which the dacha owners can use.

2.4.6 *Road upgradation in Prigorodnoye.*

To access the pipeline Sakhalin Energy planned to improve the access road passing near the Dacha community. According to the principles of the RAP, a relevant and targeted social assessment was carried out for this road prior to construction in August 2007. The aim was to describe the current situation and use of the road, and try and address the concerns of the Dacha owners and potential impacts to the community.

The dacha owners/users have been using this road for their light vehicles during the dacha season and were concerned that the development of the road, and movement of heavier traffic will further disrupt their lives as well create noise and dust pollution. These concerns and outcomes of the social assessment study have been discussed in the second and third monitoring report.

Current Status

Sakhalin Energy upgraded the road to the pipeline valves running adjacent to Stroitel cooperative. Under request of dacha owners and in order to minimize impact on the cooperative during construction the original road route was changed and the section of the road was re-routed further from the dacha plots. The existing road used by dacha owners only was also upgraded (backfilled, levelled, drainage arranged) per their request. The Social Impact Assessment identified 3 dacha owners, whose unregistered potato plots would be impacted by the road update due to re-routing. A compensation package was agreed in consultation with the impacted dacha owners, and it has been since paid.

As a goodwill gesture, the contractor repaired some water holes of the community, used to store water for irrigation as well as did some repairs of the internal roads. The LNG-EA team ensured that the contractor workforce building the road was sensitised about the dacha community and adhered to rules laid down by the team.

No grievances or complaints have been registered by the dacha owners over the road upgradation and presence of contractors.

2.4.7 *Reindeer Herders and Indigenous Communities*

According to the RAP, the project would impact 5 Reindeer Herder families or 18 individuals, belonging to the Uilta and Evenk communities residing in Val (Nogliki District). The impacts were temporary and have been primarily due to the pipeline passing over their grazing areas. According to Russian legislation Sakhalin Energy transferred compensation to Nogliki Administration with an understanding that it would, in consultation with the

herder families, use that money for addressing herders' needs and improvement of infrastructure in Val where herders families live. The Company has also committed to a separate Sakhalin Indigenous Minorities Development Plan (SIMDP) to address specific issues facing all Sakhalin Indigenous people (including the herder community) and implements required measures.

Current status

In the current year there was no compensation paid to the reindeer herders or were there any complaints or claims received from the community in this period. No indigenous land was impacted by the project this year. The SIMDP continues to address issues related to indigenous peoples and their development. The Company continues provide support to reindeer herders as required and agreed (assistance with their staff transportation, fuel granting, etc.). Regular consultations are conducted with them to update on Project activities and SIMPD progress, etc.

During 2009, Sakhalin Energy conducted around about 60 meetings with IP representatives, including with IP leaders, authorities, public community, etc. SIMDP team on regular basis informs about SIMDP performance, monitors its implementation, including Mitigation Matrix of SIMDP.

Some of the initiatives taken by Sakhalin Energy are directly aimed at the 5 impacted herders and their families, while others are for the community as a whole (Val settlement where herders families live).

In addition herders and their families get benefits as part of SIMDP implementation. In particular they benefit from health, educational, cultural related programmes, traditional economic activities support projects, etc.

Within the SIMDP process, to make process more effective, it was discussed during that Indigenous People have to form non-profit organisations to avail of the SIMDP funds under different categories (see details under the SIMDP). The 5 herder families, identified as impacted families under the RAP, are also in the process of registering themselves as an NPO to avail of these funds.

2.5 OTHER COMMITMENTS

2.5.1 Fishing and ancillary industries

In addition to the 3 commercial fishing enterprises directly impacted by the project and duly compensated, the RAP indicated that there due to restriction on movement of fishing vehicles around the project off-shore facilities, the fishing activity, potentially impacting the fishing business in general, and the ancillary industries associated with these industries, including its employees.

Sakhalin Energy had committed opening a regular communication channel at least twice a year. The Company also proposed to monitor impacts on this sector. In case there were losses that would need to be compensated, Sakhalin Energy would follow the principles outlined in the entitlement framework to compensate. Currently, the active construction phase of the Sakhalin -2 Project is finished, so the need in ongoing communication channel has reduced. The Company has not recently received any requests from the Fishermen's Association or representatives of the fishing community. Sakhalin Energy is now considering replacing ongoing communication channel with retroactive responses to fishermen's requests.

Current status

A socio-economic impact assessment of fishing enterprises and ancillary industries was undertaken in 2005-2006¹. As committed, a person has been designated as the fishing enterprise interface from the Company's side to ensure regular communication with this stakeholder group. There have been no demands for more compensation by this group till today as reported by the internal monitoring process. Sakhalin Energy conducted one meeting with the Fishing enterprises between July and December 2009.

2.5.2 *Additional measures emerging from recommendations of the previous independent monitoring report*

The first monitoring report had recommended a number of measures to strengthen the implementation of the RAP as well as address specific issues emerging out of the monitoring review. These included analysing the land registration issue, and identifying families that may need support in land registration. The other measure was to focus on vulnerable families and assess if they needed additional support. Sakhalin Energy undertook activities to understand and address these issues. An assessment of these initiatives was provided in the second and third monitoring reports.

Land re-instatement process

A key activity that has been taking place in 2008, and is proposed to be completed by September 2009, is the restoration or reinstatement of land taken from land owners on a temporary lease for laying down the pipeline. The land is proposed to be restored both technically and biologically and the owner has to be satisfied with the restoration before being officially handed back his/her land. The Russian laws have laid down a clear process of land restoration that was described in some details in the second monitoring report <http://www.sakhalinenergy.com/>.

During interviews with the Social Performance Team it was reported by them that biological restoration has now been completed in 100% of land leased for

(1) ¹ State Institution Regional Center for Coastal Fishing and Fish Finding carried out the survey "Socio-economic impact assessment of Sakhalin II project related works on the enterprises of fishing industry and ancillary industries".

the pipeline. Of this 67% of the lands have been handed over to the owners while the process is underway for the remaining 33%,

The third monitoring report had suggested that to benchmark the quality of re-instatement and of livelihood restoration in general, Sakhalin Energy should consider conducting a special socio-economic survey of a group of land owners who have not been impacted by the pipeline activity. The feedback from this “control group” will help the Company to understand if problems being faced by the land owners (especially on productivity and land use) after receiving restored land from the company are unique to them as a result of project impacts, or are general issues being faced by all land owners in the area. Similarly this control group's feedback could be used to analyse if the changes on the livelihood patterns of the impacted families (reduction in cultivated area or change in occupational patterns) are unique to these families or it is a general trend in the district or Sakhalin islands as a whole.

The Social Performance team has since conducted a survey targeting a small group of 9 households. This constitutes the control group for the project hereafter. The socio-economic monitoring however did not throw up any significant differences between the project affected households and the control group, suggesting that the project affected families were not facing unique issue as a result of the project. This feedback from the control groups has been consistent through the previous monitoring visits too.

2.6 *PROCESS COMMITMENTS*

2.6.1 *Consultation and Disclosure*

The commitment to continue consultations with different stakeholders and affected families is demonstrated by the fact that meetings are being held with individual groups on a regular basis.

Consultation with land users and resettled households

Sakhalin Energy has been consulting with land impacted households and the resettled households at least twice in a year during the semi-annual socio-economic internal monitoring process since 2003. Since then nine monitoring rounds have been completed and virtually all the affected groups have been met with at least one since the monitoring began. During the second part of 2009, 17 meetings were held as part of monitoring socio-economic survey:

- 8 meetings with affected households;
- 9 meetings with households from control group; and
- 1 meeting with a representative of fishing company that was compensated with regards to Project impact.

Regular meetings have been held in the second part of 2009 with the family resettled by the pipeline SPZ. These meetings have been held to observe and monitor the process of rehabilitation of the family, their process of adjustment

to the new surroundings and assess how equipped they are to manage any difficulties they may face. The Social Performance team has not had any specific reason to intervene in the process in this period.

Consultation with the fishing enterprises and organisations

Sakhalin Energy has been consulting with the commercial fishing industry, especially the enterprises that were directly affected or those who could be potentially impacted. The consultations have been conducted through the Sakhalin Fishermen Association. In 2009, the Company has continued communicating with representatives of the fishing industry and authorities to inform them about the project activities. One meeting has been held with the enterprises during the socio-economic survey.

Consultation with the Korsakov administration about the Prigorodnoye beach compensation

Based on the RAP, Sakhalin Energy has fulfilled commitments on Park Upgrade under the agreement with Korsakov Administration. However the LNG EA team continues to hold regular consultations with the Korsakov Administration (which is managing the project) about the park upgrade and has been informing the Korsakov citizens on the status of work at the park. The team has also been consulting citizens groups like KiP, a local NGO, about the park as also discussing any issues that are concerning them. The LNG EA team also organises public meetings twice a year, and the park is one of the topics discussed at the meetings. Focused meetings in the settlements and Korsakov organizations are also ongoing and park is included into agenda.

Consultation with Prigorodnoye Dacha community

This remains one of the most challenging engagement issues for the LNG EA team, and regular meetings have been held with the Executive Committee of this group till December 2009. The issues being discussed are related to social investment, road access, concern regarding the flaring as well as the Quality of Life Monitoring process. The results of the monitoring have been communicated to the Dacha owners/users. Supplemental Assistance to three families of the Dacha Cooperative for the construction of the access road to pipeline has been completed in this period.

Consultation with Indigenous People

All consultations with IP are currently being held through the SIMDP programme. Meetings with the entire community are held once every 3 months. As there were no RAP related grievances and compensation claims from this community, no separate meetings were held with individuals for such purposes by the Social Assessment team. Documentation suggests that in all, 60 meetings were held with individuals and small groups of the IP community in 2009. Meetings with IP representatives included meetings with their leaders, IP related authorities in the Nogliki administration, and the community in general.

Area specific issues and consultations have been managed through the CLO network. In addition Independent External Monitor biannually carries out regular monitoring of SIMDP. The monitoring report is disclosed in the Sakhalin Energy website.

2.6.2 *Grievance Redressal*

Sakhalin Energy developed Community Grievance Procedure that lays down clear guidelines on the grievance redressal process in place. This process has been disclosed extensively through public campaigns (including different media ways), groups and individual meetings as well as disclosure in prominent places. Pamphlets on the grievance process being displayed in prominent places like the Korsakov Mayor's office, in the office of the Heads of Communities along the pipelines, in Sakhalin Energy's information centers (bases in the local libraries) as well as in the CLO offices.

In 2006, 2007 and 2008 (during monitoring visits) the GP process was reviewed and strengthened to reflect the lessons learned and experience gained in implementing the grievance management process in previous years, along with extensive communication about the process and improved tracking of progress. Sakhalin Energy now reports that since then the average resolution time has decreased significantly.

Current status

In the period between September and December 2009, no new RAP related grievances have been recorded. During this period, the one outstanding grievance related to compensation was closed with the decision of the BIC (Business Integrity Committee).

The Social Assessment team plans to introduce further changes in the grievance resolution process to increase efficiency and effectiveness. One issue being reviewed is the role of the grievance resolution process in cases where the complainant approaches the court. In such cases, the introduction of a decision tree to decide when to put on hold the grievance resolution process is under consideration.

No RAP concerned grievances related to Operations have been received till December 09.

2.6.3 *Monitoring (internal and external)*

The RAP commits Sakhalin Energy to both internal and external/third party monitoring. Internal monitoring was proposed on a bi-annual basis, and to be conducted by the Social Assessment team, with support from the CLOs, for a period of 36 months. The monitoring focussed on the restoration of livelihood process of all project impacted land owners/users, potential and actual issues

and concerns related to RAP, as also of the effectiveness of the consultation/disclosure as well as grievance redressed.

External monitoring (this assignment) was also slated to be conducted on a semi-annual basis for a period of 36 months. The focus was to ensure that the RAP commitments were being made, and recommend measures to close gaps, if any, and to strengthen the process of implementation.

Current status

Till date the internal monitoring process has completed 11 rounds since November 2003 of which the 11th one was conducted in December-January 2009. The monitoring process has interacted with project affected land users, fishing and other enterprises and farmers. It has highlighted issues regarding use of compensation money, continuation or severance of livelihood activities, overall satisfaction with the compensation and the payment process etc. The monitoring process has often been able to identify grievances and/or potential issues that were not registered with the Sakhalin Energy, and helped in the resolution of the same.

This is the fifth round of external monitoring. The sixth round is proposed in June – July 2010, which will be a field based monitoring.

2.7 SUMMARY OF KEY RECOMMENDATIONS

No non-compliances were identified during this limited fifth monitoring round.

The following key recommendations are being put forward:

- The internal socio-economic monitoring should conduct a sample survey (at least 25%) of the land owners who would have received their land after biological restoration in the next round of monitoring, This survey should ask the following additional key questions:
 - Their satisfaction with the land restoration process;
 - What could have been done better?
 - What are they doing with the land this year?
 - If its being cultivated what is the feedback on productivity- same as before, better or worse?
- The information/ message that the July 2010 be the next external monitoring round should be provided to all PAFs to ensure that if they need to express any concerns or opinions about the RAP process, they need to communicate the same to the external monitor through the Social Performance team or directly to the monitor during her visit in July. The objective would be to close any outstanding issues by 2011 when a final external evaluation of RAP performance will be undertaken;

- Continue engagement with the Dacha community, and encourage them to use available channels for communication to convey their opinions and concerns.

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