

Ruddock, Keith KA SI-LSEP

From: Ruddock, Keith KA SI-LSEP
Sent: 11 May 2007 14:01
To: 'Alfred Donovan'
Cc: Ollila, Jorma RDS-RDS/CH; van der Veer, Jeroen J RDS-CEJV; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF
Subject: RE: Email received David Greer

Dear Mr Donovan

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I anticipate being able to confirm to you that this is the case once I have made contact with Mr Greer but, in the meantime, I suggest that you await further communication from me before proceeding any further with regard to this email.

Regards

Keith Ruddock

Keith Ruddock
General Counsel Exploration and Production
Shell International B.V.
The Hague, The Netherlands - Trade Register no. 27155369
Address: c/o Kessler Park 1, 2288 GS Rijswijk, The Netherlands
Tel: +31 70 447 4323 Fax: 4380 Email: Keith.Ruddock@shell.com
Internet: <http://www.shell.com/>

-----Original Message-----

From: Alfred Donovan [mailto:alfred@shellnews.net]
Sent: 11 May 2007 08:36
To: Ruddock, Keith KA SI-LSEP
Cc: Ollila, Jorma RDS-RDS/CH; van der Veer, Jeroen J RDS-CEJV; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF
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Shell – Sakhalin II – The Demise of Sound Values, Democracy and Accountability

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This situation remained unaltered until the end of 2006 and the Sakhalin II project experienced numerous incidents of contract and regulatory breaches. The Employer and Contractor did not have sufficient supervision or inspectors at site and there were many incidents of non-conformance with contractual, regulatory and legal obligations by SEIC's Contractor. **There were also record numbers of accidents with some 18 fatalities.** The dilemma SEIC faced was whether to stop the project or accept the non-conforming work and risk litigation or prosecution for infringement of Russian legislation. **The latter option was chosen.** SEIC's behaviour is forcing staff to compromise on their own professionalism in order to get the product into the pipeline. For some staff this compromise was too much and this led to the resignation of SEIC's Environmental Coordinator Imogen Crawford and Environmental Lead, Oxana Titarenko and Quality Control Manager, Mr David Ball. In addition to environmental issues, SEIC have consistently ignored reports produced by their Quality Control Department over a four-year period, which highlight hundreds of Contract and Russian Regulatory breaches.

During 2006 there were numerous allegations made in the International press that Shell's Sakhalin project was responsible for breaches of Russian Environmental legislation, resulting in damage to Sakhalin's natural Environment. During this period SEIC also experienced

difficulty obtaining official permits and the land acquisition required to complete the construction of SEIC's onshore pipeline.

The Onshore Pipeline is being constructed by SEIC's Prime Contractor 'Starstroi'. Starstroi was created from the collaboration of their two main shareholders, consisting of Saipem SA who own 50% and Globalstroi Engineering (formerly Lukoil Neftegaztroi), who own 42.83%. In 2006 Starstroi were experiencing internal conflict between Saipem and Globalstroi, which meant that they found it difficult to continue to work together as a cohesive organisation. During the latter part of 2006, the conflict escalated between Saipem SA and Globalstroi Engineering, resulting in the two organisations refusing to work together and the immediate suspension of Sakhalin II construction activities. The Contractor's situation continued to deteriorate in 2006 until such time as the Contractor as an organization began to implode.

In October 2006, David Greer of Shell, the Deputy CEO of Sakhalin II attempted to mediate between Saipem and Globalstroi in an effort to resolve Starstroi's internal problems. The two warring factions refused to reconcile and the remaining work was divided between Saipem and Globalstroi, ensuring they worked in separate site locations. The separation was agreed by SEIC on the condition that the interpersonal and cultural conflict did not escalate. **What then prevailed on the Sakhalin II project was numerous incidents of alleged bribery, manipulation of supplier costs, disorganisation, delay and confusion.** The Contractor's departments responsible for Engineering, Construction, Permits, Project and Commercial Management were reliant upon expertise from both organizations. However, the Personnel seconded from Globalstroi Engineering and Saipem SA into those departments had now been repatriated to their respective Employers. This separation meant that the Contractor Starstroi was no longer effective at managing the project.

Early in 2007 Gazprom acquired 50% of SEIC and reserved the right to appoint the Commercial Director for the Sakhalin II project. Realizing that Shell Management team seconded to SEIC may lose financial control of the project; Shell quickly altered the financial strategy. The individuals within SEIC Onshore Pipeline Team with financial authority are comprised entirely of Shell staff seconded to SEIC. **SEIC is now finalizing an agreement to pay all of Starstroi's future costs regardless of entitlement, subject to the contractor agreeing to a Contract amendment.** The amendment must be signed before the official date that will see Gazprom empowered to influence or challenge Tender Board decisions on the financial authority granted for the Sakhalin II project. **The race is on for Shell to commit SEIC prior to Gazprom exercising its rights to a binding contractual obligation for additional expenditure before it can be challenged.**

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The Contractor's concerns are that the proposed Contract Amendment could be construed as an offer by SEIC to the Contractor who has been placed in a position of trust by Russian Regulatory Bodies, in order to induce them to behave in a way that is inconsistent with that trust. If this offer had been made directly to a Russian official it may have been construed as a bribe, which raises the question of whether this interpretation is relevant to the proposed Contract Amendment. Shell intends to commit their investors to an alleged cost, which is in fact a financial inducement offered to the Contractor by means of deception. The gamble by Shell is that no independent audit of SEIC costs will take place once Gazprom become the official Custodian of SEIC.

The division and separation of the work between Globalstroi and Saipem SA is now providing evidence that Globalstroi are outperforming Saipem and will finish their work sections first. This has led to concerns within SEIC that the existing SEIC Organisation may be restructured with the removal of the certain Shell and Saipem SA seconded staff.

It is for this reason that SEIC under the direction of Shell recently merged the project management organisation to include the Prime Contractor's staff in order to create the perception of a reciprocal critical reliance on each other to complete the project.

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Dear Mr Ruddock

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Ruddock, Keith KA SI-LSEP

From: Ruddock, Keith KA SI-LSEP
Sent: 11 May 2007 14:14
To: 'Alfred Donovan'
Subject: RE: Email received David Greer

Dear Mr Donovan,

Thank you. I will revert as soon as I receive confirmation from Mr Greer.

Regards

Keith Ruddock

Keith Ruddock

General Counsel Exploration and Production

Shell International B.V.

The Hague, The Netherlands - Trade Register no. 27155369

Address: c/o Kessler Park 1, 2288 GS Rijswijk, The Netherlands

Tel: +31 70 447 4323 Fax: 4380 Email: Keith.Ruddock@shell.com

Internet: <http://www.shell.com/>

-----Original Message-----

From: Alfred Donovan [mailto:alfred@shellnews.net]

Sent: 11 May 2007 14:12

To: Ruddock, Keith KA SI-LSEP

Subject: RE: Email received David Greer

Dear Mr Ruddock

That has already been done.

We have not published any content of the email and await further information from you.

Regards

Alfred Donovan

From: keith.ruddock@shell.com [mailto:keith.ruddock@shell.com]

Sent: 11 May 2007 14:08

To: alfred@shellnews.net

Cc: richard.wiseman@shell.com

Subject: RE: Email received David Greer

Importance: High

Mr Donovan,

It has been drawn to my attention that you have already published a reference to the purported email from David Greer on your website. I strongly recommend that you withdraw this reference immediately pending confirmation from me that this email is indeed the forgery we believe it to be.

Regards

Keith Ruddock

Keith Ruddock
General Counsel Exploration and Production
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Sent: 11 May 2007 14:01

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Cc: Ollila, Jorma RDS-RDS/CH; van der Veer, Jeroen J RDS-CEJV; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF

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Cc: Ollila, Jorma RDS-RDS/CH; van der Veer, Jeroen J RDS-CEJV; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF

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Shell – Sakhalin II – The Demise of Sound Values, Democracy and Accountability

170
5/10/07 2 numbers

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During 2006 there were numerous allegations made in the International press that Shell's Sakhalin project was responsible for breaches of Russian Environmental legislation, resulting in damage to Sakhalin's natural Environment. During this period SEIC also experienced difficulty obtaining official permits and the land acquisition required to complete the construction of SEIC's onshore pipeline.

The Onshore Pipeline is being constructed by SEIC's Prime Contractor 'Starstroi'. Starstroi was created from the collaboration of their two main shareholders, consisting of Saipem SA who own 50% and Globalstroi Engineering (formerly Lukoil Neftegaztroi), who own 42.83%. In 2006 Starstroi were experiencing internal conflict between Saipem and Globalstroi, which meant that they found it difficult to continue to work together as a cohesive organisation. During the latter part of 2006, the conflict escalated between Saipem SA and Globalstroi Engineering, resulting in the two organisations refusing to work together and the immediate suspension of Sakhalin II construction activities. The Contractor's situation continued to deteriorate in 2006 until such time as the Contractor as an organization began to implode.

In October 2006, David Greer of Shell, the Deputy CEO of Sakhalin II attempted to mediate between Saipem and Globalstroi in an effort to resolve Starstroi's internal problems. The two warring factions refused to reconcile and the remaining work was divided between Saipem and Globalstroi, ensuring they worked in separate site locations. The separation was agreed by SEIC on the condition that the interpersonal and cultural conflict did not escalate. **What then prevailed on the Sakhalin II project was numerous incidents of alleged bribery, manipulation of supplier costs, disorganisation, delay and confusion.** The Contractor's departments responsible for Engineering, Construction, Permits, Project and Commercial Management were reliant upon expertise from both organizations. However, the Personnel seconded from Globalstroi Engineering and Saipem SA into those departments had now been repatriated to their respective Employers. This separation meant that the Contractor Starstroi was no longer effective at managing the project.

Early in 2007 Gazprom acquired 50% of SEIC and reserved the right to appoint the Commercial Director for the Sakhalin II project. Realizing that Shell Management team seconded to SEIC may lose financial control of the project; Shell quickly altered the financial strategy. The individuals within SEIC Onshore Pipeline Team with financial authority are comprised entirely of Shell staff seconded to SEIC. **SEIC is now finalizing an agreement to pay all of Starstroi's future costs regardless of entitlement, subject to the contractor agreeing to a Contract amendment.** The amendment must be signed before the official date that will see Gazprom empowered to influence or challenge Tender Board decisions on the financial authority granted for the Sakhalin II project. **The race is on for Shell to commit SEIC prior to Gazprom exercising its rights to a binding contractual obligation for additional expenditure before it can be challenged.**

SEIC have now paid all of the historical costs that the Contractor had claimed during the post-contract period, regardless of Contractor entitlement, abortive work, subsidiary enrichment or negligence. The method used by SEIC is to reframe/fabricate where necessary the descriptions and substantiation required for Tender Board Approval. The Tender Board is the official body representing the shareholders, empowered to increase the financial authority available to SEIC. SEIC are now proposing to agree to a Contract Amendment that illustrates a completion date that is simply not feasible, in order to obtain shareholder buy in. However, on paper this date could only be proposed if certain construction activities were carried out illegally in 2006.

The payment of all historical costs was made on condition that the Contractor executed the 2006 work without obtaining the official permits as required by Russian regulatory bodies. The Contractor claimed that financial duress forced their agreement and risk prosecution to complete the work on the condition that SEIC would bear the cost of any future damages. The proposed contract amendment now includes a scheme in which, in addition to paying any and all future costs for executing the remaining work, additional payments will be made over the course of the remaining period to induce the Contractor to continue.

The Contractor's concerns are that the proposed Contract Amendment could be construed as an offer by SEIC to the Contractor who has been placed in a position of trust by Russian Regulatory Bodies, in order to induce them to behave in a way that is inconsistent with that trust. If this offer had been made directly to a Russian official it may have been construed as a bribe, which raises the question of whether this interpretation is relevant to the proposed Contract Amendment. Shell intends to commit their investors to an alleged cost, which is in fact a financial inducement offered to the Contractor by means of deception. The gamble by Shell is that no independent audit of SEIC costs will take place once Gazprom become the official Custodian of SEIC.

The division and separation of the work between Globalstroi and Saipem SA is now providing evidence that Globalstroi are outperforming Saipem and will finish their work sections first. This has led to concerns within SEIC that the existing SEIC Organisation may be restructured with the removal of the certain Shell and Saipem SA seconded staff.

It is for this reason that SEIC under the direction of Shell recently merged the project management organisation to include the Prime Contractor's staff in order to create **the perception** of a reciprocal critical reliance on each other to complete the project.

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Sent: 11 May 2007 14:23
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Cc: Ollila, Jorma RDS-RDS/CH; van der Veer, Jeroen J RDS-CEJV; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF
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Sent: 11 May 2007 14:39
To: Ruddock, Keith KA SI-LSEP
Cc: Wiseman, Richard RM SI-LMAPF; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF
Subject: RE: Email received David Greer

Dear Mr Ruddock

Thank you for that information.

Is Mr Greer still Deputy CEO of Sakhalin Energy?

I wonder who the target was of the forgery: my website, Mr Greer, or Shell?

Leaving that issue to one side (we will probably never know the answer) I am grateful for your kind efforts to check on the authenticity.

Regards

Alfred Donovan

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To: alfred@shellnews.net
Cc: Jorma.Ollila@shell.com; jeroen.vanderveer@shell.com; Malcolm.Brinded@shell.com; richard.wiseman@shell.com
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The Onshore Pipeline is being constructed by SEIC's Prime Contractor 'Starstroi'. Starstroi was created from the collaboration of their two main shareholders, consisting of Saipem SA who own 50% and Globalstroi Engineering (formerly Lukoil Neftegaztroi), who own 42.83%. In 2006 Starstroi were experiencing internal conflict between Saipem and Globalstroi, which meant that they found it difficult to continue to work together as a cohesive organisation. During the latter part of 2006, the conflict escalated between Saipem SA and Globalstroi Engineering, resulting in the two organisations refusing to work together and the immediate suspension of Sakhalin II construction activities. The Contractor's situation continued to deteriorate in 2006 until such time as the Contractor as an organization began to implode.

In October 2006, David Greer of Shell, the Deputy CEO of Sakhalin II attempted to mediate between Saipem and Globalstroi in an effort to resolve Starstroi's internal problems. The two warring factions refused to reconcile and the remaining work was divided between Saipem and Globalstroi, ensuring they worked in separate site locations. The separation was agreed by SEIC on the condition that the interpersonal and cultural conflict did not escalate. **What then prevailed on the Sakhalin II project was numerous incidents of alleged bribery, manipulation of supplier costs, disorganisation, delay and confusion.** The Contractor's departments responsible for Engineering, Construction, Permits, Project and Commercial Management were reliant upon expertise from both organizations. However, the Personnel seconded from Globalstroi Engineering and

Saipem SA into those departments had now been repatriated to their respective Employers. This separation meant that the Contractor Starstroi was no longer effective at managing the project.

Early in 2007 Gazprom acquired 50% of SEIC and reserved the right to appoint the Commercial Director for the Sakhalin II project. Realizing that Shell Management team seconded to SEIC may lose financial control of the project; Shell quickly altered the financial strategy. The individuals within SEIC Onshore Pipeline Team with financial authority are comprised entirely of Shell staff seconded to SEIC. **SEIC is now finalizing an agreement to pay all of Starstroi's future costs regardless of entitlement, subject to the contractor agreeing to a Contract amendment.** The amendment must be signed before the official date that will see Gazprom empowered to influence or challenge Tender Board decisions on the financial authority granted for the Sakhalin II project. **The race is on for Shell to commit SEIC prior to Gazprom exercising its rights to a binding contractual obligation for additional expenditure before it can be challenged.**

SEIC have now paid all of the historical costs that the Contractor had claimed during the post-contract period, regardless of Contractor entitlement, abortive work, subsidiary enrichment or negligence. The method used by SEIC is to reframe/fabricate where necessary the descriptions and substantiation required for Tender Board Approval. The Tender Board is the official body representing the shareholders, empowered to increase the financial authority available to SEIC. SEIC are now proposing to agree to a Contract Amendment that illustrates a completion date that is simply not feasible, in order to obtain shareholder buy in. However, on paper this date could only be proposed if certain construction activities were carried out illegally in 2006.

The payment of all historical costs was made on condition that the Contractor executed the 2006 work without obtaining the official permits as required by Russian regulatory bodies. The Contractor claimed that financial duress forced their agreement and risk prosecution to complete the work on the condition that SEIC would bear the cost of any future damages. The proposed contract amendment now includes a scheme in which, in addition to paying any and all future costs for executing the remaining work, additional payments will be made over the course of the remaining period to induce the Contractor to continue.

The Contractor's concerns are that the proposed Contract Amendment could be construed as an offer by SEIC to the Contractor who has been placed in a position of trust by Russian Regulatory Bodies, in order to induce them to behave in a way that is inconsistent with that trust. If this offer had been made directly to a Russian official it may have been construed as a bribe, which raises the question of whether this interpretation is relevant to the proposed Contract Amendment. Shell intends to commit their investors to an alleged cost, which is in fact a financial inducement offered to the Contractor by means of deception. The gamble by Shell is that no independent audit of SEIC costs will take place once Gazprom become the official Custodian of SEIC.

The division and separation of the work between Globalstroi and Saipem SA is now providing evidence that Globalstroi are outperforming Saipem and will finish their work

sections first. This has led to concerns within SEIC that the existing SEIC Organisation may be restructured with the removal of the certain Shell and Saipem SA seconded staff.

It is for this reason that SEIC under the direction of Shell recently merged the project management organisation to include the Prime Contractor's staff in order to create the **perception** of a reciprocal critical reliance on each other to complete the project.

This strategy is intended to make it difficult for the future SEIC board, which will include Gazprom to comment on the appropriate level of participation of SEIC existing Project Management Team or the Contractor as independent organisations. The SEIC/Contractor alliance is somewhat unorthodox given that SEIC are the representatives of the shareholders. There are concerns that Gazprom will question whether it is appropriate to merge on decisions relative to methods and costs, which create opportunities for the Contractor at the expense of the shareholders.

The decision to integrate SEIC/Contractor as a single management team has provided an opportunity for the Contractor to increase revenue. The Contractor is now adopting a procurement strategy of single sourcing suppliers. This is authorised by SEIC and financed by Shell's shareholders. The Contract has changed from a lump sum agreement to the full reimbursement of all Contractor costs. **There is therefore, no financial incentive or contractual obligation for the Contractor to procure on principles of best practice.** The cost to SEIC equates to the revenue for the Contractor, whose financial objective will be to achieve the maximum revenue possible.

There have been allegations that the Contractor is communicating the desired costs to potential suppliers in order to manipulate the supply chain. Some of the suppliers are allegedly subsidiaries of Globalstroi Engineering Shareholders and there have been incidents where members of Globalstroi staff are occupying roles within both the Contractor and Subcontractor organisations. When this situation is discovered the individual simply resigns from Globalstroi, but the supplier remains in place. An example of this kind of supply chain manipulation by the Contractor now exists as evidenced by the position of a Mr. V Koslov. Mr Koslov is employed by Globalstroi Engineering and is also the General Director of their Subcontractor JSC Leasingstroy Mash.

All of this seems to be in contrast to Shell's philosophy to promote sound values, democracy and accountability!

Ruddock, Keith KA SI-LSEP

From: Ruddock, Keith KA SI-LSEP
Sent: 11 May 2007 14:46
To: 'Alfred Donovan'
Cc: Wiseman, Richard RM SI-LMAPF
Subject: RE: Email received David Greer

Dear Mr Donovan,

Thank you for your email. I can confirm that Mr Greer is still the Deputy CEO of Sakhalin Energy. As to who the intended target of this forgery was, I am afraid we can only speculate but probably, as you say, will never know.

Regards

Keith Ruddock

Keith Ruddock

General Counsel Exploration and Production
Shell International B.V.
The Hague, The Netherlands - Trade Register no. 27155369
Address: c/o Kessler Park 1, 2288 GS Rijswijk, The Netherlands
Tel: +31 70 447 4323 Fax: 4380 Email: Keith.Ruddock@shell.com
Internet: <http://www.shell.com/>

-----Original Message-----

From: Alfred Donovan [mailto:alfred@shellnews.net]
Sent: 11 May 2007 14:39
To: Ruddock, Keith KA SI-LSEP
Cc: Wiseman, Richard RM SI-LMAPF; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF
Subject: RE: Email received David Greer

Dear Mr Ruddock

Thank you for that information.

Is Mr Greer still Deputy CEO of Sakhalin Energy?

I wonder who the target was of the forgery: my website, Mr Greer, or Shell?

Leaving that issue to one side (we will probably never know the answer) I am grateful for your kind efforts to check on the authenticity.

Regards

Alfred Donovan

From: keith.ruddock@shell.com [mailto:keith.ruddock@shell.com]
Sent: 11 May 2007 14:23
To: alfred@shellnews.net
Cc: Jorma.Ollila@shell.com; jeroen.vanderveer@shell.com; Malcolm.Brinded@shell.com; richard.wiseman@shell.com
Subject: RE: Email received David Greer
Importance: High

Dear Mr Donovan,

Further to my earlier email, I have now been able to contact Mr Greer who has, as anticipated, confirmed that this email did not come from him.

Regards

Keith Ruddock

Keith Ruddock
General Counsel Exploration and Production
Shell International B.V.
The Hague, The Netherlands - Trade Register no. 27155369
Address: c/o Kessler Park 1, 2288 GS Rijswijk, The Netherlands
Tel: +31 70 447 4323 Fax: 4380 Email: Keith.Ruddock@shell.com
Internet: <http://www.shell.com/>

-----Original Message-----

From: Ruddock, Keith KA SI-LSEP
Sent: 11 May 2007 14:01
To: 'Alfred Donovan'
Cc: Ollila, Jorma RDS-RDS/CH; van der Veer, Jeroen J RDS-CEJV; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF
Subject: RE: Email received David Greer

Dear Mr Donovan

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Thank you for your email. On reviewing the email you have attached, which purports to have come from Mr Greer, we consider it to be very unlikely that this was ever sent by him.

However, given the time differences involved with Sakhalin island, we have not so far been able to obtain his confirmation that this email is a forgery.

I anticipate being able to confirm to you that this is the case once I have made contact with Mr Greer but, in the meantime, I suggest that you await further communication from me before proceeding any further with regard to this email.

Regards

Keith Ruddock

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General Counsel Exploration and Production
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Address: c/o Kessler Park 1, 2288 GS Rijswijk, The Netherlands
Tel: +31 70 447 4323 Fax: 4380 Email: Keith.Ruddock@shell.com
Internet: <http://www.shell.com/>

-----Original Message-----

From: Alfred Donovan [mailto:alfred@shellnews.net]

Sent: 11 May 2007 08:36

To: Ruddock, Keith KA SI-LSEP

Cc: Ollila, Jorma RDS-RDS/CH; van der Veer, Jeroen J RDS-CEJV; Brinded, Malcolm A RDS-ECMB; Wiseman, Richard RM SI-LMAPF

Subject: Email received David Greer

Dear Mr Ruddock

I received the email below this morning, purportedly from David Greer. I understand that he has sent the email to Mr Jeroen van der Veer.

I am already checking certain aspects with Shell insiders.

Do you have any comment prior to publication which will take place later this morning? If you categorically state that the email is a hoax, then I will act accordingly. Although I have good reason to believe that it is authentic, I decided that it was appropriate to give Shell the opportunity to comment.

Regards

Alfred Donovan

THE EMAIL

From David Greer,

Shell – Sakhalin II – The Demise of Sound Values, Democracy and Accountability

In 2005, the Prime Contractor for Shell's troubled Sakhalin II Onshore Pipeline Construction project, Starstroi (Contractor) communicated to Sakhalin Energy Investment Company Limited (Client) that notwithstanding their Contractual obligation to construct the onshore pipeline project, they were experiencing serious cash flow difficulties. In 2005 various Subcontractors who were under-performing in relation to scheduled progress, communicated to Sakhalin Energy Investment Company Limited (SEIC) that they were not being paid and this was affecting the Subcontractor's ability to make payments to their Suppliers and Employees. Some of the Subcontractors ceased ordering the materials and equipment necessary to execute the work until such times as the overdue payments necessary to fund procurement were made. The consequences of non-payment by the Contractor to the Subcontractor's were evident by reference to the progress made at site, in terms of the chronological records of quantifiable work executed.

This situation remained unaltered until the end of 2006 and the Sakhalin II project experienced numerous incidents of contract and regulatory breaches. The Employer and Contractor did not have sufficient supervision or inspectors at site and there were many incidents of non-conformance with contractual, regulatory and legal obligations by SEIC's Contractor. **There were also record numbers of accidents with some 18 fatalities.** The dilemma SEIC faced was whether to stop the project or accept the non-conforming work and risk litigation or prosecution for infringement of Russian legislation. **The latter option was chosen.** SEIC's behaviour is forcing staff to compromise on their own professionalism in order to get the product into the pipeline. For some staff this compromise was too much and this led to the resignation of SEIC's Environmental Coordinator Imogen Crawford and Environmental Lead, Oxana Titarenko and Quality Control Manager, Mr David Ball. In addition to environmental issues, SEIC have consistently ignored reports produced by their Quality Control Department over a four-year period, which highlight hundreds of Contract and Russian Regulatory breaches.

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