SUSTAINABLE DEVELOPMENT REPORT

Sakhalin Energy Investment Company Ltd.

2011

Sustainable Development Report

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2011

CONTENT

1. MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Andrei Galaev, Chief Executive Officer

Welcome to the Sakhalin Energy Sustainable Development Report 2011. It is our third annual integrated public document in this area.

For our company, 2011 was the second year of full capacity operation of the large-scale oil and gas infrastructure created under the Sakhalin-2 project. The project is being implemented successfully, although with occasional difficulties and obstructions posed by harsh natural and climatic conditions which are nonetheless effectively being overcome by our professional team.

In 2010 we announced updates to our mission — to be the premier energy source for Asia-Pacific. And we are consistently implementing this mission, achieving strategic goals and resolving the tasks entailed.

What are the factors that ensure our success? First of all, it is our highly professional team. The Company employees, with an average age of 36, are the core asset and primary resource of Sakhalin Energy. This is probably the way it should be: young, pro-active people working for a modern company with cutting-edge technology. It was this essentially young team that has been resolving all of the main production tasks in the reporting year, both at the three oil and gas production platforms and at other Company assets, including the liquefied natural gas (LNG) plant in the southern Sakhalin–Prigorodnoye production facility.

In general, the Company's production assets have been functioning reliably. This year we accomplished the first integrated shutdown for the planned preventive repair of gas line equipment. This shutdown was the most difficult one over the entire production period of project Phase 2. It was done successfully thanks to the well-planned and safe work of hundreds of specialists representing both the Company and its contractors. This experience is yet further evidence of the teamwork demonstrated by various Sakhalin Energy's units under new and difficult conditions. All of the work at our production assets involves a team-based approach. We continued drilling work at the Lunskoye field and at the Piltun area of the Piltun-Astokhskoye field. Work at the Astokh area was already started at the end of 2011, following the planned rejuvenation of the Molikpaq platform.

The most important milestone of the year 2011 was the start of our gas deliveries to the domestic market. For this purpose we completed construction of two gas transfer terminals: one in northern Sakhalin and the other in southern Sakhalin. The Southern gas transfer terminal and Gazprom's gas distributing station were formally opened by Russia's Prime Minister Vladimir Putin in March 2011. This system is used to supply gas to the Yuzhno-Sakhalinsk power generation plant. In autumn 2011 gas was also fed to Gazprom's Sakhalin — Khabarovsk — Vladivostok pipeline. Today, royalty gas

is being supplied to the domestic market, and in the near future we expect to supply equity gas as well, as provided for in the Production Sharing Agreement (PSA).

Our key achievement in 2011 was a highly reliable supply of Company products to our customers. Overall annual deliveries by the Company in 2011 were ahead of the schedule: we managed to produce and offload more oil and liquefied natural gas than we originally planned to.

We responded in a timely manner to the energy needs of our neighbours which dramatically rose last year in view of the devastating tsunami and Fukushima disaster. The Company promptly provided assistance by delivering extra cargos of LNG to the Japanese buyers to cover their energy shortfall. We delivered to Japan, in excess of our contractual obligations, 34 cargos of LNG with a total volume of more than 2.0 million tonnes.

Thanks to the balanced operation of production systems and well-adjusted equipment, we were able to significantly increase the LNG plant's production capacity, with more than 10 million tonnes of liquefied natural gas produced in 2011.

Our hydrocarbons are shipped from Prigorodnoye port which now ranks among Russia's newest maritime hubs. In 2011, our Vityaz oil blend was supplied to 12 buyers, with shipments to the ports of Japan, Korea, China, Philippines, Thailand and other countries.

Most of the LNG we produced last year was supplied to the buyers in Japan, Korea, Taiwan and China. Gas was transported both by buyers' ships and by LNG carriers purposely chartered by the Company on a long-term basis, namely the Grand Elena, Grand Aniva and Grand Mereya.

Along with the accomplishment of its production tasks, the Company considers safety as a key priority. In particular, the Company focuses its efforts on process safety, labour safety, road safety and behavioural safety. In 2011, no significant incidents relating to process safety occurred at the Company facilities. Besides, we achieved the lowest LTI rate .

The Company's achievements in preventing environmental pollution are also quite impressive. In 2010 we did not have any oil spill that could be classified as emergency. Total leaks amounted to 60.6 litres of oil and oil products (including 50 litres of diesel fuel), i.e. the ratio of spills to produced oil (just a little lower than 6 million tonnes) was less than a one-billionth of one per cent. Thus, we are a steady world leader in the industry in terms of this indicator.

In the reporting year, the Company and Exxon Neftegaz Limited continued their joint Gray Whale Monitoring Programme involving satellite tagging. The programme brought about quite unexpected results in 2010, and very soon we will probably have a new mental picture of these marine mammals which come to the Sakhalin waters every year for summertime feeding.

The Company maintains its active involvement in the United Nations Global Compact — a global initiative aimed to uphold the social responsibility of corporations. Since last year we have headed the UN GC Network in Russia. Being a convinced and active participant of the Global Compact, the Company has been upgrading its work in the pursuit of its corporate principles and sharing experience in corporate social responsibility (CSR) and sustainable development both within the Russian national GC Network and on an international level.

Many of our CSR achievements were widely recognised nationally and internationally. Sakhalin Energy participated in the work of the UN Secretary-General's Special Representative John Ruggie on developing guiding principles for

business and human rights. For two years we were one of the five companies to test these principles. In the summer of 2011 the principles were approved by the UN Human Rights Council as a new international business standard to ensure that human rights are observed and respected.

We are proud that Sakhalin Energy was named one of the philanthropy leaders in Russia and came second in the national "Corporate Charity Research 2011" ranking.

In 2011, Sakhalin Energy became the first (and so far the only) Russian company that was chosen by the UN to participate in a new corporate sustainability leadership platform (Global Compact LEAD), which is a new UN GC programme. This programme calls for the implementation of a number of 'extra' actions in environmental management, social protection and governance, and for the establishment of new CSR standards. Global Compact LEAD unites 56 companies in 24 countries, including the UK, Germany, Canada, China and the USA.

Another example of the interest shown in Sakhalin Energy by the UN and by a number of other international organisations, such as the International Finance Corporation (IFC) and the World Bank, is that we were the first industrial company to use the principle of "free, prior and informed consent" (FPIC) when engaging with indigenous people of the Sakhalin Oblast.

So it was not by chance that our Company is now in the "leaders' club". The Company has travelled over a 15-year journey from multi-factor reporting according to IFC/World Bank standards to practical use of the principle of "free, prior and informed consent". This journey also includes the development and implementation of our Health, Safety, Environment and Social Action Plan (HSESAP) which summarises the Company's principles and describes its HSES and social responsibility management system as well as specific standards and commitments in these interrelated areas.

As early as in 2010 we committed ourselves to achieving maximum operational excellence. To us, operational excellence covers work in five key areas: world class field development and well and reservoir management, total reliability, best contractor management, implementation of lean execution practices, and excellence in people. Personnel play the key role in improving the Company's excellence. That is why we did not limit ourselves this year to our existing values such as honesty, integrity and respect for people, but added new ones — care for people, individual accountability for performance supported by good teamwork, professionalism and continuous improvement.

The Sustainable Development Report is a vital tool for enhancing the transparency and openness of our Company and increasing public trust. This Report was developed with the involvement of stakeholders, which guarantees that it addresses all of the relevant issues of our activities, including the Company's impact on the community and environment of Sakhalin and other territories of the Asia-Pacific region.

Andrei Galaev
Chief Executive Officer
31 January 2012

2.1 GENERAL

This Report describes the Company's sustainable development performance in 2011 and has been prepared according to the Global Reporting Initiative (GRI, G3) (hereinafter — Reporting Initiative). The target audience of this Report are both internal and external stakeholders listed in the 'Stakeholder Engagement Management' Section. This is the third Sustainable Development Report issued by the Company.

The process of Report preparation, review and approval was based on the Company's previous experience and the procedure and schedule approved by the Company's CEO. A dedicated working group was set up for the Report preparation, which included managers and specialists from various Company departments responsible for particular aspects of corporate governance and for the Company's economic, social and environmental performance. In preparing this Report, the Company held two rounds of dialogues with its stakeholders according to the AA1000SES International Standard. Detailed information about the consultations and their results is presented in Appendix 2 'Company's Answers and Commitments as Part of its Dialogue with Stakeholders for Development of the 2011 Sustainable Development Report'.

This Report is being published on the Company's website and distributed to the general public on Sakhalin (through the Company's information centres and through district libraries), and among principal stakeholders.

The Company welcomes opinions, suggestions and comments from all stakeholders on this report. To do so, you may:

- use the Feedback Form attached to this report;
- fill out the Feedback Form on the Company's public website (www.sakhalinenergy.com); or
- fill out the Feedback Form at one of the Company's information centres (a list of information centres is provided in Appendix 5 'Company Information Centres List').

2.2 REPORT CONTENTS AND QUALITY ASSURANCE

Report contents and quality assurance

The basic approach to presenting information regarding the Company's performance is to provide balanced and material information on the three main areas of sustainable development — economic, environmental and social.

The Company shares and uses the following key international principles of sustainable development reporting.

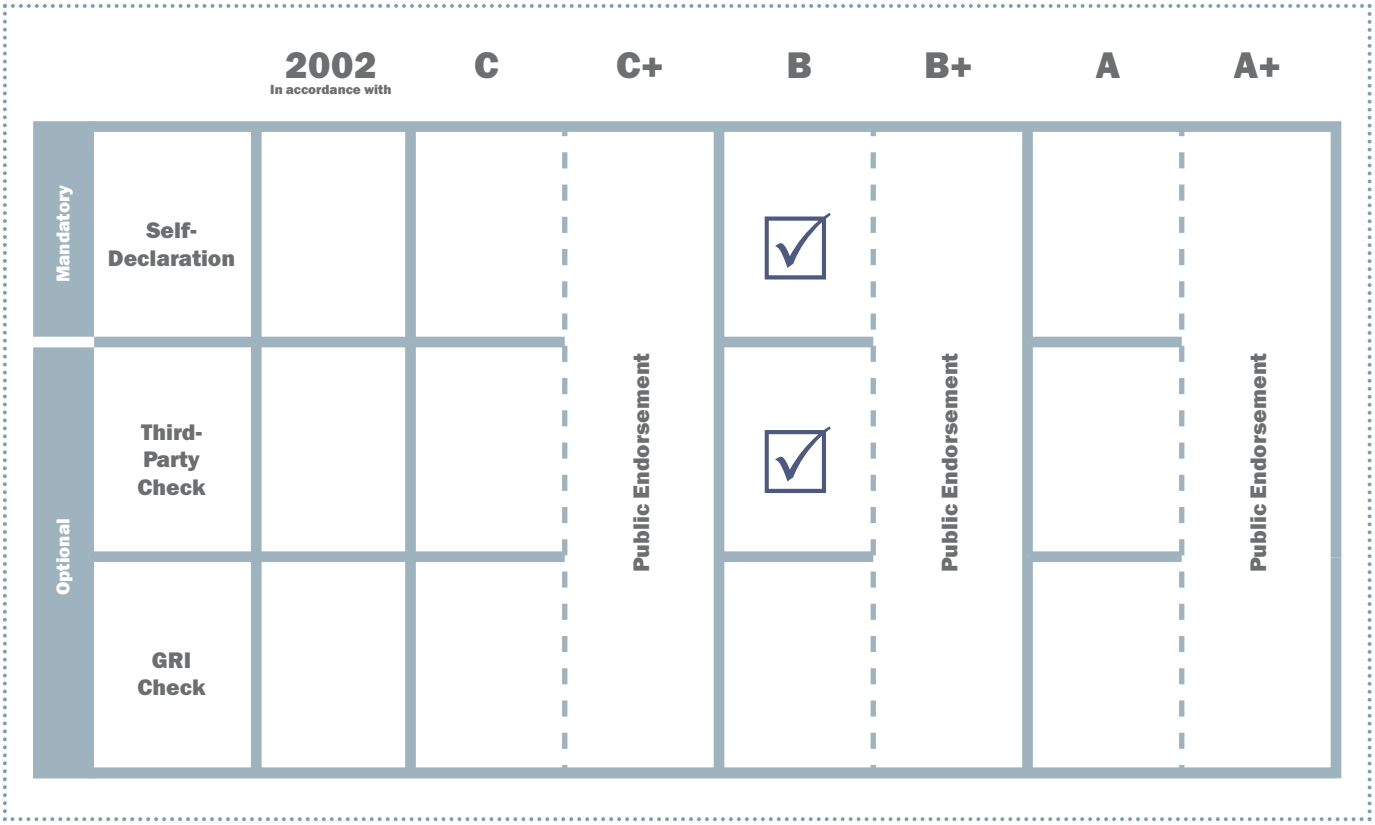
Principles	Definition
Definition of the Report Content	
Materiality	The Report presents all the material topics, issues and indicators relating to the Company's economic, environmental and social performance, including the executives' appraisal of the Company's performance in the period under review, as well as the stakeholders' expectations and concerns on material issues. In identifying these material issues, the Company has based its findings on the following: stakeholder engagement results obtained in 2011 and previous years (individual, group and public consultations, etc.); systematic media analyses and annual public opinion surveys; public concerns shared with the Company and special consultations held in preparation of this Report (see Section 7). In addition, recommendations and comments regarding the 2010 Sustainable Development Report (filled feedback forms) were also taken into account, as well as recommendations of the RUIE Non-Financial Reporting Council that conducted public endorsement of the 2010 Report. Also we conducted the analysis of materiality of the issues presented in the nonfinancial reports prepared by Russian and non-Russian companies in accordance with best international practices.
Stakeholder Engagement	In 2011, the Company continued systematic and consistent engagement with all the stakeholders based on the strategy and principles described in Section 7.1. Section 7 of this Report presents information on stakeholder engagement scope and process, including identification, methods, mechanisms and results of the engagement. Detailed information about the consultations and their results is presented in the Company`s Report on Public Consultation and Disclosure at Sakhalin Energy's website.
Sustainable Development Context	This Report provides balanced and sound information on all aspects of the Company's sustainable development performance — economic, environmental and social.
Completeness	This Report contains information on all areas of the Company's sustainable development performance in the reporting period according to the GRI principles and indicators of Level B applicability, based on the stakeholders' assessment of the topics' and issues' materiality and the priorities set by shareholders, lenders and the Company management.

Principles	Definition
Report Quality Assurance	
Balance	The Report includes both favourable (accomplishments) and unfavourable aspects (action items) of the Company performance in the year under review. The Company identified the topics and issues to be disclosed in the Report based on the topics' and issues' materiality, as well as the interest and wishes of stakeholders.
Compatibility	In preparing topics and indicators of this Report, the Company followed the GRI Sustainable Development Reporting Guidelines and their Technical Protocols, and proceeded with the topics and indicators covered by the first and second reports.
Accuracy	The Company seeks to make an accurate, specific and sufficiently detailed presentation of its performance results so as to enable stakeholders to evaluate it objectively. To this end, the Company uses both qualitative descriptions and quantitative information based on data of the standard financial and statistical reports to the relevant oversight agencies, the Russian Party of PSA, shareholders and creditors, as well as internal reports drawn up according to the procedures and methods adopted by the Company. Where estimates are used, a reference to the source is provided or the rationale for using estimates is presented.
Timeliness	This is the third Sustainable Development Report issued by the Company. Its preparation was carried out on a planned basis, including relevant dialogues with stakeholders (see Section 7), public endorsement procedure (see Section 2.5) and publication.
Clarity	This Report information is presented in an easily understandable and clear format, avoiding specialised technical terms or industry-specific jargon, etc., and omitting information that requires special knowledge to be properly perceived. The Report makes a wide-ranging use of charts, graphs, schemata and explanations of the terms used. In this Section we provide a list of the acronyms used in the Report, which are also explained when first mentioned within each section.
Reliability	The Report contains credible information, which can be verified and confirmed. A number of the Report details reflecting the results of the Company's sustainable development performance have also been verified independently, with references to such verifications provided appropriately.

2.3 DEFINITION OF THE REPORT SCOPE

The Report contains information on all assets and structural units of the Company and on all areas influenced by its sustainable development performance, including economic, environmental and social.

2.4 GRI APPLICATION LEVEL AND PUBLIC ENDORSEMENT



GRI application levels

This Report was prepared to GRI Application Level B+ (see the Application Levels table) in consistent consultations with stakeholders. The Report includes the results of the consultations and the respective responsibilities of the Company (see Section 7.2 and Appendix 2), which is regarded to be equivalent of the initial level of public endorsement.

This Report has passed the procedure of external public endorsement of corporate non-financial reports to the highest applicable professional level in the Russian Federation — independent expert review (public endorsement) by Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs (RUIE) (Public Endorsement Certificate and Conclusion of the RUIE Non-Financial Reporting Board on the review of the Sakhalin Energy Investment Company Ltd. 2011 Sustainable Development Report for the purpose of public endorsement (see Appendices 6 and 7, respectively).

The primary focus of public endorsement is on the materiality and completeness of the information on the Company performance disclosed in the non-financial report according to the best practice of responsible business.

2.5 LIST OF ACRONYMS AND ABBREVIATIONS

ALARP	As Low As Reasonably Practicable
ANPO	Autonomous non-profit organisation
APR	Asia Pacific Region
BAP	Biodiversity Action Plan
BoD	Board of Directors
BS 2	Booster Station 2
CED	Committee of Executive Directors
CSR	Corporate social responsibility
EMC	Emergency Response Committee
EMERCOM	Ministry for Emergency Response
ESHIA	Environmental, Social and Health Impact Assessment
FEC	Fuel and Energy Complex
GRI	Global Reporting Initiative for sustainability reporting
HSE	Health, Safety and Environment
HSESAP	Health, Safety, Environment and Social Action Plan
IAS	International Accounting Standard
IC	Information Centres
IEC and LM	Industrial Environmental Control and Local Monitoring
IFC	International Finance Corporation
IMO	International Maritime Organisation
IP	Indigenous Peoples
IPNS	Indigenous People of the North (Sakhalin Oblast)
ISO	International Organisation for Standardisation
IUCN	International Union for Conservation of Nature
IVMS	In-vehicle monitoring system
IWC	International Whaling Commission
LNG	Liquefied Natural Gas
LUN-A	Lunskoye-A platform
MHMS	Minimal Health Management Standards
MNR	Ministry of Natural Resources
MPE	Maximum permissible emission
NPOs	Non-profit organisations
OET	Oil Export Terminal
OPF	Onshore Processing Facility
OSR	Oil Spill Response
PA-A	Molikpaq platform (Piltun-Astokhskoye-A)
PA-B	Piltun-Astokhskoye-B platform
PC	Maximum permissible concentration
PERC	Pacific Environment and Natural Resources Centre
PMD	Pipeline Maintenance Depot
Prisco	Primorsk Shipping Corporation
PSA	Production Sharing Agreement
RAIPON	Russian Association of the Indigenous Peoples of the North, Siberia, and the Far East of the Russian Federation
RAS	Russian Academy of Sciences
RS	Road Safety
RTI	Road traffic incident
RUIE	Russian Union of Industrialists and Entrepreneurs
SDF	Social Development Fund
SIMDP	Sakhalin Indigenous Minorities Development Plan
SSI	Sakhalin Salmon Initiative
TEASP	Traditional Economic Activities Support Programme
TEOC	TEO (Feasibility Study) of Construction
TLU	Tanker loading unit
TRCF	Total Recordable Case Frequency
UN	United Nations Organisation
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact
WGWAP	Western Gray Whale Advisory Panel
WWF	World Wildlife Fund

The Sakhalin Road safety council action *Safe way to school*

Corporate social responsibility and sustainable development are the new basis for innovations in strategic, corporate and technical management.

Today, in the post-industrial era, a significant proportion of economic earnings is created in what is called intellectual or informational capital — among internal stakeholders (company employees) and external stakeholders (suppliers and consumers of goods and services, the state, non-profit organisations, media, local communities, etc.). Today, companies can win stakeholders' trust only if they maintain an ongoing dialogue where they prove that business takes stakeholders' interests into account. The proportion of intangible assets in the total assets of companies is constantly rising. Most of the heads of the world's leading companies acknowledge the ever-growing role of corporate social responsibility (CSR) and sustainable development components in the capitalisation of intangible assets. This viewpoint is shared by Sakhalin Energy.

CSR and sustainable development are becoming significant factors of influence on companies' corporate governance systems. They are exerting an increasingly substantial influence on corporate development strategies and on the process of attracting new investors and shareholders. An integrated approach to CSR helps socially responsible companies to consistently pursue these activities via ongoing dialogue with society. This approach is used during strategic planning and management and is reflected in the overall system of economic, environmental and social indicators. This means that all technical and commercial decisions are made with consideration of their social and environmental effects on the company and society. This approach ensures that CSR is turning into a key factor for a company's strategic development, business reputation and competitive ability. The activities of leading Russian companies demonstrate that CSR is a way of conducting business which meets or surpasses the

ethical, legal, commercial and social business expectations of all stakeholders, including the owners.

Experts and business leaders in Russia and worldwide are actively discussing and elaborating a new and evident world trend — the growing importance of non-financial business development factors for ensuring business success and positive public appraisal. The growing importance of CSR and sustainable development factors has especially been felt in the crisis and post-crisis period. In 2009–2011, the heads of the world's leading nations confirmed, in decisions passed by the Group of Eight (G8) and the Group of Twenty (G20), that the world's largest corporations and banks needed to demonstrate their social and financial responsibility to a far greater extent, and to significantly increase their transparency. In the course of this process, these key concepts have recently been construed in a new way, with the result that CSR is increasingly being integrated into the concepts of Sustainability and Corporate Governance.

What does corporate social responsibility mean for Sakhalin Energy? First of all, responsibility toward society calls for effective risk management, so that the operational problems encountered both by the Company and by contractors can be either mitigated or avoided altogether. This is a business principle which entails stakeholder engagement and corpo-

While pursuing its activities, Sakhalin Energy adheres to the following key CSR principles:

- **respect and observance of human rights;**
- **accountability;**
- **transparency;**
- **ethical behaviour;**
- **respect of interests of stakeholders;**
- **supremacy of law; and**
- **compliance with internationally recognised rules of behaviour.**

rate policies on worker protection, health & safety; anti-corruption; staff development and motivation; and strict monitoring of compliance.

The Company is unique in terms of the composition of the Russian and international standards being used. This is determined by:

- **Sakhalin-2 Project implementation governed by the Production Sharing Agreement, signed in 1994 between the Company and the Russian Federation (represented by the RF Government and by the Sakhalin Oblast Administration).**
- **Project finance: voluntary commitments (more than 850) in health, safety, social and environmental areas. These obligations are based on the best international standards and involve management systems, control systems and implementation mechanisms. They are all integrated in the Company's management systems, control systems and implementation mechanisms. With this, public access is provided to all of the key documents (about 100), from policy to standards on particular CSR aspects.**
- **International composition of shareholders (accounting of shareholders' experience and practices).**

Today, many companies endeavour to comply with the recently ratified ISO 26000: 2010 standard Guidance on Social Responsibility containing the following definition of social responsibility for any type of organisation, whether commercial company, state organisation or non-profit organisation.

The responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development including health and the welfare of society, takes into account the expectations of stakeholders, is in compliance with applicable law and consistent with international norms of behaviour, and is integrated throughout the organisation and practiced in its relationships.

Sakhalin Energy shares this approach along with the principles and provisions of the said standard. In 2011, the Company completed a self-evaluation of its implementation of the principles and provisions of international standard ISO 26000:2010.

In their business operations, as described in various forms of non-financial reporting, Russian companies classify as CSR the industrial, social and environmental actions and measures re-

Football match as part of the *Oil and Gas Workers* Day celebration

quired by RF laws and their extra programmes for and commitments to their personnel and the general public. They assume these extra commitments in addition to the minimum obligations required by law, depending on their strategic and regional priorities and the level of corporate culture. Sakhalin Energy is not an exception, and structures its activities in line with the best international CSR standards.

- World Bank and IFC standards (governance systems, risk and impact assessment, cultural heritage, indigenous peoples, involuntary resettlement and economic displacement, stakeholder engagement, grievance procedure, etc.).
- GRI and AA1000SES (non-financial reporting, stakeholder engagement).
- UN guiding principles for business and human rights "Protect, Respect and Remedy'" (human rights).

The Company applies many key international standards, including:

- ISO Standards (environmental management, quality assurance, HSE).
- EC and UN standards and directives (environment).
- World Bank directives and policies (risk and impact assessment, cultural heritage, indigenous peoples, involuntary relocation and economic migration, etc.).

Use of the listed standards is defined in the relevant Company documents and is integrated in the Company's governance structure and system and in all of its processes and operations (see Section 5 'Corporate Management').

In the year 2009 Sakhalin Energy joined the UN Global Compact — a global initiative for consolidating responsible civil practices and corporate social responsibility. The

CSR management system

Company has committed itself to consistently and strictly observing the UN Global Compact's principles in the areas of human rights, labour, environment and anti-corruption. These Global Compact principles represent the basic components of the Company's management strategies and systems, culture, and day-to-day operations. In 2011, Sakhalin Energy headed the UN Global Compact Network in Russia.

The Company pursues a structured, systematic approach towards CSR management. This approach is supported by a number of corporate documents, including the Statement of General Business Principles (the key corporate document), Sustainable Development Policy, and HSES Commitments and Policy (see Section 5 'Corporate Management').

Workshop for the Sakhalin Energy Information centres staff

The requirements and principles defined in these documents apply also to suppliers and contractors. In addition to special contractual provisions, the Company arranges training sessions and workshops to ensure a more effective introduction of such principles in the activities of its contractors and efficient supervision of compliance.

The Company's compliance with its adopted standards and commitments is constantly monitored by the Company's authorised personnel and top managers as well as by its Lenders, their consultants and independent auditors. In accordance with the requirements of the Company's Lenders, as captured in the funding agreements, and with the Company's own standards, the Company regularly reports on the fulfilment of its commitments, and such reports are open to the public and other stakeholders.

The need for the effective management of non-financial risks is quite apparent when the Company's efforts to achieve its corporate goals are resisted by stakeholders, whether knowingly or not. In our Company, as in other companies, non-financial risks stem from the uncertainty inherent in the freedom of action of independent stakeholders (see Section 5.5 'Risk Management System'). These sources of uncertainty should be managed by methods that differ from those used to manage financial and technical risks. In this case, it is important to maintain dialogues and other forms of engagement with stakeholders.

Our Company is using various mechanisms of engagement with partners and stakeholders such as regular corporate communications, information centres established by the Company across the entire Sakhalin island, a grievance management system and, finally, the dialogue-based engagement employed in the production of our non-financial report (see Section 7 'Stakeholder Engagement Management'). These dialogues, which include a discussions phase and a commitments phase, enable the Company to openly and directly learn about our stakeholders' concerns — and to listen and document their proposals, assessments and critical comments on the one hand, and to identify the most important and topical issues and problems for inclusion in the Sustainable Development Report on the other.

4.1 SAKHALIN ENERGY, SAKHALIN-2 OPERATOR

Sakhalin Energy Investment Company Ltd. ('Sakhalin Energy' or the 'Company') is implementing the Sakhalin-2 Project on the basis of the Production Sharing Agreement (PSA) with the Russian Federation. The Company was established in 1994 for the purpose of developing the Piltun-Astokhskoye and Lunskoye oil and gas fields off Sakhalin Island in the Okhotsk Sea, Russian Far East.

The development of these two fields involved the construction of a new integrated infrastructure for the offshore production, transportation, processing and sales of hydrocarbons. This infrastructure includes three offshore platforms, offshore and onshore pipelines, an onshore processing facility, a booster station, an oil export terminal with a tanker loading unit and Russia's first LNG plant. This is one of the most technically challenging projects that have been undertaken in the world's oil and gas industry in the past decade.

The sheer scale of the project targets, work and investment, the severe climate and unique ecosystem of Sakhalin, the lack of the required transportation and other infrastructure on the island at the time of the project launch, and the project's geographical remoteness from Russia's traditional industrial centres meant that the industry's best practices, technological innovations and efficient management solutions had to be applied in this project. This challenge was successfully met by the unique partnership of the Sakhalin Energy shareholders.

Sakhalin Energy Headquarters

4.2 MAIN PRODUCTION AND BUSINESS ACHIEVEMENTS IN 2011

4.2.1 ASSETS

4.2.1.1 MOLIKPAQ PLATFORM (PA-A)

In 2011, the operating well stock of the Molikpaq platform comprised 13 oil producing wells (six of which were temporarily decommissioned), four water injection wells, one gas injection well and one well for re-injecting cuttings into rock formations (for more details about cuttings re-injection, see Section 8.1.3 'Waste Management').

The average daily production rate in 2011 was about 44,000 barrels of oil and 1.14 million cubic metres of gas.

Large-scale platform upgrading operations, which took about two years and were completed in 2011, will allow the Company to initiate workovers of the temporarily decommissioned wells and start drilling new wells in the Astokh area in 2012.

Shell has conferred an award on the team responsible for development of the Astokh area for excellent progress in managing field development and organising the Molikpaq platform's operations. This award is in recognition of the team's excellent work on reservoir management and productivity enhancement, which has made it possible to increase Astokh oil production by more than 10,000 barrels per day (23% of total production level) since Q3 2010 without drilling new wells. Moreover, the platform's operational reliability has been improved, resulting in a considerable reduction of unscheduled production shutdowns.

To develop technical solutions and optimise future well placements, the first-ever

Molikpaq (PA-A): the first oil-producing platform on the Russian shelf

offshore 4D seismic survey in Russia was acquired in the Astokh area in July 2010. The 2010 seismic survey was a repeat of the 1997 seismic survey, and comparison of the results clearly shows the movements of oil and water in the reservoir caused by oil production and water injection. Data processed and interpreted in 2010-2011 have confirmed the effectiveness of the Company's methods of controlling the changes that have occurred over the 12 years of oil production. This important information will help to increase overall oil recovery by optimising the positioning of future oil producing and water injection wells.

4.2.1.2 PILTUN-ASTOKHSKOYE-B PLATFORM (PA-B)

At the end of 2010, the PA-B platform had eight production wells, three water injection wells and one cuttings re-injection well (for more details about cuttings re-injection, see Section 8.1.3 'Waste Management'). One oil production well and one water injection well were additionally drilled in 2011. Also in 2011, two existing oil producing wells were worked over with smart completion equipment to provide better control and surveillance of individual reservoir beds.

The average daily production rate in 2011 was 40,000 thousand barrels of oil and 3.1 million cubic metres of gas.

In 2011 smart completions were installed in two wells of the PA-B platform. This reduced the gas-oil ratio by 60% and enabled total platform production to be increased by more than 7 thousand barrels per day (950 tonnes per day).

Smart completion for commingled multizone oil producers is a technology whereby an individual controllable valve can be installed in each zone so as to control oil and gas withdrawals from each zone and monitor the intervals in the event of gas and water breakthrough.

The smart completion of water injection wells enables water injection in each zone to be individually monitored. This enables reservoir pressure maintenance to be constantly optimised in the various oil-bearing formations, i.e. prompt changes of water injection parameters to increase oil recovery. Currently all four water injection wells of the Piltun have been equipped with smart completions.

The reservoir engineer receives real-time data from the platform on pressure, temperature and other parameters in each interval or bed.

Hoisting personnel onto the PA-B platform

4.2.1.3 LUNSKOYE-A PLATFORM (LUN-A)

Here, gas is produced from the largest-bore wells ever drilled in Russia. In 2011 the platform continued to have stable and reliable production from seven existing gas wells.

The average daily production rate of each well ranged up to 10 million cubic metres in 2011.

LUN-A platform

The oil rim well of the Lunskoye field has turned out to be unique in all senses — at present this is the most complicated well out of all wells ever drilled in the Lunskoye field. Its borehole length is 5,409 metres.
So far, Russia has lacked experience in drilling large-bore wells (with a cross-section of 17½") of such length and with a 1.1 km horizontal section, using two hole wideners. Many technologies employed in the drilling process were used in Russia for the first time. For example, pressure tests in productive formations were conducted while drilling by means of the StethoScope tool at 43 points, thereby setting a record for Russia.

The first oil rim well was completed in January 2011. The oil rim forms part of a gas/condensate/oil deposit, and its dimensions and in-situ reserves are significantly smaller than the gas (or gas-condensate) part of the deposit. Usually, production from an oil rim is a technically challenging task: first it has to be identified and then the well has to be drilled down to the oil rim in such a way that production is most effective. During 2011, the Company was assessing the advisability of commercial development of the oil rim in the Lunskoye field.

Completion of additional gas producing wells, to create reserve capacity in order to ensure scheduled gas delivery volumes, is scheduled for 2012.

4.2.1.4 ONSHORE PROCESSING FACILITY (OPF)

The main purpose of the onshore processing facility (OPF) is to process gas and condensate from the Lunskoye field before they are pumped into the pipelines for transportation to the oil export terminal and LNG plant. The oil and associated gas from Piltun-Astokhskoye field are also processed at the OPF. Both OPF trains were brought on stream in late 2008.

The OPF processes 51 million cubic metres of gas and up to 60,000 barrels of oil and condensate per day.

In the summer of 2011 the OPF's train capacity was increased to 56 million cubic metres of gas.

Onshore processing facility

Gas tanker being loaded at Prigorodnoye

4.2.1.5 TRANS-SAKHALIN PIPELINE SYSTEM, BS AND GAS TRANSFER TERMINALS

The Trans-Sakhalin pipeline system comprises about 300 km of offshore pipelines and over 1,600 km of onshore oil and gas pipelines, as well as 104 block valve stations, five pipeline maintenance depots and two booster stations (BS). Maintenance of the trans-Sakhalin pipeline system is provided by Sakhalin Energy's contractor, Gazprom Transgaz Tomsk (GTT). GTT also provides the operation and maintenance services for booster station 2 (BS2), which was brought on stream in 2010. In 2011 BS2 was operated at full capacity to ensure the timely delivery of products.

Construction of the northern gas transfer terminal (Boatasino) made it possible to start gas deliveries into the Sakhalin-Khabarovsk-Vladivostok pipeline through temporary facilities in September 2011. Currently, gas is delivered to consumers located along the pipeline route. The construction and commissioning of permanent gas transfer facilities at the northern terminal will be completed in 2012.

The laboratory of Sakhalin Energy's Prigorodnoye production complex won first prize in an international laboratory testing competition. These tests are conducted by the anonymous testing method: test samples are sent to each laboratory where the specialists have to analyse them. An independent international expert institute then compares the results obtained by the laboratory with the initial data of the samples.
Sakhalin Energy laboratory gained first place among 18 competitors. This is an especially significant result, since some of participants were laboratories having more than 10 years of experience, while the Prigorodnoye production complex has only been operating for less than three years.

4.2.1.6 PRIGORODNOYE PRODUCTION COMPLEX

The assets of the Prigorodnoye production complex, operating in the south of Sakhalin on the shore of Aniva Bay which stays ice-free nearly all year round, comprise an LNG plant with an LNG jetty, and an oil export terminal (OET) with a tanker loading unit (TLU) installed 5 km out at sea. The LNG plant was inaugurated on 18 February 2009. It occupies 490 hectares of land and has two trains, each with a nameplate capacity of 4.8 million tonnes of LNG per year.

The debottlenecking programme which commenced in 2010 continued in 2011 and has increased the plant's capacity by several per cent. In the summer of 2011 the Company completed the first major integrated maintenance shutdown of the gas system, i.e. a simultaneous shutdown of all the gas assets, with the scheduled maintenance activities being co-ordinated across the LUN-A platform, OPF and LNG plant.

4.2.2 HYDROCARBON PRODUCTION AND EXPORT

4.2.2.1 LNG

Natural gas is used both as a fuel for energy production and as a raw material for producing a wide range of items (from fabric fibres to plastic products used in medicine, IT and mechanical engineering).

Liquefied natural gas (LNG) is a colourless odourless liquid, less than half the density of water, consisting mainly (up to 90%) of methane (CH4), the simplest natural gas in the group of gaseous hydrocarbons. When cooled to approximately -160 °C (-250 °F) at standard atmospheric pressure, natural gas liquefies and contracts to 1/600th of its initial volume, thereby becoming suitable for collection, storage and sea shipment.

Continued reliable delivery of LNG cargos to customers has been the key achievement in 2011. Due to successful debottlenecking and equipment adjustments, the LNG plant exceeded its design output by producing 10.67 million tonnes of liquefied natural gas.

The Sakhalin LNG was delivered to destinations either by the buyers' ships or by the "Grand" LNG tankers — Grand Elena, Grand Aniva and Grand Mereya — that have been specially built for the Sakhalin-2 project and provided to the Company under long-term charters by two Russian-Japanese consortia.

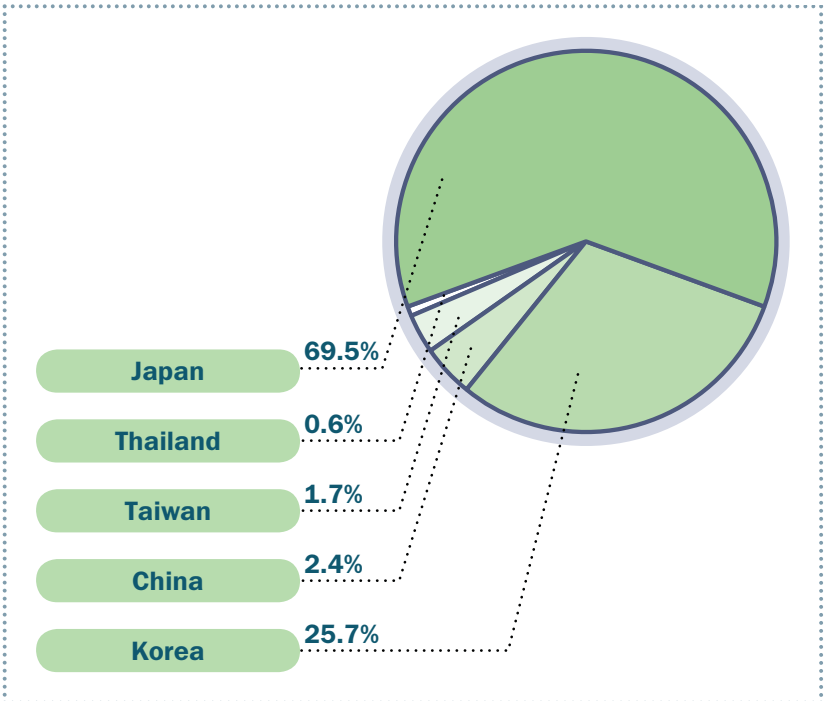
In 2011, a total of 163 LNG tanker loadings (145,000 cubic metres per cargo) were accomplished.

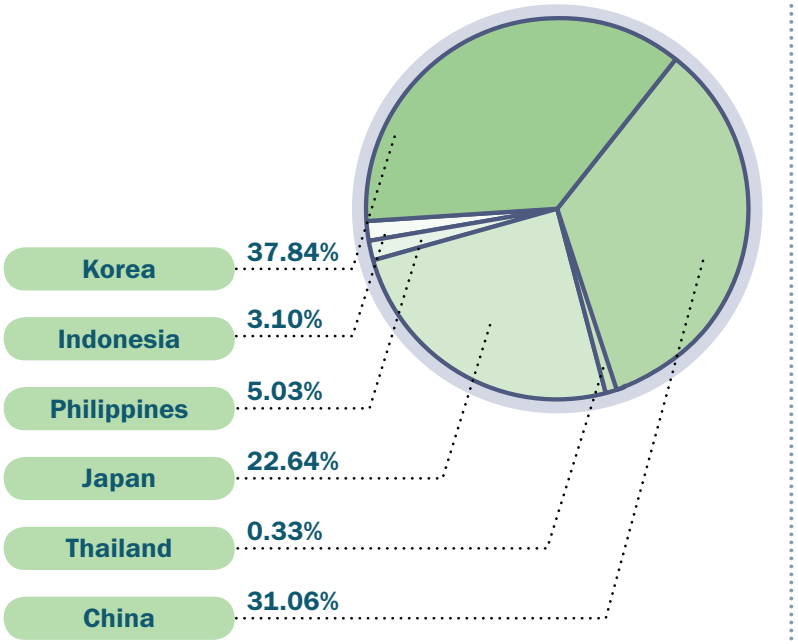
The LNG market in the Asia-Pacific region was significantly affected by the catastrophic earthquake that occurred in Japan on 11 March 2011. This natural disaster, followed by the shutdown of the Fukushima Nuclear Power Plant and the subsequent restructuring of Japan's energy economy, meant that additional LNG supplies were urgently needed to compensate for the energy shortfall.

The Company and its major shareholders, Gazprom and Shell, promptly responded to the demand of their Japanese partners for additional LNG volumes. In addition to the originally scheduled volumes, 34 LNG cargos amounting to more than 2 million tonnes were dispatched to Japan,

Natural gas is one of the cleanest fuels. The CO_2 emissions caused by producing one unit of energy from coal are 67% higher than those caused by burning an equivalent quantity of natural gas. Liquefied natural gas is an even cleaner fuel since it is subjected to additional fine cleaning during liquefaction.

Sakhalin LNG sales markets in 2011





***Vityaz* oil blend sales in 2011**

of which nine cargos were shipped as additional production volumes while the rest were diverted following a decision by the shareholders. By the end of 2011, the Japanese party had already presented additional requests for 2012.

4.2.2.2 OIL

Sakhalin Energy produced and exported over 5.76 million tonnes (45 million barrels) of Vityaz blend from the Prigorodnoye terminal in 2011.

Oil tanker at the tanker loading unit

Purchases of the Company's products by Korea and China rose considerably (by more than 4% and 6%, respectively) compared to last year. In 2011 the Company considerably expanded the geographical extent of its oil deliveries as well: on 12 July 2011, 90,000 tonnes (600,000 barrels) of oil were delivered by the Zaliv Aniva tanker to Indonesia (port of discharge was Cilacap). In all, 12 companies purchased this oil blend in 2011. Products were delivered through 19 transit and destination ports in Japan, China, Korea, Philippines, Thailand and Indonesia.

The Vityaz blend is a new oil grade introduced by Sakhalin Energy. It is a light semi-sweet grade similar to the light oil produced in Oman.

4.2.2.3 NATURAL GAS

In 2011, the Company's principal sales products (LNG and oil) were supplemented by natural gas. Pursuant to the PSA, the Company started deliveries into Gazprom's gas trunkline system of the gas volumes agreed with the Russian party in order to pay the royalties payable in kind to the Russian party.

Gas was transferred through two terminals in the northern and southern parts of Sakhalin Island. The 86 million cubic metres of natural gas, transferred through the southern gas transfer terminal in Dalneye from March to December, were delivered to the Yuzhno-Sakhalinsk Heat and Power Plant-1 and other Sakhalin infrastructure facilities. The more than 142 million cubic metres of natural gas, transferred through the northern gas transfer terminal in Boatasino, were delivered to the Sakhalin-Khabarovsk-Vladivostok gas trunkline for use in the Far East and Primorski Krai.

4.2.3 SANITARY PROTECTION AND EXCLUSION ZONES

In order to ensure the safety of population, and pursuant to Federal Law No. 52-FZ On the Sanitary and Epidemiological Welfare of the Population dated 30 March 1999, a special-regime area, i.e. a sanitary protection zone (SPZ), is to be established around any facility and production plant that could be the source of impacts on people's living environment and health. The extent of such a zone ensures that any atmospheric air pollution stays below the statutory limits, or (in the case of enterprises categorised as hazard classes I and II) below both the statutory limits and the acceptable levels of risk for the health of the local population.

According to Russian legislation, an SPZ for industrial works and facilities is dimensionally designed as follows: the estimated (preliminary) sanitary protection zone is based on the design of the facility and on calculations of polluted air dispersion and airborne impacts (noise, vibration, electro-magnetic fields, etc.), and the finalised SBZ is based on the results of field studies and measurements to confirm the design parameters.

SPZs have been designed for three of the Company's production facilities: Prigorodnoye Production Complex, OPF and BS2.

For the Prigorodnoye Production Complex, the estimated SPZ of 1,000 metres width from the emission sources was established in 2002. In 2009, the Federal Service for Supervision in the Area of Consumer Rights and Human Welfare (Rospotrebnadzor) performed an expert review of the documentation on maximum permissible emissions (MPE) at its own initiative and confirmed the previously established SPZ of 1,000 metres in width.

Due to the issuing of new regulatory documents on the design and establishment of SPZs, a sanitary protection zone had to be designed, with a community health risk assessment, and presented to Rospotrebnadzor for approval.

In 2010, an SPZ design was produced for the Prigorodnoye Production Complex. It was duly approved by the Rospotrebnadzor Department of the Sakhalin Oblast and by Rospotrebnadzor. According to the design, the estimated SPZ is as follows: from 700 m west of the boundary of the industrial site (1,000 metres from the emission sources) to 300 m east of that boundary (500 metres from the emission sources).

An SPZ is designed to be a protective barrier ensuring the safety of the local population during normal operation of an industrial facility.

The above SPZ design provides for an Air Quality, Noise Levels and Electromagnetic Fields Monitoring Plan. In accordance with this Plan, SPZ monitoring was conducted for a full year, and this confirmed that permissible levels of atmosphere air pollution, noise and electromagnetic fields were not exceeded. In November 2011, the monitoring results were submitted for consideration to Rospotrebnadzor with a request that the SPZ be finalised for the Prigorodnoye Production Complex.

In 2010, based on the new regulatory documents for designing and finalising SPZs issued by the Russian public health

A fish-spawning stream runs across the grounds of the LNG plant

Trunk pipeline route

authority, the SPZ designs for OPF and BS2 were also developed and duly approved by the Rospotrebnadzor Department of the Sakhalin Oblast and by Rospotrebnadzor.

An estimated SPZ of variable extent was designed for OPF as follows: from 670 metres NE to 330 W of the industrial site's boundary. For BS2, an estimated SPZ of variable extent was designed as follows: from 300 metres W to 160 m NE of the industrial site's boundary.

Studies conducted according to the Air Quality, Noise Levels and Electromagnetic Fields Monitoring Plans, developed for the SPZ designs for OPF and BS2, have demonstrated that permissible levels of atmosphere air pollution, noise and electromagnetic fields were not exceeded at the SBZ boundaries. In November 2011, the monitoring results were submitted for consideration to Rospotrebnadzor with a request for finalising the SPZs for OPF and BS2.

As of the end of 2011, requests for finalising the SPZs for Prigorodnoye Production Complex, OPF and BS2 were being considered by Rospotrebnadzor.

Onshore trunk pipelines run along a single right-of-way and are clearly designated by special signs. An exclusion zone, the extent of which is designated on the signs for each segment of the pipeline system, is established along the entire route, to protect the pipelines against damage. This zone is determined by the Guidelines for Protecting Trunk Pipelines approved by Ruling No. 9 of 22 April 1992 of "Gosgortechnadzor Russia" (which is now Rostechnadzor, Federal Service for Environmental, Technological and Nuclear Supervision). Along the routes of pipelines transporting oil and natural gas, the exclusion zone is defined by lines running 25 m from the pipeline axis on either side. Any activities that can disturb the normal operation of the pipelines or damage them are prohibited in these exclusion zones.

4.2.4 OIL SPILL PREVENTION AND RESPONSE PREPAREDNESS

Oil spill prevention and oil spill response (OSR) preparedness are top priorities for Sakhalin Energy. The Company comprehensively addresses this challenging task.

In accordance with Russian statutory requirements and best international practices, Sakhalin Energy has developed OSR plans for all its facilities having risks of oil spills, and has submitted them to Russian state agencies for approval.

Even before the Boatasino and Dalneye gas transfer terminals were commissioned, oil spill prevention and response procedural rules were developed and agreed upon with the necessary authorities.

Sakhalin Energy's organisational standard of oil spill prevention is evidenced by the following statistics: since 1999, the Company has produced almost 245 million barrels of oil while spilling only about 26 barrels (approximately 3.5 tonnes) during those 12 years. Over all these years there has been no oil or petroleum product spill which could be classified as an emergency situation.

The Company has established six non-staff emergency response teams in constant readiness for oil spills and other emergency response actions at its production facilities (Prigorodnoye Production

Complex, OPF, BS2, and PA-A, PA-B, LUN-A platforms). In addition, Sakhalin Energy has concluded contracts for the provision of OSR services with the professional emergency response teams of Ecoshelf and CREO.

To coordinate activities in case of OSR and other emergencies, the Company has organised a 24/7 duty roster of emergency and crisis management bodies, i.e. the Crisis Management Teams/Emergency Coordination Teams (CMT/ECT). The team members on duty are at all times prepared to carry out the appropriate countermeasures, including OSR.

In order to increase the level of preparedness and improve practical skills, the Company conducts practical and theoretical training, drills and exercises on various levels on a regular basis, including at least two corporate exercises a year.

In 2011, more than 140 Company employees completed their training under OSR programs on the first, second and third levels.

More than 530 drills and exercises of various levels, including more than 230 OSR exercises at the company's production facilities, were conducted in 2011, as scheduled.

In 2011, the Company held corporate exercises at the following assets: OPF (scenario: spill of more than 100 tonnes of diesel fuel); PA-A platform (scenario: spill of 1,500 tonnes of oil offshore) and pipeline in the Dolinsk district (exercises under the plan of the Security Council and Antiterrorist HQ for the Sakhalin Oblast in cooperation with the Federal Security Service, Emercom, Ministry of Internal Affairs, Ministry of Defence forces, regional and district executive authorities, the Unified State System for Prevention of and Response to Emergencies). In addition, OSR-integrated exercises for protecting Piltun Bay were conducted (scenario: spill of 1,500 tonnes of oil offshore) and at the Prigorodnoye seaport (scenario: spill of 10.5 tonnes during tanker fuelling).

OSR training

The Company is fully provided with the necessary equipment and has highly-skilled staff constantly ready to tackle possible oil spills.

Following the results of exercises, recommendations were elaborated and relevant measures were taken to improve OSR operations.

Analysis of the trainings and drills confirmed the Company's preparedness for oil spill prevention and response at the Sakhalin-2 onshore and offshore facilities.

4.3 OPERATIONAL EXCELLENCE PROGRAMME

In 2010, the Company developed a strategy to achieve maximum Key Performance Indicators, referred to as the Operational Excellence Programme. It is intended to ensure that Sakhalin Energy is one of the world's most efficient energy companies. The Operational Excellence Programme is based upon the concept, developed by the McKinsey international consulting group, of achieving the highest standard of work performance. It is designed for a long-term period and includes high-tech

Assessing the Operational Excellence programme

projects for field operations and improvement of general business processes (using "lean execution" methods) as well as various aspects of developing managerial talent and corporate culture (see also Sections 5.4 and 9.1.7).

In 2011, the Company conducted a number of training sessions for the management, aimed at stimulating initiatives and improving business operations.
In order to support employees' initiatives and increase their involvement in this Company-wide programme, Sakhalin Energy held an Operational Excellence Day in May 2011. Its main objective was to discuss the Company's future goals and objectives, and its Operational Excellence plans, proposals and initiatives.

Operational Excellence programme

Sakhalin Energy endeavours to ensure that Operational Excellence becomes a component of its business culture. This covers occupational safety, all aspects of production processes, profits and costs, community relations, etc. It is a continuous process requiring permanent improvement, growth and standard-raising by the Company.

Sakhalin Energy has developed an Operational Excellence plan for 2011–2013. It focuses on five key areas including production reliability, world-class field development and well reservoir management, best contractor management, lean execution and excellence in people. For all these areas, there are business improvement projects and initiatives that will last one year at least. Once one project is completed, a new one will be developed in order to achieve even better results. This will result in a continuous cycle of improving the Company's business activities.

As part of the 2012 programme, the Company is planning to implement projects such as: energy efficiency improvement and maximum disposal of associated petroleum gas; optimisation of planning and high-quality maintenance of equipment; improvement of HR and Finance processes; well drilling and completion optimisation programme; development of more efficient contracting strategy; strengthening of teamwork; and preserving the attractiveness of the employment benefits package.

A system (designated "Operational Excellence 500") of recording employees' initiatives, such as proposals and projects for improving various processes in the Company, was implemented as part of the programme. The system provides a clear demonstration of the advantages and economic impact of implementing each initiative: it is simultaneously a database, an instrument for auditing initiatives and projects, and a source of ideas for all the Company's employees. More than 80 initiatives, put forward by employees in all departments, were recorded in the system in 2011. One key factor is that individuals register ideas for improving their own business operations which they initiate themselves and actively put into practice.

The Operational Excellence Committee was established to manage and coordinate work on improvement activities in the Company. It is responsible for pursuing the programme strategy and works on the the initiatives that are to be supported. It also determines which projects must be treated as high priority for everybody, and which projects can be handed over to the Company's business units for implementation.

5.1 COMPANY MISSION, VISION, VALUES AND PRINCIPLES

Vision and mission form the basis for determination of the Company objectives and strategies.

Sakhalin Energy updated its mission and vision in 2010, which became necessary due to the completion of the Phase 2 construction and commissioning work and the safe putting of the Phase 2 facilities on stream and bringing the Project to a new stage of full-cycle production, which implied new goals, such as stability and reliability of production.

Sakhalin Energy activities are based on general business principles, in which the underlying core values are honesty, integrity and respect for people, teamwork and professionalism, in line with the Company's responsibilities to the shareholders, Russian Party, buyers, employees, business partners — all parties that have business relationships with the Company — and the society.

The general business principles cover, among other areas, such areas as business, competition, business integrity, political activities, health, safety and environment, liaison with the local population and engagement with stakeholders. The statement of general principles of the Company available at the Sakhalin Energy website (www.sakhalinenergy.com).

The Sakhalin Energy mission and vision are currently defined as follows:

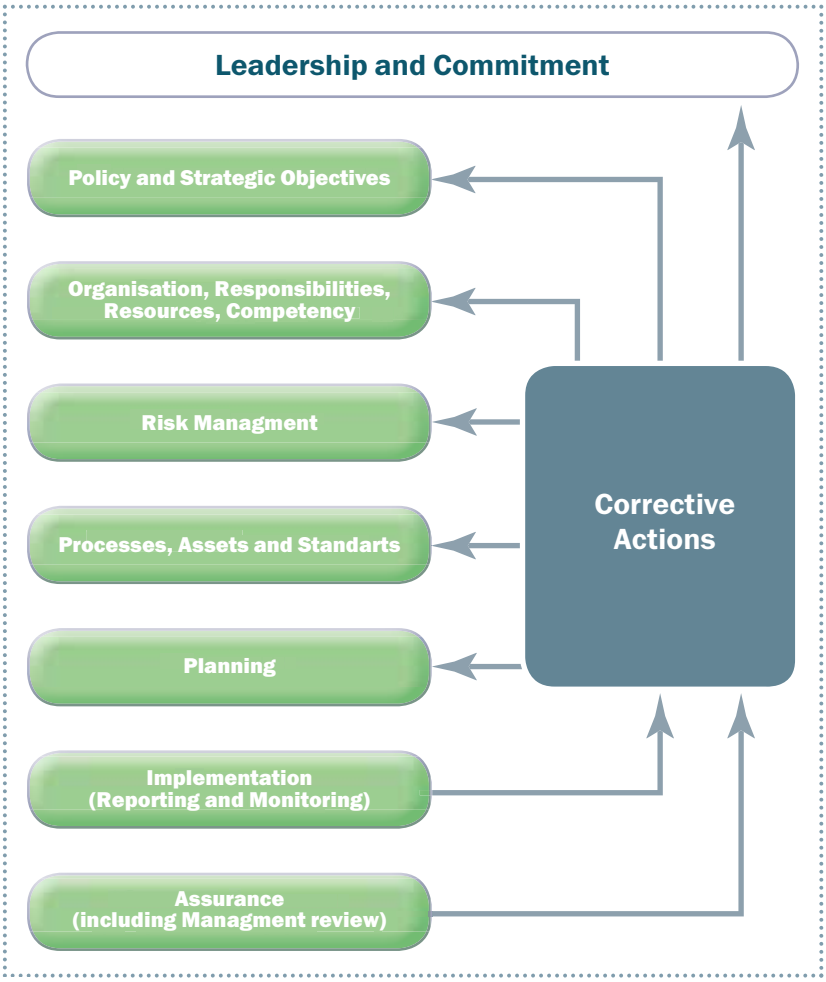
VISION: To be the premier energy source for Asia-Pacific.

MISSION: Sakhalin Energy is committed to being a premier energy supplier, recognised for its operational excellence, reliability and safety. We conduct our business in an ethically, socially and environmentally responsible manner.

OBJECTIVES: Commercial development and operation of the hydrocarbon fields and the sales of hydrocarbons in accordance with the Sakhalin-2 licenses, as well as the development of a required project infrastructure, for the benefit of our shareholders, the Russian Federation, Sakhalin and local community.

Aniva Bay

5.2 CORPORATE GOVERNANCE SYSTEM AND STRUCTURE



Corporate governance system

Corporate governance is a process ensuring due organisation, management and control within Sakhalin Energy. The corporate governance system of Sakhalin Energy provides guidance on how the Company's business is managed.

Leadership

Management is fully committed to the business management system, with which all staff and contractors must comply. Management provides a leading role towards constant improvement of business processes through their decisions and actions.

Policy and Strategic Objectives

Sakhalin Energy's policies and standards comply with Russian laws and regulations and with the requirements of its shareholders and lenders. The Sakhalin Energy strategic objectives are consistently incorporated in the policies, standards, processes and plans adopted by the Company.

Organisation, Responsibilities, Resources, Competence

The organisation and resources are adequate to meet the strategic objectives. Responsibilities at all levels are clearly described, communicated and understood. Staff is developed and trained in accordance with the training plans coordinated with structured competency assessment system.

Risk Management

In setting objectives, the Company identifies, assesses and considers the overall risk levels of its activities and identifies those critical activities for risk management. For more details see Section 5.5 'Risk Management System'.

Processes, Assets and Standards

Processes and assets are defined with clear, assigned responsibilities. Process/Asset standards and procedures incorporating risk controls are in place and understood at the appropriate organisational levels. Process owners ensure compliance to their processes through regular testing on procedures compliance.

Planning

All approved plans are optimised and fully resourced. Performance targets are set to ensure progression towards the long-term objectives. Development of five-year plans, which are annually assessed and adjusted, forms the basis of planning. They are established in the course of active and open discussion with the Company's staff from all directorates at annual 100 Workshops (see more de-

tails of 100 Workshop in Section 7.3 'Engagement with Personnel'). Goals, strategies, targets and measures towards their achievement are issued in the format of the Journey Book, a copy of which is given to each employee of the Company. Changes to the plans are documented and appropriately approved. Contingency and emergency response plans are in place and regularly tested.

Implementation (Reporting and Monitoring)

Performance indicators are established, monitored, and results reported. Corrective actions are taken as necessary, and policies, organisation, risks, plans, processes updated.

All control incidents with significant actual or potential consequences are thoroughly investigated and reported with learning appropriately disseminated throughout the Company.

Assurance

Assurance process is in place to review and verify effectiveness of the management system. It includes audits by auditors independent of the process or asset audited. Audit follow-up is timely, thorough and auditable. Management regularly reviews the suitability and effectiveness of the internal control system.

Communication

Transparent and honest communication is essential to ensure delivery of business objectives. Line managers engage with their staff, communicating business direction and priorities. The CED receives their feedback for information and possible follow up. CEO and other members of the CED reinforce this communication framework by quarterly staff engagement sessions. For more detail see Section 5.4 'Corporate Culture' and Section 7.3 'Engagement with Personnel'.

Production platform control room

5.3 CORPORATE GOVERNANCE MODEL

Strategic planning is carried out through interaction of the Sakhalin Energy management, the Russian Party (representatives of the federal executive authorities and the Sakhalin Oblast Government) and shareholders that determine strands of policies, establish areas of responsibility and assess the achieved results including those in the area of sustainable development.

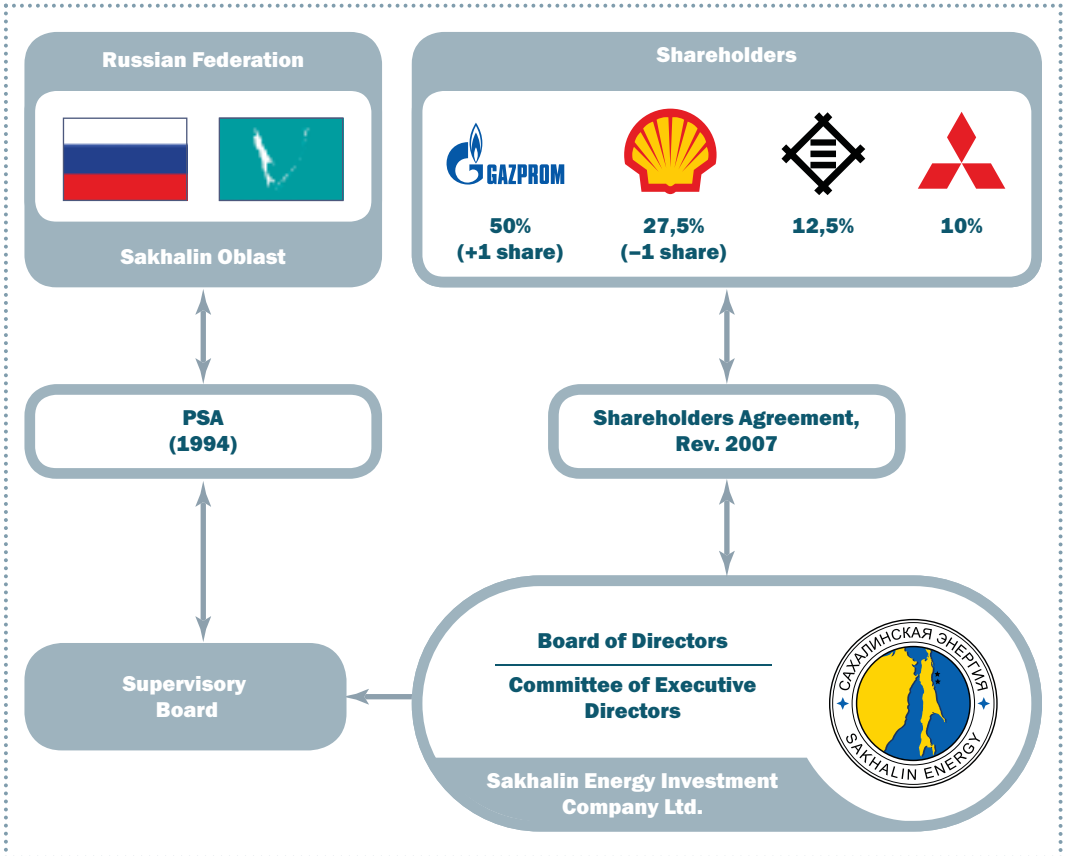
Under the shareholding structure of Sakhalin Energy, which has not changed since 2007, Gazprom holds 50% plus one share, Shell 27.5% minus, Mitsui 12.5% and Mitsubishi 10%, all the shareholders operating through their subsidiaries.

Sakhalin Energy operates within a three-tier management structure where:

- Certain key decisions are reserved for the shareholders.
- The Board of Directors (BoD) is responsible for the overall management of the Company.
- The day-to-day management and operations of the Company are delegated to a Committee of Executive Directors (CED).

Supervisory Board is the Sakhalin-2 strategic management body established and operating in accordance with the Production Sharing Agreement. The Supervisory Board supervises the fulfilment of the PSA terms and approves the Company's long-term development plans and budgets, annual work programmes and budgets, LNG sales agreements, procurement procedures, Russian national employment and training plans, etc. The Supervisory Board also reviews the Company's annual reports and appoints auditors. The Supervisory Board comprises six Company representatives and six representatives of the Russian Party including four representatives of the Government of the Russian Federation and two representatives of the Sakhalin Oblast Government.

Corporate governance model



Board of Directors (BoD), a body appointed by the Company shareholders, is responsible for the overall governance of the Company and for key decisions regarding economic, environmental and social activities, as well as strategy and business direction of the Company. The BoD members in 2011 included seven executive directors, eight principal non-executive directors and eight alternate non-executive directors. Harry Brekelmans, Executive Vice-President Russia and Caspian, Shell, was elected the Chairman of the Board of Directors in 2011.

The BoD activities are supported by the functions of several committees, including:

- **Commercial Committee** consists of representatives of the Company headed by the Commercial Director, who is also the Commercial Committee Chairman, and representatives of the shareholders, who meet to discuss commercial issues. The Commercial Committee also includes observers from the Company shareholders;

- **Technical Committee** consists of representatives of the Company headed by the Company Technical Director, who is also the Technical Committee Chairman, and representatives of the shareholders, who meet to discuss technical issues. The Technical Committee also includes observers from the Company shareholders;

- **Financial Advisory Committee** comprises representatives of the Company headed by the Finance Director, who is also the Finance Committee Chairman, and representatives of the shareholders, who meet to discuss financial issues. The Financial Advisory Committee also includes observers from the Company shareholders;

- **Board Assurance Committee** consists of representatives of the Company (members should not be Executive Directors) and representatives of the Company shareholders, who meet to discuss the assurance issues;

- **External Affairs Committee** is an advisory committee to BoD consisting of representatives of the Company, headed by the External Affairs Manager, who is also the External Affairs Committee Chairman, and representatives of the shareholders, who meet to discuss the external affairs issues.

Committee of Executive Directors (CED) is responsible for the day-to-day management of the Company. The Committee of Executive Directors sets, directs and controls the daily activity of Sakhalin Energy through business plans and strategies, as well as decisions on their implementation. In 2011, the Committee of Executive Directors was made up of seven members: Chief Executive Officer (who heads the Committee), Production Director (deputy head of the CED), Technical Director, Human Resources Director, Commercial Director, Finance Director and Legal Director.

Executive Directors head the respective functional subdivisions and are responsible for the Company's day-to-day operation and management.

The CED activities are supported by internal committees, including, but not limited to:

- Tender committees;
- Management Development Committee;
- Business Integrity Committee;
- Business Assurance Committee;
- HSE Management Committee;
- Sustainable Development Council.
- Operational Excellence Committee (created in 2011. See Section 4.3 'Operation Excellence Programme').

Committee of Executive Directors (as of 31 December 2011)

Andrei GALAEV
Chief Executive Officer

Rob van VELDEN
Finance Director

Thomas ZENGERLY
Production Director

Sergey DUBYNIN
Legal Director

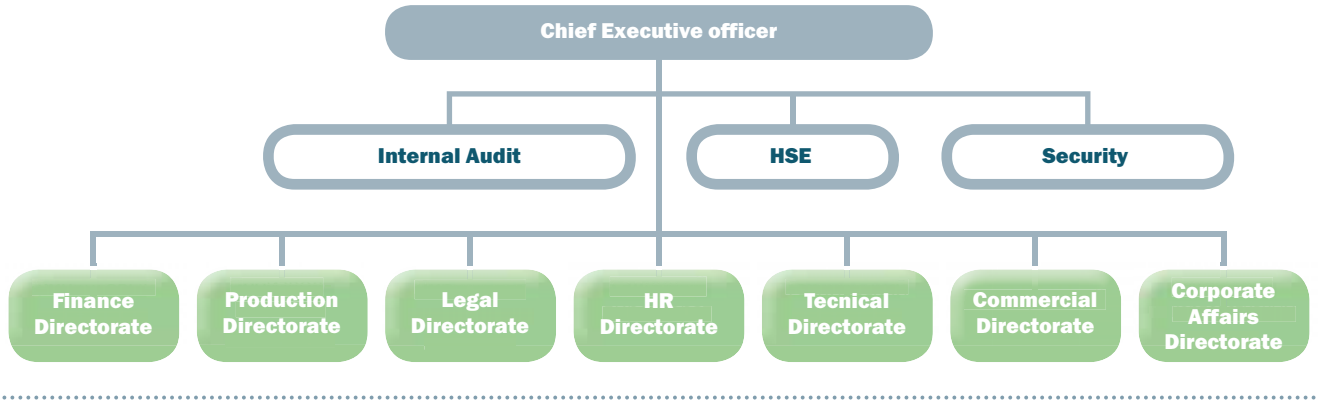
Sergey ANTONOV
Human Resources Director

Valery CHOLOVSKY
Technical Director

Andrei OKHOTKIN
Commercial Director

Company organisational structure (as of 31 December 2011)

The Company organisational structure is functionally efficient on the facility and process level (See 'Company Organisational Structure' chart). In 2011, the Audit Department, being earlier part of the Finance Directorate, was reorganised to form a separate Company's subdivision reporting directly to the Chief Executive Officer.



5.4 CORPORATE CULTURE

People and corporate culture are of primary importance in achieving the efficiency of our Company. Sakhalin Energy employees share the core values of the corporate culture — honesty, integrity and respect for people, individual accountability and teamwork, professionalism and continuous improvement. These values are captured in Sakhalin Energy's framework of behavioural standards and guidelines, notably:

- Statement of General Business Principles;
- Code of Conduct;
- Whistle Blowing/Grievance Procedure;
- Sustainable Development Policy;
- Conflict of Interest Procedure;
- Anti-Bribery Corruption Procedure.

These documents ensure that Sakhalin Energy operates within the framework of applicable laws and in accordance with the ethical requirements set out in Sakhalin Energy General Business Principles. The business principles compliance system makes the Company management responsible for provision to the Company employees safe and confidential methods for expressing concerns, raising issues and whistle blowing. Sakhalin Energy employees, in their turn, are expected to report to the Company any incidents of non-compliance with the General Business Principles.

Sakhalin Energy operates in a manner that is intended to complement the core values and provide a way of thinking and behaving for the best interest of the overall business. Leadership, accountability and teamwork characterise this behaviour. Strengthening and development of corporate culture is an important component of achievement and improvement of operational excellence.

The Code of Conduct is the principal document explaining the standards and norms of behaviour that Sakhalin Energy expects of the Company's staff.
The use of the Code ensures compliance with the law and enables employees to demonstrate their commitment to the principles and values of the Company.

The Company continuously works to reinforce its staff engagement and two-way communication framework using such methods as direct communication (all staff communication sessions, meetings within each group/department, etc.), as well as various types of electronic and written communications and feedback (see Section 7.3 'Staff communication and engagement').

Corporate values

5.5 RISK MANAGEMENT SYSTEM

Sakhalin Energy considers that an effective risk management plays a decisive role for achievement of the Company goals, and represents an on-going process guided primarily by a 'due diligence' principle, i.e. comprehensive active efforts made to identify the risks throughout the project lifecycle or company activities so as to avoid or mitigate the risk consequences.

Risk management aims to maximise the use of opportunities or minimise the adverse impact of the identified risks, including the risks of losses or failure to achieve the goals, as well as the risks of adverse factors in various areas such as safety, production effectiveness, environment, social areas, observance of human rights, labour relations, occupational health and safety, counteracting corruption, etc.

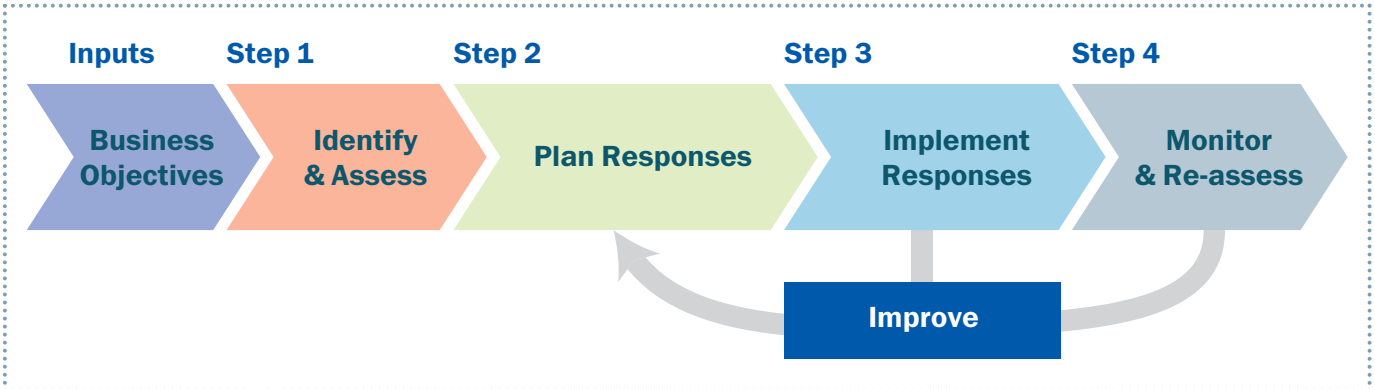
At Sakhalin Energy, a risk is understood to represent a potential situation in future that may impact the achievement of goals. All risks are therefore split into threats and opportunities. Risks include a degree of uncertainty affecting the intended course of action of the business. This uncertainty is to be taken into account and controlled, i.e. managed.

The process for managing risks in Sakhalin Energy involves identifying and assessing risks, planning and implementing the response, monitoring performance, and re-assessing risks on an on-going basis to ensure that areas for improvement are captured and implemented (see Risk Lifecycle Chart). This process is regulated by corporate Risk Management Procedure. The purpose of the Procedure is to define the process by which risks are identified, assessed, and mitigated (implementation of risk controls) in accordance with Sakhalin Energy controls framework (see Risk Controls Framework Chart).

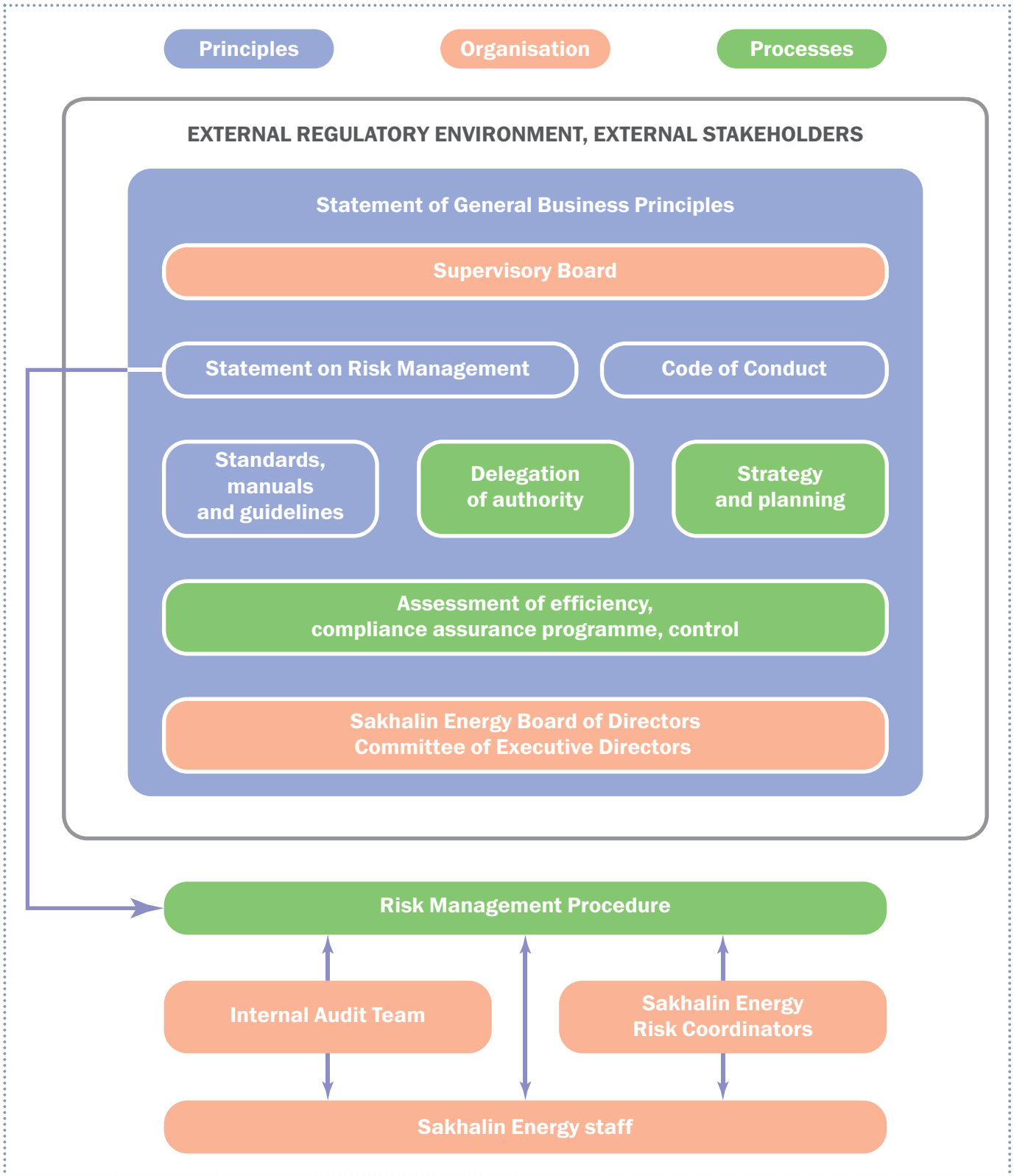
The risk assessment matrix is a key tool to assess risks that is applied to classify actual and potential consequences, determine risk significance and guide appropriate risk management. The risks are assessed in terms of their probability and level of impact on the existing goals.

One of the most important components of efficient risk management process includes the impact assessment. This process is to be carried out before commencement of any works that may potentially produce impact on various areas (for more details see Section 5.6.2 'Impact Assessment').

Risk lifecycle



Risk management is the responsibility of those who are accountable to deliver the associated objectives. Each Director of the Company shall apply proactive risk management as an integral part of their management activities. Risk control shall be exercised by applicable risk owner (Risk Coordinator), the Company's Assurance Committee which consists of the Company Executive Directors, and Board Assurance Committee. See Chart "Risk Controls Framework".



Listed below are the risks, which are believed by the Company to be essential, and associated controls.

Risks	Controls
Operational excellence (risks — opportunities)	Many Sakhalin Energy processes can be improved to become more effective and/or more efficient, to enable the Company to realise its vision of becoming the premier energy source for Asia Pacific. Controls in place: In 2010 the Company worked out strategy for achievement of operational excellence — operational excellence programme (for more details see Section 4.3 'Operational Excellence Programme'). In 2011, special steering committee was set up (Operational Excellence Committee); the committee coordinates activities, conducts monthly sessions and has regular review at CED of progress, including quarterly progress reviews; operational excellence programme is communicated and discussed to (with) all company staff for their contribution.
Commercial risks	
Cost management	Control around investment decisions leading to optimal usage of scare resources and challenging of the costs to use budgets effectively are main elements for cost management. Transparency, awareness, efficiency, cost and contract management focus on reducing long term cost structure. Cost management strategy of the Company is supported by Journey book, business plan and operational excellence programme.
Social risks	
Staff retention, competence and succession plan	Recruiting and developing of Russian staff is a key element of our Company to operate successfully and is essential to ensure sustainable business. There is a risk that recruitment or retention of Russian nationals falls behind requirements due to the current labour shortages in oil and gas markets. Successors pool planning, talent retention strategy and development policy are in place to reduce risk's exposure (see Section 9.1 'Personnel: Management and Development').

Risks	Controls
Occupational illnesses risk	The Company uses the following controls to reduce the risk of occupational illnesses in view of harmful occupational factors: assessment of health risks for personnel working at the Company assets; in-process control of harmful factors; workplace assessment; initial and periodic medical examinations; control for compliance with job instructions during works; control over use of personal protection equipment; sanitary awareness events to prevent occupational illnesses (see Section 9.3 'Personnel Health Protection').
Environmental risks	
Risk of hazardous invasive organisms' penetration to Aniva Bay due to ballast water discharge from vessels in Port Prigorodnoye	According to the approved procedure for ballast water discharge from LNG and oil tankers to Aniva Bay, the risk of invasive organisms' penetration to the bay is controlled as follows: mandatory replacement of ballast water in the open waters of the Sea of Japan and the Pacific Ocean; minimisation of the amount of ballast water being discharged; sampling and quality control of ballast water in oil- and gas tankers before it is discharged to Aniva Bay; regular monitoring of Port Prigorodnoye water area to reveal possible changes in flora and fauna caused by ballast water discharge (see Section 8.2.1.6 "Ballast Water Control").
Risk of invasion by alien flora to the environment through seeds during RoW repairs	According to the Company's biodiversity standard, basic controls of alien flora invasion risks during RoW repairs include: minimisation of soil disturbance; shortest recovery of vegetation on disturbed sites; minimisation of probability of disturbed sites' invasion by alien seeds; and regular monitoring of disturbed sites to reveal alien flora and assess the risk severity and effectiveness of the actions being taken (see Section 8.3 'Maintaining Onshore Pipeline Right of Way').
Risk of collision with marine mammals	According to the Company's marine mammal protection plan, the following actions are taken to reduce the mentioned risk: control over vessel movements by establishing navigation paths, with an obligation for all vessels to move only within such paths except as otherwise required by safety considerations or other emergency reasons or allowed by special permit; restrictions on the vessel speed (not to exceed 21 knots within navigation paths); use of duly trained marine mammal observers on basic types of vessels (see Section 8.2.2.1 'Monitoring of Western Gray Whales').

Risks	Controls
Risk of noise exposure during operations of assets and vessels and during seismic survey	According to the Company's marine mammal protection plan, the following actions are taken to reduce the noise exposure risk for marine mammals: acoustic monitoring to monitor noise levels in Western Gray Whale feeding areas; use of equipment and procedures producing the minimum level of noise impact; helicopters shall fly at least 300–450 m above sea level. Western Gray whale monitoring and adverse impact mitigation programme was highly estimated internationally (see Section 8.2.2.1 'Monitoring of Western Gray Whales'').
Risk of exposure on Steller's sea eagle and other bird species	According to the Company's biodiversity standard, basic controls of the risk of exposure on Steller's Sea eagle and other bird species include: hazard identification and risk assessment; implementation of Steller's Sea Eagle investigation and monitoring programmes; routing of helicopter flight paths with account of location of birds' nests and seasonal migration paths; establishment of protection zones (500 m from any active nest of Steller's Sea Eagle) where no works are permitted; monitoring of the Company personnel access to birds' habitats during nesting and migration (see Section 8.2.2.2 8.2.2.2 'Steller's Sea-Eagles Monitoring').
Pipeline Right of Way	Heavy rainfall in 2009 summer season has caused riverbed and river bank erosion that reduced integrity safety margins, integrity itself has not been compromised. It required repair works. Currently, regular monitoring and geotechnical and other studies are conducted in the right of way, the results of which are recorded to take necessary steps. Areas of concern are assessed, following which the scope of work and schedule are prepared. RoW controls include: helicopter surveys, studying river crossings, studying rivers with the use of geomatics principles, monitoring of hydrological characteristics of rivers, studies of hazardous geological processes and cover layer thickness, annual core research: inspection of cathode protection systems, vegetation growth analysis, soil local monitoring, groundwater studies, orbital survey of the pipeline right of way and studying wetlands (see Section 8.3 'Maintaining Onshore Pipeline Right of Way').

Risks	Controls
Safety risks	
Production safety	Process safety risks controls in place: process safety requirements are covered in the PSM (process safety management) standard and its implementing; process safety improvement initiatives as part of operational excellence programme, asset self-assessments, audit/external verifications, etc.
Personnel safety risks	The most serious risks in this group are those associated with lifting works and electric safety issues. To reduce personnel safety risks during lifting works to as low as reasonably practicable (ALARP), basic controls include, but are not limited to, the following: performance of careful assessment of risks during lifting works and preparation of a detailed lifting pattern describing all of the phases and indicating weight of load, capacity of lifting device, etc.; ensuring competence of personnel involved in lifting operations (crane operator, slinger team); regular technical inspections and checks of all lifting equipment. To reduce personnel safety risks concerning electrical safety issues, basic controls include the following: issue of permits to work and carrying out of risk assessment; regular inspections of electric systems for damages; timely testing of all electric equipment units; securing wires, where possible, above the ground level; protection of high-voltage wires against possible damages, their clear designation; protection of wires and electric outlets against groundwater, rain and snow; repair of electric equipment only by qualified staff; assigning persons responsible for first-aid treatment in the event of electrical shock.
Road safety	The volume of vehicle movements was gradually reduce with the transition to the operations phase but risk levels remain high over the life of the assets (still high volume of road traffic, often in difficult conditions). The most important factors of the risk are that contractors are not aware/understand and thus not following Sakhalin Energy road safety requirements; drivers' behaviour is continually substandard; improper organisation of journey management process for high risks category journeys; insufficient competence of drivers. Controls in place: road safety requirements are covered in the road safety standard and monitoring programme; Road Safety Team interacts with contract holders on any non-compliance issues; gatekeeper programme is in place; journey management process is developed and implemented; a number of actions is taken in terms of Road Safety Partnership (since 2011—Sakhalin Road Safety Council, see Sections 9.2.2 'Road Safety' and 9.5.8 'Sakhalin Road Safety Council').

5.6 HSE AND SOCIAL PERFORMANCE MANAGEMENT

5.6.1 HSE AND SOCIAL PERFORMANCE MANAGEMENT SYSTEM

The Company pursues the goal of no harm to people, protecting the environment and contributing to sustainable development, and this attitude is beneficial to the people of Sakhalin and other key stakeholders.

The Russian Federation and Sakhalin Oblast enjoy various benefits from the Sakhalin-2 Project, including multi-billion investments, high local employment, involvement of Russian contractors, etc. However, due to its scope and complexity, the Project can potentially generate environmental and social impacts, and the Company has committed to deal with these impacts in a systemic way so as to minimise risks and prevent negative consequences. To achieve that goal, the Company uses a preventive approach, with a strong focus on risk management and social impact assessment (see Section 5.5 Risk Management).

COMMITMENT AND POLICY ON HEALTH, SAFETY, ENVIRONMENT AND SOCIAL PERFORMANCE

We aim to have health, safety, environment and social performance (HSE and SP) we can be proud of, to sustain the confidence of customers, shareholders and society at large, to be a good neighbour and to contribute to sustainable development.

COMMITMENT

In Sakhalin Energy we all commit to:

- Pursue the goal of no harm to people.
- Protect the environment.
- Respect our neighbours and contribute to the societies in which we operate.
- Use material and energy efficiently to provide our products and services.
- Develop energy resources, products and services consistent with these aims.
- Work to prevent and mitigate all negative HSE and social impacts of our business operations.
- Publicly report on our performance.
- Play a leading role in promoting best practice in our industries.
- Manage HSE and SP matters as any other critical businesses activity.
- Promote a culture in which all Sakhalin Energy staff share this commitment.

POLICY

Sakhalin Energy:

- Has systematic approach to HSE and SP management designed to ensure compliance with the law and achieve continuous performance improvement.
- Sets targets for improvement and measures, appraises and reports performance.
- Requires contractors and subcontractors to manage HSE and SP in line with this policy.
- Will use its influence to promote this or an equivalent policy in company related activities which are not under its direct control.
- Engages effectively with neighbours and impacted communities.
- Includes HSE and SP performance in the appraisal of all staff and rewards accordingly.

.... all of us have a duty

"Each of us has a right and duty to intervene with unsafe acts and conditions or when activities are not in compliance with this HSE and SP commitment and policy."

Andrei Galaev
Chief Executive Officer

Originally published in 2001 and updated by the Committee of Executive Directors in 2011.

Sakhalin Energy
To be the premier energy source for Asia-Pacific

The HSE and Social Performance (SP) management is an integral part of the corporate management system. Sakhalin Energy is guided in its HSE and SP activities by the following three key policies:

- 'Sustainable Development Policy';
- 'HSE Commitments and Policy on Health, Safety, Environment and Social Performance' adopted in 2001 and recently updated in 2011; and
- 'Health, Safety, Environment and Social Performance Management System'.

The above documents are approved by CED and signed by the Sakhalin Energy CEO; and they are communicated to all staff and contractors.

Such comprehensive approach to the HSE and SP management system is designed to ensure continuous improvement in this area.

The Company's integrated health, safety, environment and social performance management system provides the right tools for Sakhalin Energy to manage relevant impacts and risks. The system applies to all the Project assets, facilities and operations, including those undertaken by contractors. Sakhalin Energy sees the management of such risks as critical to the business success. The Company will update and optimise this management system.

The HSE and SP management system is based on the Plan-Do-Check-Act methodology of IS014001 and OHSAS 18001

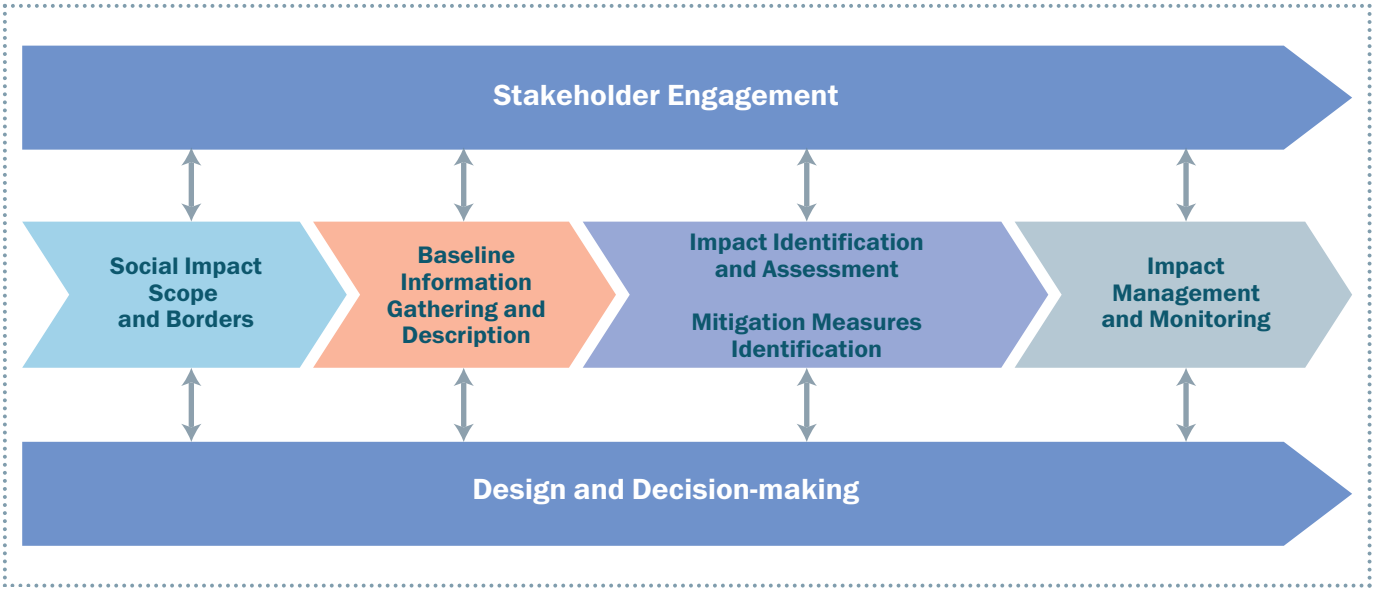
management system standards, which is meant to:

- Set objectives and establish procedures required for achieving the desired results in accordance with the Company HSE and SP policy, which includes definition of legal and other requirements, risk management and problem solving, identification of hazards, risk and impact assessment, determination of controls, development of objectives and annual improvement plans.
- Introduce procedures, including the organisation, awareness, training and competence processes, contractors management, participation and consultation, change management, emergency preparedness and response, as well as operational controls addressing occupational health, personal safety, asset integrity and process safety, transportation, environmental protection, social performance, including indigenous peoples, cultural heritage, land acquisition, resettlement and supplemental assistance, public consultation and disclosure, grievances, and social investment.
- Control and determine process effectiveness in compliance with the tasks, legal and other requirements, reporting on the results, incidents and non-compliance, lessons learning, remedial and preventive measures and inspection and audit.
- Review the management system on a regular basis and take measures for continuous improvement of the Company HSE and SP.

Management structure of integrated HSE and SP management system in Sakhalin Energy includes HSE and Social Management Committee that oversees the overall compliance. The committee is chaired by CEO. HSES manager reports to CEO and oversees development, implementation and monitoring of management system. The HSE teams have been formed in directorates and departments to ensure compliance with industrial safety and HSE standards.

Company's commitments, undertaken on the basis of the ESHIA carried out prior to Phase 2 construction operations, are covered by HSE and Social Action Plan (HSESAP).
In 2011 HSESAP revision 3 was published that consolidates all HSE and SP internal and external standards applying to Company's activities in health, safety, environment and social areas.
HSESAP commitments are integrated in Company's policies and standards and are mandatory for all Company's employees. HSESAP details the measures agreed between Company and Lenders to prevent and mitigate identified adverse HSE and SP impacts. There are about 100 documents which cover key standards, plans and procedures of the Company.
The Plan is publicly available and placed on Company's web-site (in Russian and English), in Company's information centres and libraries of townships located close to Company's production facilities. Some of these materials are available in Japanese for Japan stakeholders. Implementation of this Plan is regularly controlled by the Company, Lenders and their consultants. Lenders Audit outcomes are made available for general public.

Eriophorum russeolum, seen everywhere on Sakhalin



Impact assessment process

5.6.2 IMPACT ASSESSMENT

Company's commitment to perform impact assessment prior to any new activities and significant changes in existing project is the basis of due diligence approach and all risk management processes.

Sakhalin Energy sees the impact assessment as a process of forecasting and managing impacts through improvement of operational decisions, minimisation of adverse impacts and expanding good opportunities.
During this process any potential environmental, social consequences are being analysed, including impacts on human rights, as well as impact from current or future activities on the health of personnel or population.

Impact management is targeted at minimisation of adverse impact and increase of benefits from Company's activities. Sakhalin Energy endeavours to avoid or reduce impacts to a minimum or compensate them if they occur. The following measures are developed when any potential negative impact has been identified:

- Impact avoidance;
- Compensation;
- Minimisation of possibility for impact;
- Lessons learned;
- Impact minimisation; and
- Impact prevention.

An inseparable part of any impact assessment of the Company is stakeholders engagement.

Previous environmental and social impact assessments (including required amendments and special studies) have been taken into consideration in the Company's standards, and its current activities are based on relevant plans and programmes. Results of assessments are published on the Company's web-site.

Their accuracy and inclusiveness are controlled both by governmental authorities and project Lenders.

Audit process

5.6.3 CHECKS AND AUDITS

For control of all elements of HSE and SP management system internal and ex-

ternal audits and verifications are performed in accordance with annual plans.

External audit is conducted by representatives of Shareholders, Lenders, external certification agencies, etc. Internal audits involve specially trained auditors — qualified Company staff and specialists of Shareholder companies.

16 audits were completed in 2011 on the HSE and SP management systems, including 6 external and 10 internal audits.

Lenders' consultants reports

Level	Number	Content
External	6	• Social (control of compliance with HSE and SP standards — by lenders representatives — independent environmental consultant)*.
		• Social (control of compliance with Sakhalin Indigenous Minorities Development Plan, SIMDP)*.
		• Social (control of compliance with Resettlement Action Plan, RAP)*.
		• Assessment of social investment programmes implementation.
		• Surveillance audit.
		• Precertification ISO 14001 and OHSAS 18001 audit.
Internal	10	• Three audits with the involvement of Shell and Corven auditors: marine operations audit, HSE organizational effectiveness review and onshore HSE audit
		• Six audits of the HSE risk control frameworks at LNG/OET and offshore platforms, and HSE management system performance during logistics operations, well drilling and construction, and project activities.
		• One audit of social performance management system.

* Audit reports are published.

Checks and audits of HSE and Social management systems in 2011

6.1 BENEFITS FROM SAKHALIN-2 FOR THE RUSSIAN FEDERATION AND SAKHALIN OBLAST

Sakhalin-2 project opened up new energy markets for Russia

Sakhalin Energy's work on Sakhalin-2 project boosted development of many Sakhalin and other Russian enterprises, generating more employment and ensuring higher salaries, better social programmes and larger tax payments, increased retail trade. The Project has contributed to a wide-ranging revitalisation of the economy on Sakhalin Island, generally referred to as a 'multiplier effect.'

- Some $3 billion aggregate payments to the Russian budget since the launch of the Project.
- Access to new technologies and business development opportunities for Russian companies.
- Over $16 billion in the cost of contracts awarded to Russian companies and organisations.
- Experience in managing an integrated high-tech project in a remote location in sub-Arctic conditions.
- Significant payments to the budgets of Sakhalin Oblast and local municipalities.
- Significant upgrades of the Sakhalin infrastructure (ca. $600 million).
- Notable increase in local employment (both direct and indirect effect) and local workforce quality.
- Increase in salaries and living standards.
- Many contracts and subcontracts awarded to Sakhalin companies that took active part in Sakhalin-2 project, enhancing their opportunities and competitiveness.
- Extensive implementation of the Company's social and public initiatives on Sakhalin Island.

In 2011, according to the International Accounting Standard (IAS), revenues of Sakhalin Energy amounted to $8,640.7 million, and its total profit to $4,028.9 million.

6.2 THE TAKE OF THE RUSSIAN FEDERATION AND SAKHALIN OBLAST

In 1994, Sakhalin Energy signed a Product Sharing Agreement (PSA) with the Russian Federation, represented by the Government of the Russian Federation and the Administration of the Sakhalin Oblast. The PSA is a commercial contract between an investor and a state, allowing the investor to make large-scale, long-term and high-risk investments under a stable tax regime.

Production sharing between the Company and the state is triggered by full recovery of the investor's costs (with the specific shares of each party not fixed and depending on the project economics). The PSA also provides that the Company should pay a profits tax under Russian legislation, and the profits tax for the Company is currently payable at the rate that is higher than the profits tax rate charged from the non-PSA tax payers.

According to the PSA, the state reserves ownership title to the subsoil field and grants an investor with an exclusive right to develop a subsoil field and an investor, undertaking to develop the fields by its own means and at its own risk, invests funds required for the exploration and development of the fields.

The PSA provides that some types of taxes and customs duties are substituted with production sharing. This effectively means that instead of some taxes (including tax on the extraction of commercial minerals, corporate property tax, etc.) and fees, Sakhalin Energy has been paying royalty (a fee for subsoil use) since the start of the Sakhalin-2 oil production.

The Russian Party's (the Russian Federation) take from the Sakhalin-2 project includes various fees, tax and royalty payments, the Russian Party's share of profit production and the profits tax payment by the Company. The latter two types of payment occur after full recovery of the Project costs. According to the latest assessments, production sharing starts in spring 2012, two years earlier than initially expected.

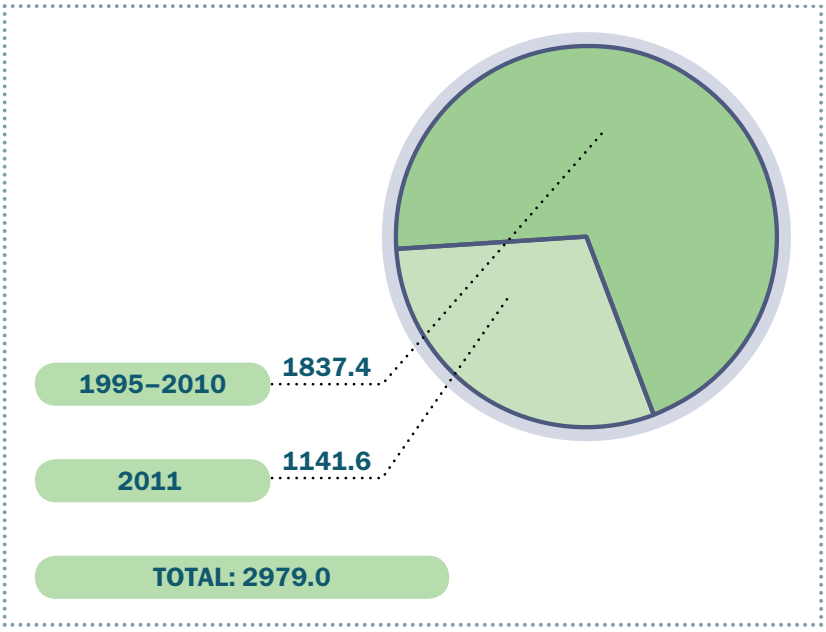
In 2011, subsoil royalties increased by $155 million in comparison with 2010 and amounted to $635.9 million.

In 2011, Sakhalin Energy paid to the Russian budgets of all levels $1,141.6 million in taxes and other statutory payments, which is $603.3 million (or 112%) more than in 2010.

For 1995-2011, the Russian Party budget gain from Sakhalin-2 PSA reached some $3 billion.

Taxes and other mandatory payments by Sakhalin Energy have accounted for a significant part of the revenues received by a vast majority of the municipalities involved in the works by the Project. The Company paid $60.41 million taxes and other mandatory payments to Sakhalin Oblast and local municipalities in 2011.

Total Russian Party take from the Project, million dollars



6.3 RUSSIAN CONTENT

Meeting the Russian Content requirements is Sakhalin Energy's strategic priority. Russian companies involved in the Project have unique access to the world best practices, international business opportunities and management skills.

The Russian Content is the use of Russian labour, materials, equipment, and contract services. The PSA requires the Russian Content to be measured in labour input (in man-hours) and the volume and quantity of materials and equipment (in weight units) delivered by Russian contractors being both legal entities and individuals. Sakhalin Energy will use its best efforts to achieve a level of the Russian Content of 70% over the life of the entire Sakhalin-2 project. The utilisation of Russian Content in 2011 was 96% in man-hours and 88% in materials and equipment.

Sakhalin Energy keeps up intensive effort to increase Russian Content in the Sakhalin-2 project, being guided in this work by the Russian Content Policy and Russian Content Development Strategy (both documents are available at Sakhalin Energy website). These efforts mainly consist in the long-term planning of the procurement and contracting demands of the Sakhalin-2 project, timely identifying opportunities for the Russian Content development and providing targeted assistance to Russian companies so as to increase their competitive potential.

Russian Content can also be measured in value terms, which is also taken into account by the Company. The Company demonstrated very good Russian Content performance in value terms as well. The total value of contracts awarded to Russian companies from the Project start till the

Signing a contract with Rosneft Marine UK Ltd. on delivery of bunker fuel in Nakhodka port

Workshop for the current and potential contractors of the company

beginning of 2012 is $16.4 billion. In 2011, the value of new contracts and amended contracts with Russian companies was $1.281 billion, or 88% of the total contract value.

In addition to new jobs (especially in the construction phase) and personnel and capacities' development, Russian companies also benefit from the following:

- improvement in quality of services and materials, as well as safety standards;
- access to technologies and unique experience being new to Russia;
- doing business with international partners and setting up joint ventures; and
- higher competitiveness as bidders in other project operators' tenders, both in Sakhalin and internationally.

Vendor Development Programme

The long-term Vendor Development Programme is a unique programme developed by Sakhalin Energy, intended to increase the competitiveness of Russian companies and share the unique experience of the international oil and gas project Sakhalin-2. The programme contains a number of training modules and informs Russian vendors about various ways of cooperation with Sakhalin Energy and other major operators.

The coordinators of Vendor Development Programme held 13 workshops in 2011 for Sakhalin Energy current and potential contractors. These workshops were attended by 59 people from 27 Russian companies.

Some of the contracts awarded to Russian companies in 2011:

- **to SMNM-VECO for construction of the Boatasino Gas Transfer Terminal;**
- **to Gazprom Neft Shelf for short-term charter of the Yu. Topchev ship for a transit period;**
- **to Romona for a vessel with a remote operated vehicle (ROV) and for offshore survey and inspection;**
- **to NEC for air freight forwarding;**
- **to SOGAZ for physical damage insurance of the offshore facilities.**

7.1 STAKEHOLDER ENGAGEMENT: STRATEGY, PRINCIPLES, MECHANISMS AND TOOLS

Sakhalin Energy Statement of general business principles

Assuming that regular and meaningful engagement with communities and key stakeholders is an important element of its successful operations, Sakhalin Energy has been sharing information and consulting with stakeholders since the start of the Sakhalin-2 project.

Stakeholders are organisations, companies, individuals, or groups who have a vested interest in the Company, i.e. such individuals or entities that are influenced by the Company or themselves influence or can potentially influence the Company operations.

The Company has defined the range of stakeholders, which includes the following groups: personnel, community, authorities, shareholders, lenders, customers, suppliers and contractors, stakeholders in Japan, international organisations, public organisations and other non-governmental and non-profit organisations, media and other stakeholders.

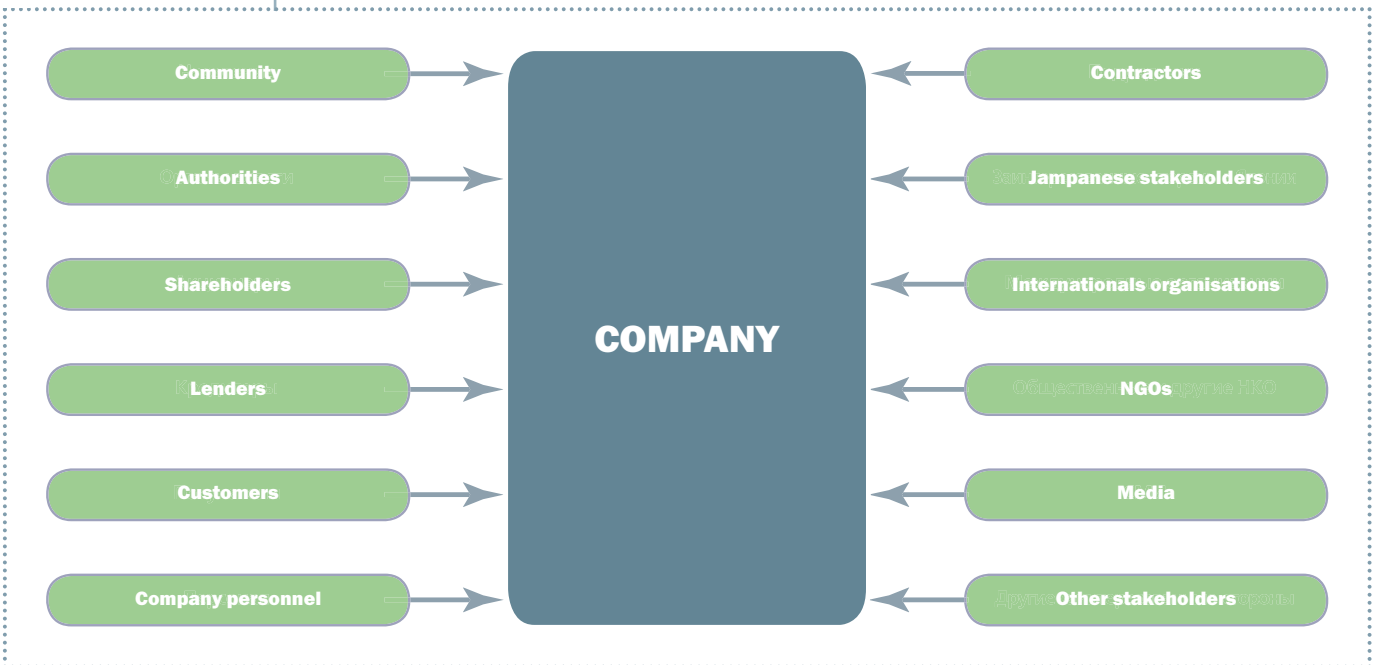
Sakhalin Energy's engagement with stakeholders is based on its commitments as set forth in the key corporate documents, which include:

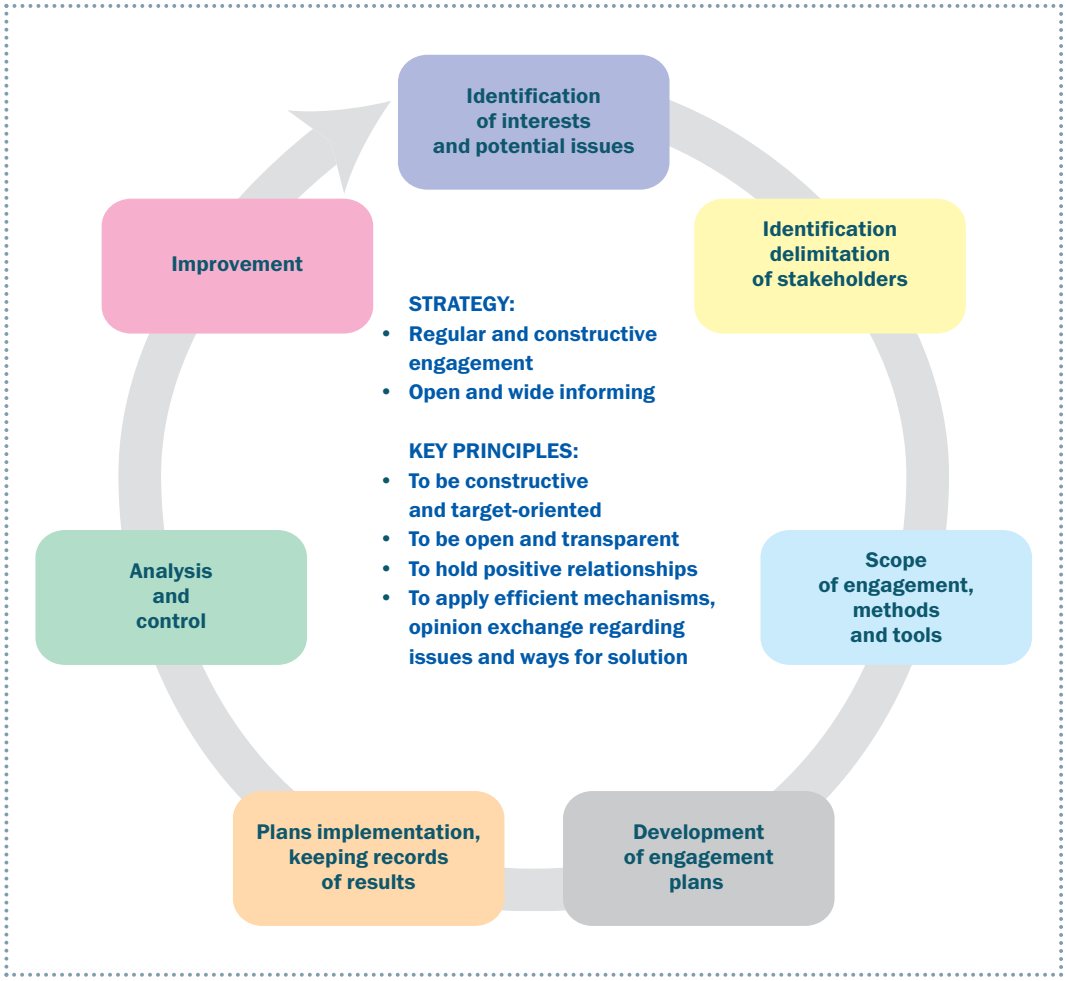
- Statement of General Business Principles;
- Sustainable Development Policy;
- HSES Commitments and Policy;
- Social Performance Standard (see Section 'Public Consultations and Information Disclosure'); and
- Public Consultation and Disclosure Plan (updated on an annual basis).

The above-listed documents define the engagement strategy, principles, mechanisms, and tools and are widely accessible.

Stakeholder engagement mechanisms and tools are selected based on the stakeholder engagement goals and depending on the stakeholder group (for more detail see Public Consultations and Disclosure Plan).

Company stakeholders





7.2 STAKEHOLDER ENGAGEMENT PERFORMANCE IN 2011

In 2011, the Company continued its systematic and consistent engagement with its stakeholders.

The key stakeholder engagement activities in 2011 included:

- engagement with personnel (for more detail see Section 7.3);
- public, group and individual consultations to update the participants on the latest developments and other aspects of the Company activities, and receive feedback; information sharing through the following tools: Sakhalin Energy public website, Energy weekly TV programme broadcast in Sakhalin, Vesti monthly newspaper, information reports and printed and other materials distributed in communities, media (radio, newspapers and TV), etc.;
- company information centres set up in local libraries (read more on Information Centres in Section 7.4);
- indigenous people engagement in the framework of the Sakhalin Indigenous Minorities Development Plan (SIMDP) (for more detail see Section 7.5);
- non-government and non-profit organisations engagement (for more detail see Section 7.6);
- engagement with Japanese stakeholders (for more detail see Section 7.7); and
- customers, suppliers and contractors engagement (for more detail see Section 7.8).

In addition, as per GRI international standards, special consultations with

First round of dialog with stakeholders in the frame of preparation of 2011 Sustainable Development report

stakeholders were held as part of the preparation process of the nonfinancial report. These consultations were attended by 48 representatives of local, regional and international NGOs (including environmental and social NGOs), representatives of the indigenous peoples of Sakhalin North, Sakhalin legislative and executive authorities, social organisations, etc.

Key statistics of interaction in 2011:

- **10 public meetings in communities that are located near facilities or accommodate the Company's facilities, with participation of more than 100 Sakhalin residents.**
- **4,077 visitors of information centres;**
- **20 public meetings in areas of compact settlement of Sakhalin Indigenous Minorities with participation of more than 350 IP representatives.**
- **Two rounds of consultations with stakeholders within the framework of sustainable development report preparation in 2011.**

7.3 ENGAGEMENT WITH PERSONNEL

Engagement with personnel is an important component of strengthening and further development of Sakhalin Energy's corporate culture (see Section 5.4 'Corporate Culture') and is carried out by means of an internal communication system, which includes the following:

- Regular staff communication meetings to inform employees on the results of the latest meetings of Committee of Executive Directors, Board of Directors and Supervisory Board, and on other important developments in Sakhalin Energy.
- The Vesti corporate newspaper and various information/reference materials. The Vesti newspaper is popular not only among the Company staff, but also among many communities in Sakhalin (the newspaper is distributed through the Company's information centres and publicised on company's website).
- Opinion surveys among the Company staff on a wide range of topics. In 2011, research was conducted to study involvement of staff in the Company's activities and to determine the level of under-

standing and acceptance of corporate values as well as preparedness for contributing to achievement of the general result. Surveys were conducted to study involvement of staff in sports activities, their interest in additional educational services for school-aged kids and others. Besides, 10 quizzes were conducted through the internal corporate website on various subjects, including HSE, social activity, and personal interests.

- Messages distributed through the daily news bulletin on intranet and e-mail from the Company directors.
- Dissemination of printed information materials such as posters, booklets, brochures, etc. to inform employees about various aspects of safety, operational excellence, contract management and HR issues.
- Special information billboards in all Company offices used for announcements, posters and other information.
- Workshops and information sessions to present and explain the new Company's procedures and programmes. Very popular are lunch-and-learn sessions, when during their lunch employees can learn about work and achievements of various teams and departments.
- Intranet resources available to all employees, with the Company information (e.g. policies, procedures, schedules etc.) is updated on a regular basis.

Another significant tool of engagement between the Company and its staff is the Whistle Blowing Procedure. Compliance with this procedure is a mandatory requirement for all Sakhlain Energy staff and its contractors. The procedure is used to address various grievances associated with Sakhalin Energy's operation, such as grievances connected with actual or potential breaches of legal requirements, the Company's business principles or commitments. Besides, the Company provides a confidential hotline (a telephone number and e-mail address), through which violations of business principles, misconduct and abuses, a threat of the Company's reputation damage, etc. can be reported (for more detail see Section 9.4 'Human Rights').

On 11 November 2011, Sakhalin Energy held a '100 Workshop ' devoted to discussion of the Company's corporate values and main activities for 2012.
Traditionally, this event is referred to as the '100 Workshop' because at least 100 employees are involved in it. Along with the directors, the Company's leadership forum members and heads of business units, representatives of all directorates also take part in the forum.
The 2011 the workshop was held in a new format. All directors talked about their vision of the Company development. They highlighted the main areas of work improvement and tasks aimed at maintaining the spirit of winners' team.
This work resulted in issue of a traditional Company's Journey Book for 2012–2016d. The book was published in January 2012; each employee received a copy.

100 Workshop

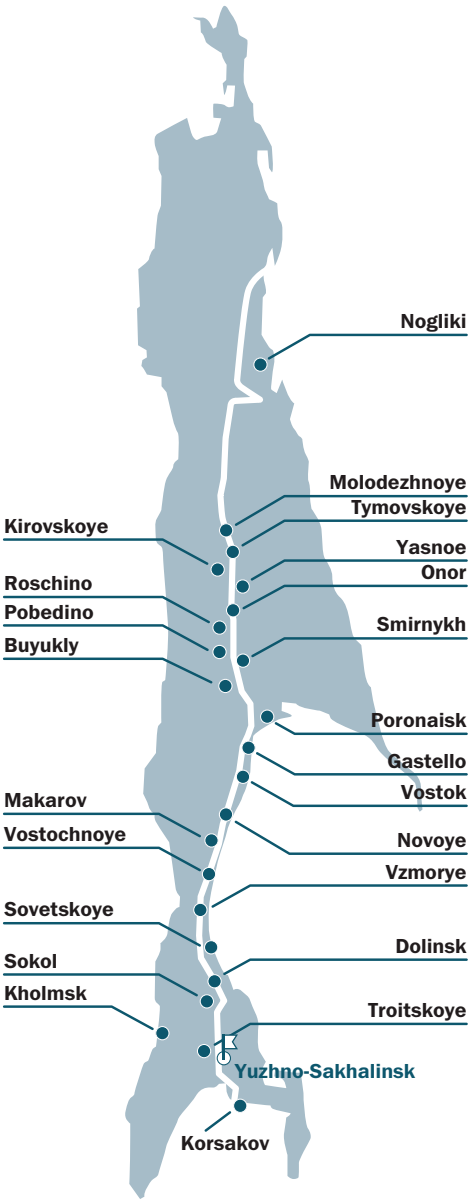
7.4 INTERACTION WITH LOCAL COMMUNITIES THROUGH THE COMPANY INFORMATION CENTRES

The activity of Sakhalin Energy's 23 information centres in 2011 showed that this network is an efficient, accessible and important tool used for the interaction between the Company and local communities.

It is crucial that the community awareness of the availability of Sakhalin Energy's information centres and the various ways of engaging with the Company continue to be maintained on a high level in the Project's operations phase. It is therefore indicative of good practice that Sakhalin Energy advertises its information centres through a range of methods, including printed media (local newspapers), information boards, posters/notices in the local communities and telephone directories. It is important that such an approach remains actively in place, thereby allowing the Island's residents to keep abreast of the available mechanisms of interaction with the Project.

Extract from the report of ENVIRON UK,
Lenders' independent consultant,
following the 2011 audit results

Sakhalin Energy information centres map



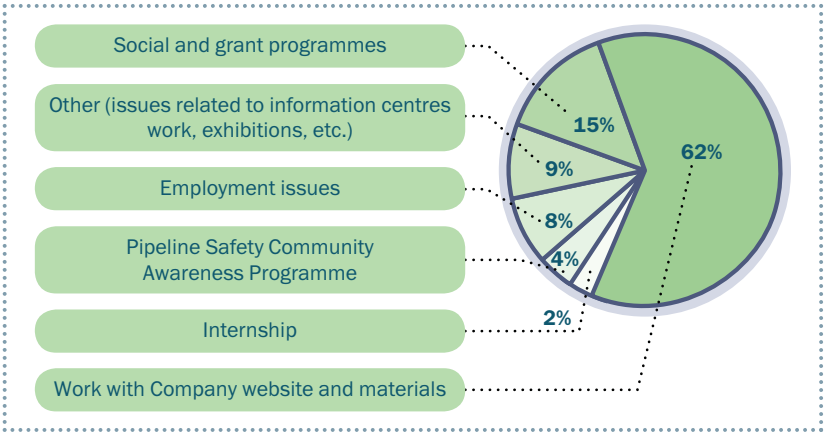
The information centres were set up in district/village libraries in communities along the route of the Trans-Sakhalin pipeline system and in the vicinity of other project facilities in 2009–2010. The information centres have information display stands, office equipment, furniture, and Internet connection, which both helps to reach the Company's objectives and enhances functional capabilities of the libraries.

Participants of the workshop for the company's information centres staff

Information centres visitors are consulted and served by library staff during the usual library working hours. In October 2011, the librarians attended a regular training workshop organised by the Company in Yuzhno-Sakhalinsk.

What information centres do:

- update on a regular basis the information at the Company's display stands;
- advise on how to find information at the Company website;
- assist in preparing and submitting grievances to the Company in accordance with the Company's grievance procedure;
- provide visitors with the Company printed materials (as requested);
- assist in preparing and submitting applications for numerous grant projects of the Company;
- provide support to the Company's local campaigns (e.g.: St. George Ribbon campaign).



Subjects of interests applied to Information centres

The total of 4,077 people visited Sakhalin Energy's information centres in 2011, which is 8% more comparing with the previous year. The focus of the people's interest was on employment opportunities, additional information on the Company and Sakhalin-2 project, also participation in the Company social programmes and public campaigns. Statistics on the queries is presented in the Information Centres Statistics chart.

7.5 COOPERATION WITH SAKHALIN INDIGENOUS PEOPLES

In 2011, the Company continued regular engagement with the Sakhalin indigenous peoples (IP) in areas of their traditional living and economic activities. A highlight of 2011 was successful start of the second Sakhalin Indigenous Minorities Development Plan 2011-2015 (hereinafter 'SIMDP' or 'Plan', for more detail see Section 9.5.9). Following the recommendations obtained during preparation of the second Plan, the partners placed special emphasis on informing the population about the programmes being implemented and new opportunities. In order to achieve this, the following activities had been undertaken in 2011:

- Special information boards for placement of materials regarding the Plan, its programmes, news, etc. were installed at all communities of IP traditional living and economic activities.
- Regular information bulletin (5 issues) and other printed materials (booklets, brochures), pertaining to the Plan, were issued.
- Web-site of the Plan was actively used (www.simdp.ru).
- Individual, group and public meetings with IP representatives were conducted (see www. simdp.ru).

Overall, the SIMDP philosophy and its mechanisms are considered as a progressive initiative that establishes an illustrative example of forging the effective collaboration between a corporation and the Indigenous Peoples, based on the principles of trust and partnership. This approach is in compliance with the Company's commitments as per the Health, Safety, Environment and Social Action Plan.

Extract from the report of ENVIRON UK, Lenders' independent consultant, following the 2011 audit results

May 2011, Washington, the USA: SIMDP was presented during the roundtable discussion with participation of representatives of the World Bank and International Finance Corporation that were interested in experience gained on Sakhalin Island.

In March–April 2011, representatives of the Regional Council of Authorised Representatives of Sakhalin Indigenous Peoples, Sakhalin Energy and the Sakhalin Oblast Government conducted public consultations and meetings with representatives of administrations of municipal entities at nine communities of IP traditional living and economic activities. The meetings had the form of a dialogue. First, their participants were informed about implementation of the second SIMDP, the grievance procedure for management of SIMDP-related grievances, opening of a contest under the traditional economic activities support programme, work of the Social Development Fund Council. After that, discussions took place regarding the above themes and other issues related to management and implementation of the Plan in general and its programmes. In all, 200 persons took part in these discussions.

The second round of such consultations was held in November 2011 at 11 communities of IP traditional living and economic activities. The participants were informed about implementation of the Plan, measures for mitigation of Sakhalin-2 impact , 2011 projects and events and the new programme of microloans for development of traditional economic activities. Then, discussions and exchange of opinions took place. After the meetings, individual consultations were held.

Active participation of IP representatives in SIMDP management is a critical component of the approach of three partners (the Company, the Regional Council of Authorised Representatives of Sakhalin Indigenous Peoples and the Sakhalin Oblast Government) to development of the Sakhalin indigenous peoples' capacity. The Plan itself as well as the process of its development and implementation are built upon the approaches that involve IP in management of the Plan in the most efficient way and provide for the following:

- giving consideration to the cultural characteristics of IP during engagement and organisation of consultations;
- recognition of the necessity to achieve consensus in the context of both traditional and innovative structures, values and practices;

May 2011, New York, the USA: the tenth annual session of the United Nations Permanent Forum on Indigenous Issues: experience of tripartite cooperation under SIMDP was approved as the world's best practice of engagement.

On 12 September 2011, the International Conference 'United Nations Global Compact in the Russian Federation: Business and Indigenous Peoples' was held. The event was organised by the United Nations Global Compact Network in Russia, the RF Public Chamber, Russian Association of the Indigenous Peoples of the North , Sakhalin Energy and the Batani International Fund of Indigenous Peoples.
The participants discussed experience of engagement between industrial companies and indigenous peoples of Russia and further ways for promotion of best practices in this area.
By the conference decision, experience and approaches of Sakhalin Energy were appreciated among the best practices in the area of engagement with indigenous peoples and recommended for the use by the participants of the United Nations Global Compact Network in Russia and other organisations, and also for development of relevant national and international standards and guidelines.

- recognition of the fact that consensus achievement takes time;
- planning and use of a multi- aspect approach taking into account ethnic, geographic, age-related, social, organisational and gender characteristics;
- emphasis on transparency of actions and timely exchange of information during the entire life of the Plan;
- ensuring open information interchange;
- reliance upon shared responsibility with IP.

7.6 ENGAGEMENT WITH NON-GOVERNMENT AND NON-PROFIT ORGANISATIONS

The Company continued cooperation with local, regional and international NGOs. Consultations were held in various forms, including personal and group meetings and through written correspondence. The most important consultations and meetings are as follows:

- Cooperation with the Japanese stakeholders: Hokkaido authorities, associations of Hokkaido fishermen and other interested groups in Hokkaido on oil spill response and preservation of biodiversity (for more detail see Section 7.7).
- Cooperation with the Western Gray Whale Advisory Panel (WGWAP) for preservation of gray whales as part of developing optimal solutions to minimise impacts on whales. Two meetings with the WGWAP were held in 2011 (in April

and December). In the framework of the above Advisory Panel meetings, the Company met with representatives of World Wildlife Fund (WWF) and Pacific Environment and Resources Centre (PERC).
- Cooperation with the Wild Salmon Centre and the Sakhalin Salmon Initiative in implementation of the programme with the same name.

The Company will continue engagement with non-government and non-profit organisations. The critical areas of work for 2012 include interaction with Japanese stakeholders, work on preservation of Western Gray Whales in coordination with the Advisory Panel and cooperation with the Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities.

7.7 ENGAGEMENT WITH JAPANESE STAKEHOLDERS

Engagement with Japanese stakeholders is important to the Company, considering the proximity of Sakhalin Island to Hokkaido Island. Japanese experts, business people, NGOs, fishermen and other stakeholders are concerned with issues relating to the environmental aspect of Sakhalin-2, specifically oil spill response operations and biodiversity preservation.

The Company has achieved a mutually beneficial and open dialogue with the Japanese stakeholders. In 2011, Sakhalin Energy held a range of consultations and meetings with the Japanese stakeholders, including:
- meetings with the Hokkaido Government (Sapporo, Japan);
- participation in the 26th International Symposium on the Sea of Okhotsk: Oil Spill Response (Mombetsu, Japan);
- meeting with the Okhotsk Environment Protection Net (Sapporo, Japan);
- meeting with the Hokkaido Fisheries Environmental Centre (Sapporo, Japan);
- meetings with representatives of the Japan Coast Guards (Mombetsu, Otaru, Japan);
- participation in the Forum on Sakhalin Projects (Wakkanai, Japan);
- participation in the 7th meeting of stakeholders concerning safety and prevention of catastrophes during navigation of tankers under Sakhalin projects, organised by the Coast Guards of Japan (Otaru, Japan);
- meeting with the president of the Hokkaido University (Sapporo, Japan);
- meeting with the Hokkaido office of the Ministry of Energy, Trade and Industry of Japan.

Meeting with Hokkaido Fisheries Environmental Centre

In 2012, the Company will continue interaction with stakeholders in Japan. It is intended to participate in the 27th international Symposium on the Sea of Okhotsk in Mombetsu, conduct meetings with the Okhotsk Environment Protection Net, the Hokkaido Fisheries Environmental Centre, representatives of the Japan Coast Guards and representatives of the Hokkaido Government.

On 14 June, a delegation of Japanese stakeholders visited opening of the 'Enigmatic World. The Ainu' exhibition in the Sakhalin Regional Art Museum, which presented a unique collection of 12 water-colour paintings by a renowned Japanese painter Byozan Hirasawa from the collection of the Omsk M.A. Vrubel Museum of Fine Arts. Byozan Hirasawa was living among Ainu for almost a quarter of a century, and is considered the most talented Japanese painter who turned to this subject (see Section 9.5.4).

7.8 ENGAGEMENT WITH CUSTOMERS

Maintaining good relations with customers is one of the critical tasks of Sakhalin Energy. This means understanding of our customers' needs and ensuring high quality of our services. Good relations with customers allow achieving the most beneficial crude oil and LNG sales. Sakhalin Energy holds annual forums with customers to discuss issues and subjects that facilitate development of constructive relationship. This involves the issues of transportation and maintenance, safety and environment protection under the Sakhalin-2 project, and many others. In 2011, two such forums, where about 50 representatives of the oil and gas customers took part, were held on Sakhalin Island in March and August.

Regular annual forum of the Vityaz oil blend customers held in Yuzhno-Sakhalinsk in August 2011, gathered representatives of oil refining and trade enterprises from Japan, Singapore and China.

Crude oil customers' forum

7.9 INTERNATIONAL AND REGIONAL COOPERATION

UN Photo/Eskinder Debebe

1 **UN Global Compact LEAD meeting with Ban Ki-moon, UN Secretary-General**

In 2011, Sakhalin Energy continued to promote its reputation as a socially responsible company, both in and outside Russia.

In 2011, Sakhalin Energy took part in a wide range of the following important international and regional events, including:

Sakhalin Energy became the first (and so far the only) Russian company that was chosen by the UN for participation in a new sustainable corporate leadership platform (Global Compact LEAD), launched under the United Nations Global Compact in January 2011. Global Compact LEAD unites 56 companies from 24 countries, including the UK, Germany, Canada, China, the USA and others. All these companies are acknowledged leaders in corporate social responsibility.

- **Presentation of the Sakhalin Oblast in China** (April 2011). The Company was a member of the Sakhalin Oblast official delegation and took part in a three-day presentation of the region and regional experience of cooperation with the Republic of China, representatives of Chinese business and government.

- **Social & Environmental Risk Management Conference** (April 2011, London). Sakhalin Energy presented its experience in sustainable development and engagement with stakeholders at the forum that gathered representatives of the world's leading producer companies.

- **The tenth annual session of the United Nations Permanent Forum on Indigenous Issues concerning economic and social development, culture, environment, education, health care, and human rights** (May 2011, New York). Andrei Galaev, Sakhalin Energy Chief Executive Officer, spoke at the opening ceremony of this international forum. Within the forum framework, the Company also presented its experience of the Sakhalin Indigenous Minorities Development Plan implementation (see Sections 7.5 and 9.5.9).

- **Information session on the application of FPIC** (May 2011, Washington). At the request of the World Bank and the International Finance Corporation, Sakhalin Energy held a workshop, within the framework of which the Company and representatives of Sakhalin Indigenous Minorities shared their experience in use of the 'free, prior and informed consent' principle in mutually profitable cooperation with the developers of international standards.

- **Information session 'Business and Human Rights: New United Nations Standard'** (June 2011, Moscow). The session organised by the United Nations Global Compact Network in Russia was devoted to the 'Guiding Principles for Business and Human Rights' (the so-called 'Ruggie principles'). The Company presented its experience of participation in practical introduction and testing of the Guiding principles and, by the example of out-of-court grievance mechanisms, demonstrated how this new UN standard in the area of human rights could be useful for business.

- **Round-table conference on the ISO 26000 standard** (June 2011, Moscow). The Company took part in discussion of the use and promotion of the new social responsibility international standard, organised by RUIE.

- **The 15th Saint-Petersburg International Economic Forum** (June 2011, Saint-Petersburg). Main economic summit of Russia and countries of the Commonwealth of Independent States, where heads of leading companies from these countries gather to discuss the prospects of economy development. The Chief Executive Officer of Sakhalin Energy takes part in work of the Saint-Petersburg Economic Forum annually.

Andrei Galaev, Sakhalin Energy Chief Executive Officer, was elected the Chairman of the Steering Committee of the United Nations Global Compact Russian Network in March 2011.

- **International Conference 'United Nations Global Compact in the Russian Federation: Business and Indigenous Peoples'** (September 2011, Moscow). Within the conference framework, the best practices of cooperation between industrial companies conducting their activities in the areas of indigenous peoples' traditional living and indigenous communities (see Sections 7.5 and 9.5.9).

General meeting of UN Global Compact Russian Network, Moscow, December 2011

Global Corporate Social Responsibility conference

- **The 15th International Conference 'Oil and Gas of Sakhalin'** (September 2011, Yuzhno-Sakhalinsk). The annual major regional forum, which gathers managers of the region oil and gas sector, representatives of regional and federal executive authorities, as well as leading experts and analysts of the oil and gas industry.

- **International Research and Practice Conference 'Power Engineering of the 21st Century: Economy, Policy, Ecology'** (October 2011, Saint-Petersburg). The Company presented its experience of using innovation technologies during development of the Sakhalin-2 project fields under difficult offshore sub-Arctic conditions.

In 2011 Sakhalin Energy joined the European Business Congress (EBC). EBC is an international non-governmental non-profit organisation. It includes 126 companies, banks and associations from 24 OSCE countries, among them are such major corporations and banks as OAO Gazprom, Exxon Mobil, Daimler, Siemens, Shell, ConocoPhillips, Total, Deutsche Bank, Dresdner Bank, Morgan Bank International, Alcatel, Wintershall, E.ON Ruhrgas, GDF Suez, ENI, Enel, BNP Paribas, USB, Royal Boskalis Westminster, KPMG, SociOtO GOnOrale, and Statoil.

- **International Conference 'The Hydrocarbon Potential of the Russian Far East'** (October 2011, Yuzhno-Sakhalinsk). In the course of this international conference organised under the aegis of the European Association of Geoscientists and Engineers (EAGE), the Company presented six reports based on the practical work results.

- **International Conference 'Oil and Money 2011'** (November 2011, London). Among the participants, there were more than 550 representatives of the oil and gas sector from 40 countries, who discussed present-day energy issues. The Chief Executive Officer of Sakhalin Energy told about the activities and prospects of the Company.

- **Global Corporate Social Responsibility Conference 2011** (November 2011, Seoul). Approximately 500 forum participants shared their experience in the corporate responsibility area. A. Galaev, the Chief Executive Officer of Sakhalin Energy, being the Chairman of the Steering Committee of the United Nations Global Compact Network in Russia, told about the Company's experience in the area of corporate social responsibility, plans, priorities, and current activities of the United Nations Global Compact Network in Russia.

In addition, the Company participates annually in such international conferences and forums as 'Russian Arctic Oil and Gas' (Moscow), 'HSE in Oil and Gas. Russia and CIS' (Moscow), 'World Well Integrity' Congress (London), events organised under the United Nations Global Compact, European Business Congress, and many others.

In its environmental protection activities, Sakhalin Energy is based on the Russian Federal Law On Environmental Protection and environmental rules and guidelines, taking due account of the requirements of Russian norms and international standards. The Company's environmental management system focuses on organisation and implementation of industrial environmental control, environmental monitoring and biodiversity conservation.

Environmental management system is described in Section 5.6 HSE and Social Performance Management System.

8.1 INDUSTRIAL ENVIRONMENTAL CONTROL

Sakhalin Energy applies industrial environmental control to ensure compliance with the requirements set by Russian environmental protection laws and environmental standards, and to ensure efficient use of natural resources and environmental impact mitigation measures.

The Company performs its industrial environmental control along the following lines:

- Air emissions control.
- Water use and discharge control.
- Waste management control.

The Company has developed and is implementing Air Emissions and Energy Management Standard, Water Use Standard, and Waste Management Standard.

8.1.1 AIR EMISSIONS CONTROL

The Company seeks to minimise environmental impact from air emissions.

In 2011, the total amount of polluting emissions from all Company facilities was reduced by 22%, mainly due to the reduction in associated gas flaring and diesel-to-gas conversion of power generation units.

In order to reduce emissions, Sakhalin Energy uses gas turbines equipped with low-NOx burners. A system of additional gas supply is used on flaring units to increase the gas turbulence, which facilitates flaring of gas in soot-free mode.

The Company uses diesel fuel tanks equipped with fuel vapour recirculation system. This leads to reduction of VOC emissions by 90% during the refuelling operations.

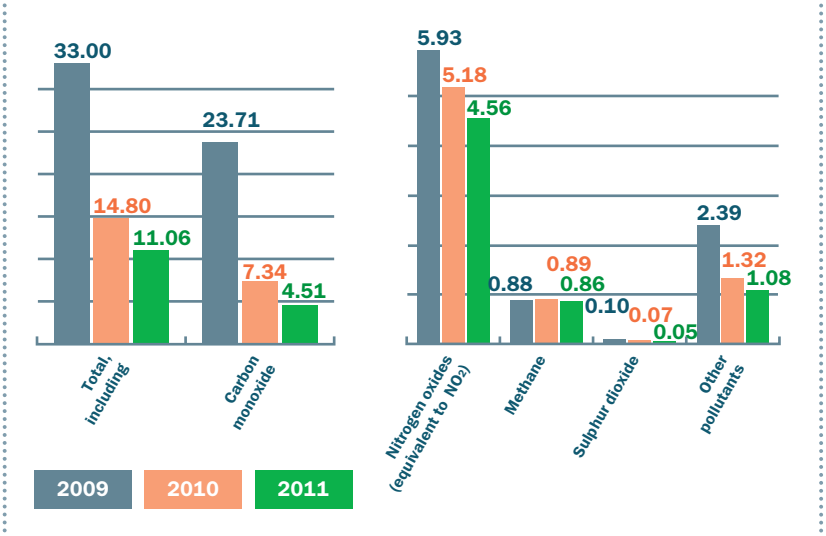
8.1.2 WATER USE AND DISCHARGE CONTROL

The Company strives to reduce water consumption for production purposes and to minimise environmental impact from wastewater discharge.

In 2011, total volume of water intake decreased by 6% compared to 2010 due to changing of water cooling system for some equipment to air cooling system as well as shift in drilling schedule. The 2011 water intake limits were not exceeded.

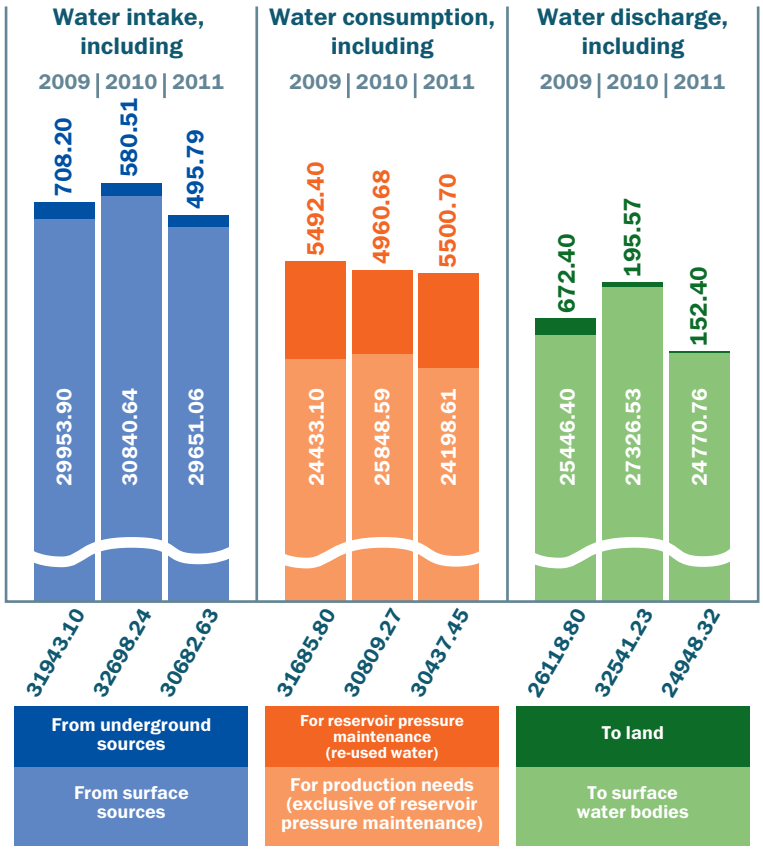
Environmental monitoring in the Company production facilities' areas revealed no negative impact on water bodies.

Company gross emissions, thousand tonnes



8.1.3 WASTE MANAGEMENT CONTROL

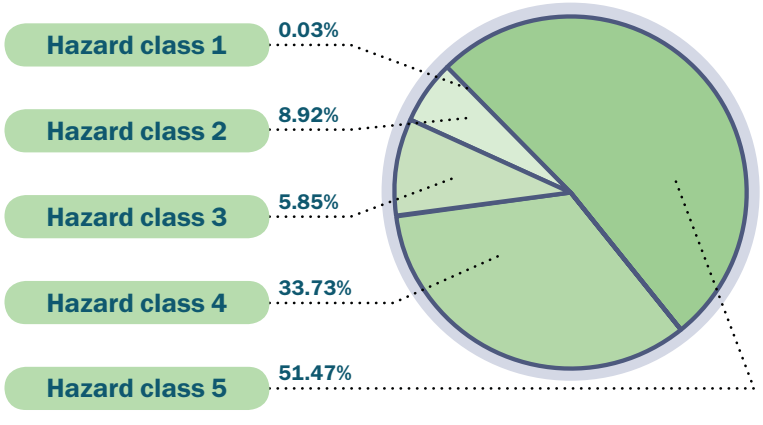
Responsible waste management begins with environment contamination prevention. Such prevention consists in avoidance, change or reduction of operating practices, which result in release of pol-



Company consolidated water performance indicators, thousand cubic metres

lutants to land, air or water. This should be a basic principle when designing and operating the Company facilities and in business planning as well. If waste avoidance is not technically possible, then opportunities to minimise the amount of waste should be investigated. Responsible waste management may be accomplished through hierarchical application of waste reduction, reuse, recycling, recovery, treatment and disposal.

Company waste generated in 2011 by hazard class



In waste management, the Company is guided by the following principles:

- Reduce waste generation volumes and minimise adverse environmental impact caused by waste.
- Transfer Hazard Classes 1-3 wastes to specialised organisations for treatment, re-use and neutralisation.
- Dispose of Hazard Classes 4-5 wastes to the Sakhalin municipal landfills upgraded to applicable local and international standards.
- Seek economically efficient methods of Hazard Classes 4-5 wastes utilisation in order to reduce the share of waste disposed to municipal landfills.

The Company's waste mostly comprises environmentally non-hazardous waste (Hazard Classes 4 and 5). Most of it consists of drilling waste, domestic solid waste and waste left after construction camps' demobilisation.

Sakhalin Energy is committed to 'zero discharge' of drilling waste and liquids. A key method of handling the oil-based drilling waste is to re-inject it to disposal wells that have been specially drilled for that purpose. Produced water is re-injected to formation to maintain pressure.

The amount of waste delivered to other organisations for use and neutralisation increased by half from 2010 to 2011. The amount of waste disposed to municipal landfills remained the same. The amount of waste available at sites at the end of the year is less than 1% of the amount of waste generated during the year.

8.1.4 ENERGY CONSUMPTION

Most of Sakhalin Energy's assets are new facilities recently put on stream and using efficient equipment and processes.

Company waste generation and disposal, thousand tonnes

	2009	2010	2011
Waste (of all hazard classes) available at sites at the beginning of the year	0.53	0.05	0.02
Waste (of all hazard classes) generated during the year	24.60	88.12	73.83
Waste used for own production needs	0.20	0.19	0.13
Waste delivered to other organisations for use and neutralisation	2.86	2.16	4.26
Waste delivered to other organisations for disposal at landfills	3.31	2.82	2.90
Waste buried at own waste sites	18.70	82.98	66.57
Waste (of all hazard classes) available at the sites at the end of the year	0.05	0.02	<0.01

All of the Company's production facilities use independent power supplies. Natural gas, the cleanest of all fossil fuels, is largely used for power generation. Diesel generators are used as backup supplies for the Company assets, with preference given to low-sulphur fuel.

In 2011, the Company produced 632.3 million GJ of direct primary energy through hydrocarbon production and sold 574.7 million GJ. Total consumption of direct power by the Company assets was 51.6 million GJ, including 0.9 million GJ of purchased primary energy in the form of fuel. Intermediate energy indirectly used by the Company assets through purchasing of electric power amounted to 0.065 million GJ or 36 % less than in 2010 due to energy conservation programmes implemented for housing facilities.

8.1.5 GREENHOUSE GAS AND OZONE DEPLETING SUBSTANCE EMISSIONS

In absence of Russia's centralised statistics with regard to greenhouse gas emission, the Company maintains records of greenhouse gas emissions based on the API Guidelines for Calculation of Greenhouse Gases in the Oil and Gas Sector.

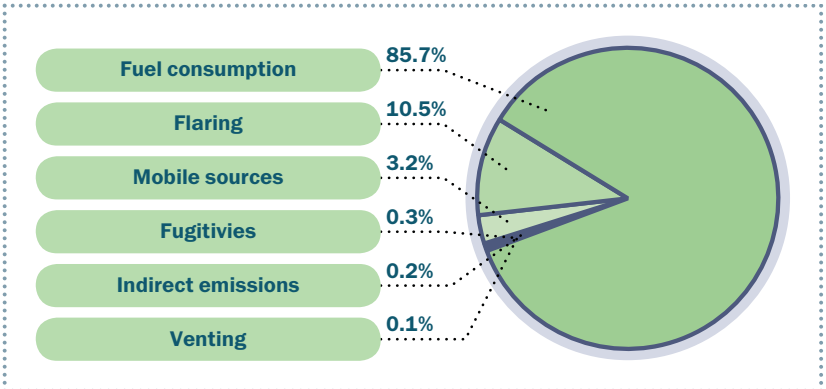
In 2011, total greenhouse gas emissions from the Company assets dropped by 9% as compared to 2010 and were 3.4 million tonnes of CO_2-eguivalent (today, according to the International Energy Agency, total global emissions of greenhouse gases are 30 billion tonnes/year).

In 2011, there were no emissions from the Company assets of substances listed in Attachments A, B, C and E of the Montreal Protocol on Ozone-Depleting Substances.

Comparison of 2010 and 2011 greenhouse gas emissions, tonnes

Parameter	2010	2011
Fuel consumption	3055828.9	2920229.8
Flaring	567379.0	358045.3
Fugitivies	N/A	11598.7
Mobile sources	109820.5	108356.9
Venting	N/A	1790.5
Indirect emissions	11491.6	7361.4
Total emissions	3744519.9	3407382.5

Structure of greenhouse gas emissions in 2011



Utilisation of associated gas during production

8.1.6 UTILISATION OF ASSOCIATED GAS IN PRODUCTION

The Company aims at reducing gas flaring volumes to the level as low as reasonably practicable (ALARP). Associated gas is produced at PA-A, PA-B and LUN-A platforms and transported onshore by subsea pipelines. PA-A and PA-B gas is transported to the Northern Gas Transfer Terminal and the excess gas — to the OPF where it is mixed with LUN-A gas for further transportation to LNG and the Southern Gas Transfer Terminal. A part of the associated gas is used as fuel for processing facilities. Currently the Company does not re-inject the associated gas.

As a result of PA-A and PA-B upgrade in 2011, the associated gas utilisation increased from 89,3% до 93%.

8.1.7 ENVIRONMENTAL PROTECTION COSTS AND POLLUTION PAYMENTS

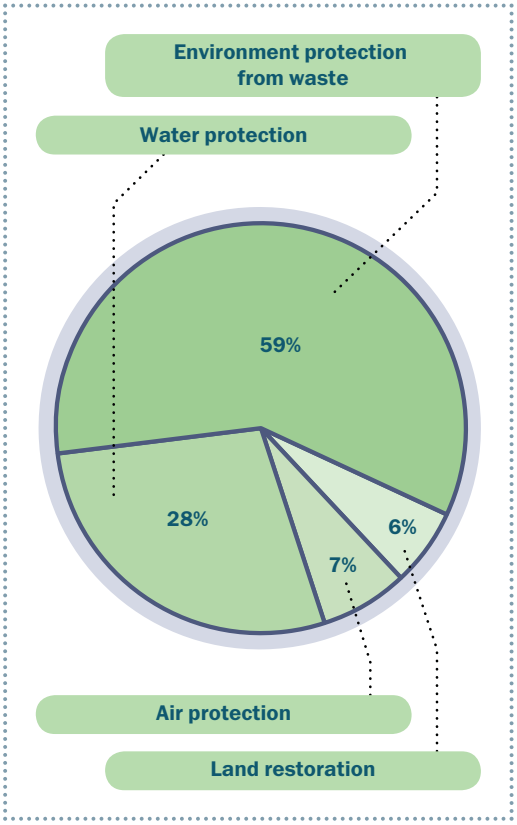
Sakhalin Energy carries out environmental protection activities according to the international and Russian environmental requirements, which in 2011 involved RUR 472,331.2 thousand in operating expenses.

In 2011 environmental pollution payments made by the Company in accordance with Russian environmental law totalled RUR 3,884.7 thousand.

In 2011 environmental expenses increased by 47% as compared to 2010 mainly due to increased expenses for drilling waste disposal and sewage treatment plants maintenance. Environmental pollution payments dropped by 2%.

The Company's environmental activities are controlled by the state federal and regional authorities. In 2011 regional authorities carried out inspections of the Company's facilities and identified cases of minor non-compliance (water wells' operation, waste certification, compliance with discharge limits for effluents treated to standard quality). No cases of significant environmental non-compliance by the Company resulting in negative environmental impact were identified in 2011.

2011 environmental operating expenses breakdown



Pollution payments, thousand roubles

Type of impact	2009	2010	2011
Air emissions	3085.2	1458.6	1442.0
Water discharges	146.4	184.6	191.6
Waste disposal	3873.8	2304.4	2251.1
Total	7105.4	3947.6	3884.7

8.2 ENVIRONMENTAL MONITORING AND BIODIVERSITY

Sakhalin Energy implements an environmental monitoring and biodiversity programme comprising a number of surveys, each of which relates to actual or potential impacts of the Company's activities on the environment. In 2011, the results obtained during the first three years of operation of Company's production facilities were analysed. Based on the results of this analysis, the monitoring programmes were updated, and strategic plans for further monitoring were developed. Those plans were submitted to the Lenders for review and approval.

Two main principles underlie the business case for surveys under the programme of environmental monitoring and biodiversity conservation: risk management and compliance.

8.2.1 ENVIRONMENTAL MONITORING

In 2011 environmental monitoring covered the following:

- flora and vegetation monitoring in the area of impact from onshore pipelines, OPF, BS2 and Prigorodnoye production complex;
- soil monitoring in the area of impact from onshore pipelines, OPF, BS2 and Prigorodnoye production complex;
- protected bird species monitoring in the area of impact from onshore pipelines, OPF, BS2 and Prigorodnoye production complex;
- river ecosystem monitoring in the area of impact from onshore pipelines and OPF;
- offshore monitoring in the area of impact from offshore pipelines, platforms and marine facilities at Prigorodnoye production complex;
- ballast water control;
- monitoring of small mammals in the area of impact from Prigorodnoye production complex, BS2 and OPF.

8.2.1.1 FLORA AND VEGETATION MONITORING

Vegetation is a sensitive indicator of environmental changes occurring as a result of both natural processes and human-induced impacts.

Sakhalin Energy continues to perform environmental monitoring of vegetation in order to assess any negative impact from production facilities on natural environment via studying the condition of flora and vegetation. The scope of flora and vegetation monitoring is as follows:

- assessment of vegetation cover condition at areas adjacent to the Company's facilities;
- assessment and forecast of natural and human-induced changes (successions) in vegetation communities;
- monitoring of populations of rare and protected species;
- monitoring of condition of vegetation in specially protected natural territories located near the Company's production facilities;
- monitoring of populations of invasive species;
- monitoring of vegetation recovery in the pipeline right of way, development of recommendations for remedial work at individual segments;
- assessment of plant tissues contamination.

The results of monitoring show that:

- generally, the structure and species composition of the overwhelming majority of vegetation communities near Sakhalin Energy production facilities remain unchanged;
- right-of-way is well covered by vegetation in the southern, central and, partially, northern segments of the onshore pipeline route (a total of 65% of the pipeline route);
- recovery of natural vegetation at certain types of wetlands shows a positive trend.

Sakhalin-2 environmental monitoring

Based on the results of integrated analysis of vegetation and soils, a programme has been developed and is currently implemented for repairs at ROW segments poorly covered by vegetation. Long-term monitoring will make it possible to fully assess the impact of Sakhalin Energy's production facilities on vegetation and to define adequate mitigation actions.

8.2.1.2 SOIL MONITORING

The objective of soil monitoring is to assess the impact of the Company's production on the soils in adjacent ecosystems. The scope of monitoring includes:

- Assessment of condition of soil cover along the onshore pipeline route and in the area affected by Prigorodnoye production complex, OPF and BS2.
- Assessment of soil degradation processes (mechanical disturbances, consolidation, fertility fall, erosion and swamping).
- Assessment of soil contamination processes, in particular, with heavy metals, hydrocarbons and benzapyrene.
- Intensity assessment, forecast and development of recommendations for soil cover rehabilitation in disturbed areas.

2011 monitoring results show that soils at the control plots beyond the pipelines right-of-way are in normal condition matching the baseline characteristics of these soil types.

The condition of technical soils at the right-of-way that were generated as a result of excavation, construction and reclamation was monitored at 24 permanent soil plots. Observation results revealed the areas that are most exposed to water erosion, swamping and other degradation processes. These areas will be subject to technical maintenance of the right-of-way as described in Section 8.3. According to 2011 field surveys, most of right-of-way technical soils are in stable condition. No contaminations dating back to the construction phase have been revealed.

2011 monitoring results show that soils at the control plots around the Prigorodnoye production complex are in normal condition. No elevated concentrations of hydrocarbons, benzpyrene or heavy metals have been registered in soils including organic horizons (topsoil sown to 25 cm).

8.2.1.3 MONITORING OF PROTECTED BIRD SPECIES

The zone of potential impact of Sakhalin Energy's production facilities is a home to about 40 species of birds listed in the Red Book of the Sakhalin Oblast. In 2011, the protected bird species were monitored within a 2-km corridor along the onshore pipeline route, within 1 km around BS-2 and within 4 km around OPF.

The monitoring covered the following key species: Japanese snipe, Japanese robin, cinnamon russet sparrow, mandarin duck, white-tailed and Steller's sea eagles, European hobby, Siberian spruce grouse, black-billed capercaillie, Sakhalin dunlin, Aleutian tern, long-toed stint, great grey owl, Eurasian pygmy-owl, boreal owl and northern hawk owl.

In 2010, a first 3-year cycle of surveys was completed near Prigorodnoye production complex. The results showed a good condition of birds and the growing population of protected species, and the monitoring was therefore suspended.

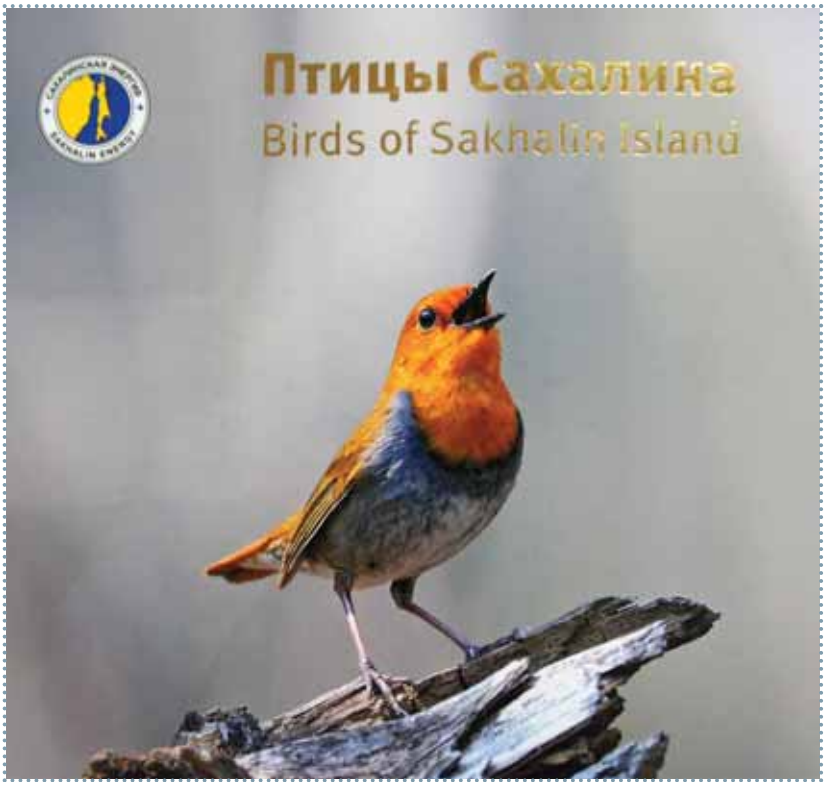
In 2011, surveys were carried out in 8 segments along the onshore pipeline route with total distance of about 300 km, where 20 protected bird species were registered, of which 18 were nesting species. In each area, the surveys were conducted in the main habitats preferred by the protected bird species. Also, the condition of habitats and ornithological complexes was assessed.

No negative effects from pipeline operations were registered for bird communities and populations of protected species. Since the pipeline right-of-way recovery after the reinstatement work was not yet complete, in 2011 the protected species have just started to use the right-of-way for nesting.

In the OPF area, 31 protected bird species were observed, 12 of which were registered at a distance of up to 4 km from the asset in 2011. Close vicinities of the production facilities are populated by Siberian spruce grouse, which is stable in numbers. At the same time, the number of owls was decreasing, probably because of reduction of murine rodents and shrews

A workshop on monitoring of protected bird species in the territories around the Company's production facilities was held in April. The workshop was attended by about 30 specialists, including 12 professional ornithologists. Workshop results included the following conclusions:

- **No adverse impact on biodiversity or populations of protected bird species was revealed around the Company's production facilities.**
- **Impact mitigation actions during the construction phase proved to be effective.**
- **Company's bird protection experience may be most useful for other regions, in particular in Kamchatka region, where a large-scale development of oil and gas fields is about to begin.**



By the International Bird Day, celebrated on 1 April, the Company published the book "Birds of Sakhalin". The book is based on the results of surveys which enabled ornithologists to obtain new scientific data about the birds of the island and find previously unknown habitats. The book tells about some of the secrets of the Sakhalin birds and shows their beauty.

observed in this area. Also, monitoring revealed a more active feeding migration of long-billed murrelets, although their number was still low.

Observations over the migrating birds in the Chaivo bar area continued. In summer 2010, mass mortality of Sakhalin dunlin chicks was registered because of adverse weather conditions, and the number of that species was expected to drop. However, in 2011, like in the past seasons, total nesting population was at least 100 pairs. Situation with Aleutian tern did not deteriorate either, and throughout the entire summer there was an on-going development of new colonies of the birds migrating from the northern nesting territories.

The monitoring programme continues to show that the Company's production facilities have no impact on the Red Book birds' population as a whole.

8.2.1.4 RIVER ECOSYSTEMS MONITORING

The monitoring of ecosystems in the watercourses crossed by the Company onshore pipelines (over 1,000 watercourses) shows, on the one hand, the extent of impacts from the pipelines and production facilities on the aquatic environment as a whole. On the other hand, these observations enable one to reveal potential impact of river systems on the Company's facilities.

The monitoring of river ecosystems includes:

- surveys of hydrological and hydrochemical composition of water and bottom sediments;
- surveys of benthic organisms, which characterise the condition of river communities in the pipeline crossing areas;
- monitoring of ichthyological system using a model watercourse.

In 2011, surveys continued on 35 watercourses crossed by the Sakhalin Energy onshore pipelines, one watercourse in the OPF impact area and two watercourses in the Prigorodnoye production complex impact area. Samples were taken from similar hydrological segments upstream and downstream of the pipeline crossings. The surveys were carried out during three hydrological seasons: spring floods, summer low water and autumn high water.

The analysis of physical properties and chemical composition of surface water revealed the following:

- Inspections of crossings (from upstream to downstream stations, including details of the condition of the river bed and engineering stabilisation within the right-of-way) did not reveal any significant lateral or vertical deformation of river beds. Crossings are in satisfactory condition, and no destructions of utility lines were found.
- Physical and chemical properties of surface water in the watercourses under survey as well as the content of oxygen, biogenic substances (ammonium ion, nitrites, nitrates and phosphates), hydrocarbons, phenols and surfactants met the regulatory requirements in all monitoring periods.
- Seasonal fluctuations were observed in suspended matter concentrations. The metal content tests showed the highest variability in iron and copper concentrations.
- In terms of easily oxidable organic substances measured by BOD5 (biological oxygen demand for 5 days), the watercourses were clean.
- Grain-size composition of bottom sediments was homogenous in almost all watercourses and in all seasons.
- The content of hydrocarbons in bottom sediments slightly varied from season to season. No differences were revealed between concentrations measured at the upstream and downstream stations.

During the survey of river ecosystems, large spread of quantitative parameters of benthic communities was observed that was due to natural causes.

In 2011, surveys covered ichthyological fauna of the Severnaya Khandasa river and its tributaries (July–August, and September–October). In general it can be noted that fish communities remain stable. The differences that were revealed in the composition and distribution of ichthyological fauna were caused by natural seasonal tendencies within the communities. High biomass was revealed in populations of cherry salmon, Dolly varden, East Siberian char, and Sakhalin taimen.

Salmon spawning

8.2.1.5 OFFSHORE MONITORING

In 2011, Sakhalin Energy continued implementation of the Marine Environmental Monitoring Programme with a view to analyse hydrological, hydrochemical and hydrobiological characteristics of the marine environment within the area of potential impact from its offshore production facilities.

This type of monitoring enables to assess spatial distribution of quantitative and qualitative characteristics of marine biota and its habitat and to trace any potential variations of environmental conditions both within and beyond the operation zone of Company's offshore production facilities.

The following vessel based surveys were conducted in 2011:

- monitoring of the areas potentially affected by LNG loading jetty and oil export terminal in Aniva Bay;
- post-construction monitoring of offshore pipelines (Aniva Bay, along Piltun and Lunskoye pipeline routes);
- post-construction and operation monitoring around PA-A, PA-B and LUN-A offshore platforms;
- monitoring of wellheads of appraisal wells.

Based on 2011 data, the following main conclusions can be made:

- Hydrochemical parameters measured in the offshore facilities area corresponded to the baseline values and were below the normative concentrations established for fisheries.
- Concentrations of petroleum hydrocarbons and heavy metals in bottom sediments were significantly lower than the values that can cause biological effects.
- Research areas had broad diversity of benthic and plankton communities demonstrating high quantitative characteristics and environmentally healthy conditions of the habitat.
- Well drilling, oil and gas production and export operations had no effect on ecological characteristics of the marine environment.
- Accumulation of petroleum hydrocarbons and methane near wellheads of appraisal wells was not demonstrated.

LNG jetty

8.2.1.6 BALLAST WATER CONTROL

The Company is taking a package of actions to preserve the unique ecosystem of Aniva Bay. Every year some 200 oil and gas tankers from various worldwide ports arrive at Port Prigorodnoye. International experience shows that the ballast water taken in those ports for the purpose of vessel stability may contain dangerous invasive species which, if discharged in Port Prigorodnoye, may lead to irreparable damage to the ecosystem existing in Aniva Bay. Today, the most effective way to prevent such a danger is to comply with the provisions of the international convention on change of ballast water in the open ocean. This convention served as a basis of internal corporate ballast water management policy way back in 2009. For the purpose of control of compliance with this policy, each vessel is inspected for a number of parameters, and the discharge is allowed only after confirmation of ballast water replacement in the open sea.

Efficiency of these control measures is checked by local monitoring of flora and fauna of Aniva Bay and biotic analysis of ballast waters in the tankers.

Aniva Bay monitoring has been conducted since 2007 on a grid of stations which covers berthing facilities for gas carriers and oil tankers in the Prigorodnoye port. The main purpose of the monitoring is to evaluate the condition of flora and fauna in Aniva Bay in terms of ballast water impact. The experienced SakhNIRO specialists take and analyse samples of phyto- and zooplankton, samples of the benthic life, and fouling samples taken by divers from the LNG and temporary jetties. Therefore, local monitoring of Aniva Bay covers all types of organisms. As a result of 4-year monitoring, new data on structural characteristics of the communities were obtained and changes of the qualitative composition and quantitative indices were evaluated. No significant changes have been identified in the structure of the communities. No new species unusual for that area have been observed.

As for the biological monitoring of the ballast waters, the Company takes unprecedented measures as well. Starting from April, each vessel is inspected for any content of phyto- and zooplankton in the ballast waters of the tank, whenever it is technically feasible. Specialists analyse the plankton for different characteristics, including the presence of potentially hazardous alien species. Sample analysis has not revealed any hazardous species in the ballast water of gas or oil tankers, which is the evidence of proper fulfilment of the Company's requirements and, therefore, the requirements of the international Convention.

Company intends to continue paying close attention to the Aniva Bay ecosystems protection.

***Governor Farkhutdinov* oil tanker**

8.2.1.7 MONITORING OF SMALL MAMMALS

Small mammals (rodents and insect-eating mammals) are sensitive to human-induced impacts and respond quickly to environmental changes. For this reason they are considered as indicators of the environmental conditions.

The Company monitors the species structure of small mammals' communities in the Prigorodnoye production complex, BS2 and OPF areas, determines species abundance and diversity indicators, as well as morphological, physiological and demographic characteristics of species of small mammals.

The surveys conducted in Prigorodnoye production complex area revealed 6 species of shrews and 8 species of rodents, of which the most numerous were gray-sided voles, red-backed voles and long-clawed shrews. Total number of shrews decreased versus the past years, while the abundance of rodents remained unchanged. The animals found in the test- and control plots did not show any significant difference in morphological or physiological parameters. Some restructuring within the communities and age composition changes in certain populations require further monitoring.

Five species of rodent and four species of shrew were observed in the area around the BS-2. The number of shrews decreased versus 2010, whereas the number of voles rose. Despite some restructuring within each of the communities no difference was revealed in the structure of communities in the test and control plots. The detected morphological and age differences are most probably explained by instability during the seasons of underpopulation.

In the zone of OPF the shrew community was represented by five species, while the rodent community was represented by six species, with slender shrews and red-backed voles prevailing. The number of rodents vs. 2010 decreased four times, while the number of shrews decreased three times. Since the number of those animals in the test and control plots decreased evenly, this decrease can be attributed to natural reasons.

Comparison of shrew communities at test and control plots in 2011 did not demonstrate any statistically significant differences. Restructuring of shrew communities that was observed in 2009–2011 took place concurrently in the test and control monitoring zones and reflected the natural process of internal transformation of the communities.

Small mammals monitoring programme

The 2011 meetings of the Expert working group of Environmental Council of the Sakhalin Oblast were attended by representatives of other oil and gas companies working in Sakhalin.
During the spring meeting, the participants discussed the Company's 2011 plans for preservation of biodiversity and were presented with the current monitoring results under a number of programmes.
During the autumn meeting, it was recommended to hold subject-oriented sessions on preservation of biodiversity with involvement of representatives of scientific institutions and other oil and gas companies.
It is Sakhalin Energy's initiative to transform the Expert working group into the Biodiversity Partnership to unite the efforts of the Sakhalin Oblast executive authorities, regional scientific institutions, state, public and international stakeholders and companies as business representatives.

The analysis of population structure of baseline species of small mammals and their number in OPF zone did not reveal any signs of human-induced impact. Differences in species and quantitative composition of shrews and murine rodents at different sites are explained by naturally uneven distribution of populations in the survey area.

8.2.2 BIODIVERSITY

At present, Sakhalin Energy is a leader in the global oil and gas industry in terms of biodiversity conservation. The Company fulfils its obligations with respect to minimising impacts on biodiversity and environment at the operational phase as per the developed and approved Biodiversity Action Plan (BAP).

The BAP implementation is supported by all stakeholders at both national and international levels.

In 2011, in accordance with the priorities set in the Biodiversity Action Plan, monitoring of western gray whales, Steller's sea eagle, and wetlands was conducted.

8.2.2.1 MONITORING OF WESTERN GRAY WHALES

The Company completely respects gray whales. It has shown through actions and resources that it more than meets its responsibly towards them. In fact, it believes that in the context of risk from development all sea mammals should have this level of impact reduction and mitigation and that this respect from the industry should not be limited to those deemed as critically endangered.

Photo identification is part of the Western Gray Whales research

Early 2000 Sakhalin Energy and Exxon Neftegas Ltd, Sakhalin-1 project operator, while developing their facilities for extracting the oil and gas, formed a joint programme of research to produce information that would increase their awareness of possible impacts on the gray whales from their activities. That process allowed them to learn to manage their operations, with expert advice from the whale scientists, in such a way as to avoid, minimise or mitigate any impact. Sakhalin Energy is ready to transfer this knowledge and approach throughout the industry to all other regions of the globe.

The monitoring work continued in 2011 and the monitoring programme scope was a continuation of the research performed annually from 1997 to 2011 by the Rosrybolovstvo and RF Academy of Sciences research institutes.

Research conducted in previous years has made possible to:

- determine the boundaries of the gray whale feeding area in eastern Sakhalin offshore waters;
- assess the population abundance and seasonal dynamics;
- conclude that the population is healthy and growing, with 7 mother/calf pairs reported in 2010 and 12 reported in 2011 field seasons;
- create two Russian photographic ID catalogue of gray whales — Kamchatka and Sakhalin catalogues;
- determine the start and end times of their main feeding period;
- determine the primary gathering locations and understanding of seasonal and spatial distribution dynamics;
- understand the whales' behavioural characteristics and reaction to any disturbances;
- assess the status of food resources and investigate the links between large-scale changes in whale distribution and changes in the distribution and biomass of available food resources;

- detect whale migrations between feeding areas (including those between eastern Sakhalin and eastern Kamchatka waters);
- investigate the acoustic environment in whale habitats, and the degree to which they are affected by anthropogenic noises from oil and gas industry facilities; and
- receive data to help project mitigation strategies to manage potential impact from offshore construction activities on gray whales.

In 2011 a programme was continued to study gray whale migrations using satellite telemetry. Initiated in 2010, the Programme is run by A.N. Severtsov Institute of Ecology and Evolution (Russia) and Oregon State University (USA) under the aegis of the International Union for Conservation of Nature and International Whaling Commission, and is funded jointly by Sakhalin Energy and Exxon Neftegas Ltd.

In 2011 six whales were tagged offshore Sakhalin. 4 satellite positioning tags stopped transmission of information before the whales left the feeding grounds. They did, however, give some interesting insights into the whales' movements in the feeding grounds.

Once again the two remaining whales with their tags tracked across to Kamchatka, to the Alaskan Sea and down the West Coat of Canada and the USA. This was very similar to the migration route that was used by "Flex" the gray whale tagged in 2010. At the end of January 2012 the whale "Varvara" was close to the known breeding lagoons offshore Baja Mexico. These data, along with genetic investigations and comparison of photo catalogues of whales from the eastern and western Pacific Ocean, lead to the conclusion that at least a major part of gray whales coming to the Sakhalin coast for feeding belong to the Eastern (Californian) population, which is estimated at over 20,000 individuals.

Gaps now exist in the story of the gray whale migration. Given that we know that not all whales in the Kamchatka photo-id catalogue end up in Sakhalin, where do they go? At what time do whales in the Sakhalin Catalogue begin their migration back north from Mexico? Why does it apparently take the whales longer to make the return migration back to Sakhalin for the summer, than it does for them to complete the winter migration? Do they feed on the return journey? Are they slower because they have young calves with them? These and many other questions demonstrate the need for a range wide programme and not just one focussed on Sakhalin. This is recognised by the Interdepartmental working group of the Ministry of Natural resources, who recently called for an International Management Programme.

In 2004, the Company began working with the International Union for Conservation of Nature (IUCN). An aim of that partnership was to identify and minimise any putative risks associated with Sakhalin Energy's operations on gray whales or their habitats.
In 2006, funded by Company, IUCN formed the Western Gray Whale Advisory Panel (WGWAP), which presently comprises scientists from Russia, Germany, UK, Canada and the USA.
The panel processes and analyses the collected information to provide advice and recommendations to the companies on their operational plans and mitigation measures. This two-way process is intended to benefit the gray whales and the oil and gas industry by leading to better understanding between the two groups.

It is clear that we need to re-examine our understanding of the population structure of gray whales in the North Pacific.

Greg Donovan, member of WGWAP and IWC

Steller's sea eagle

8.2.2.2 STELLER'S SEA-EAGLES MONITORING

The Steller's Sea Eagle occupies a special place in the multitude of protected species. In Japan, this species is considered a 'natural monument' and is protected in accordance with the law on conservation of species.

Sakhalin Energy's programme for conservation of the Steller's Sea Eagle and the White Tailed Sea Eagle was launched in 2004. The main task of monitoring was to generate reliable data about the multi-year situation with a model species, assess the impact produced on population both by natural and human-induced factors, and develop associated mitigation actions . Surveys are performed on north-eastern Sakhalin, including four bays areas and lower parts of rivers crossed by the onshore pipeline. An integrated analysis of the seven-year period data was held in 2010, and the monitoring programme was revised and optimised accordingly. The absence of impact of Sakhalin-2 project resulted in the reduction of the size of survey zones to 3 km around OPF and to 2 km along the pipeline route. To define situation with Steller's sea eagles beyond the impact zone, the Programme included Lunskoye Bay natural monument being the segment of north-eastern Sakhalin coast least impacted by human-induced factors.

By 2011 about one third of sea eagles are represented by territorial nesting species, with another third represented by territorial non-nesting adult birds. The remaining 33% comprise non-territorial birds (birds that do not have any particular nesting areas) represented by adult and impuberal birds in an almost equal proportion. Nesting conditions within both the impact zone and the control zone are found to be good. In 2011, the eagles brought up about 9 chicks within the two-kilometre corridor along the pipeline route. Actual productivity within this zone amounted to 0.60 chick per occupied nesting area, which is almost the same as productivity in the control zone amounting to 0.58. The analysis of impact of bear predation on bird population over the 8 years of survey demonstrates a gradual reduction of predation pressure after the peak years 2005–2006.

In 2011 the Company prepared the book “Steller’s Sea Eagle” that was published in February 2012.

8.2.2.3 WETLANDS MONITORING

Wetlands are one of the most common and complex ecosystems of Sakhalin. Sakhalin Energy has a long-term programme of wetlands monitoring, the scope of which includes:

- control of wetlands recovery within the pipeline right of way and in adjacent territories;
- assessment of all potential negative impacts on wetlands as a result of pipelines construction and operation;
- mitigation of such impacts.

The results of monitoring show that:

- there is a positive trend in the recovery of natural vegetation at certain types of swamps;
- within most of swampy segments crossed by onshore pipelines, the recovering vegetation is so far represented by a combination of pioneer (the first species to colonise an area and then be replaced by typical species) and indigenous species;
- measures have been developed to mitigate the impacts revealed at certain segments.

Right of way recovery in wetlands

Wetlands are delicate ecosystems and understanding of their processes is extremely important for their conservation. A special focus on wetlands is also due to the fact that in case of disturbance they take very long time to recover. The Company plans to continue the monitoring of wetlands so as to be able to mitigate any potential negative impacts.

8.3 MAINTAINING ONSHORE PIPELINE RIGHT OF WAY

Currently, regular monitoring and geotechnical surveys are in place on the ROW. Their results are recorded to have relevant actions taken.

The list of ROW monitoring actions for 2011 included helicopter flight-overs, river crossing surveys, river surveys based on geomatics principles, monitoring of river hydrological characteristics. In addition, surveys of geological hazards, cover thickness, annual profile surveys, cathodic protection systems surveys, plant growth, soil local monitoring, groundwater surveys, satellite surveys of the pipeline ROW, and boggy areas surveys were performed.

The scheduled ROW repairs were completed in November 2011 as planned.

Right of way in Makarovsky district

9.1 PERSONNEL: MANAGEMENT AND DEVELOPMENT

OPF control room

9.1.1 HR MANAGEMENT AND HR POLICY

The Sakhalin Energy HR strategy provides for the establishment of an effective HR management system meeting the highest international standards, and enabling fulfilment of complex tasks, rendering the Company more efficient and competitive.

Introduction of new technologies, implementation of technical initiatives and development of complex fields, optimisation of costs and business processes, development of corporate culture improvement and staff social protection programmes require further improvement of such focus areas as staff labour organisation, motivation of employees for efficient labour activities, training and development of staff, enhancement of the Company's attractiveness as an employer, etc.

The goal that the Company has set for itself is the organisation engaging all em-

'Diversity' means respect for, high valuation of and benefiting on the entire variety of employees insights, experiences and potentials as an additional source of their personal and professional development.
'Inclusiveness' means such approach to work organisation, where diversity is appreciated and rewarded, and each employee can develop professionally, as per the Company values and objectives.

ployees in the Company's activities, giving the Company's support and respect and providing with opportunities to best apply and demonstrate their respective abilities and talents on the path to the Company's success. Therefore the Company believes its duty is to:

- Manage diversity as a high-importance element of business activity;
- Be guided by the principle of inclusiveness in dealing with the employees;
- Respect each employee's intention to achieve an optimum balance of production and personal needs;
- Provide equal competitive opportunities to each employee by using well thought-out and consistently applied labour and quality standards, and management systems;
- Provide employees with opportunities for personal support, training, self-development and information sharing;
- Demonstrate respect and good faith when dealing with external partners, pursuant to the Company's business principles;
- Strive to continuously improve labour relationships through application of best practices;
- Promote a business culture that would encourage all the Company and contractors' employees to contribute to its performance.

Sakhalin Energy implements its HR tasks and objectives through its HR policy based on a detailed strategy and tactics in all spheres.

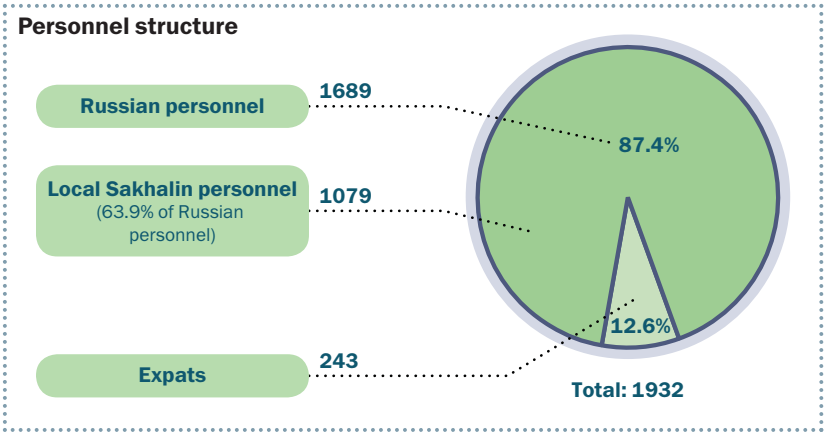
HR policy is a comprehensive strategic policy governing the Company's relations with its employees. The HR Director leads the process of developing the Company's HR policy and determines its key objectives. Shaping and maintaining the HR policy — HR cost budgeting, organisation development, administration of HR processes and reporting, recruitment and adaptation, development and training, appraisal and rotation, compensation and motivation, corporate culture and social programmes implementation — is by no means a full list of issues that Sakhalin Energy's HR services have to address. Basic human values, such as openness, honesty and respect for people, are the Company's top priorities. Sakhalin Energy considers personnel diversity and individual features.

In 2011, the Company's employees were awarded with Letters of Acknowledgement of OAO Gazprom, Honorary Certificates and Letters of Acknowledgement of the Company, Honorary Certificates of the Sakhalin Oblast Government, Expression of Gratitude of the Sakhalin Oblast Governor, as well as with Honorary Certificates of the Ministry of Natural Resources and Environmental Protection for the Sakhalin Oblast for great personal contribution, multi-year conscientious work and in connection with celebration of the Oil and Gas Industry Workers Day.

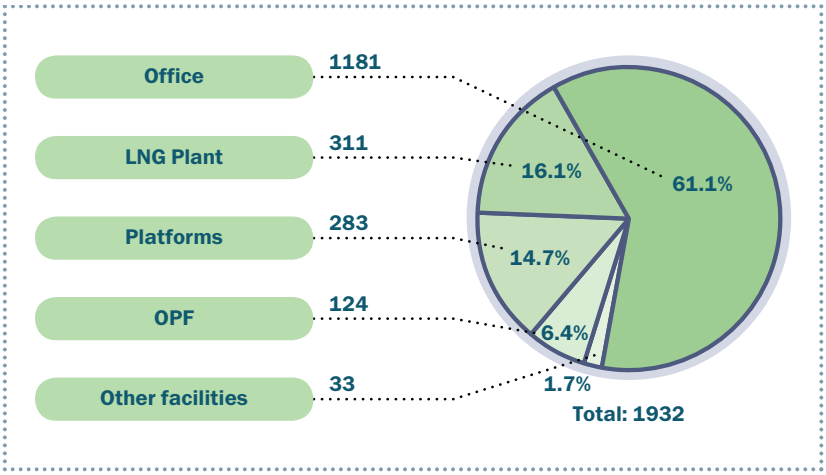
To achieve these objectives, the Company has adopted policies, guidelines, procedures and other regulations, which are in line with Russian laws and best international HR management practices.

The basic documents regulating HR management are:

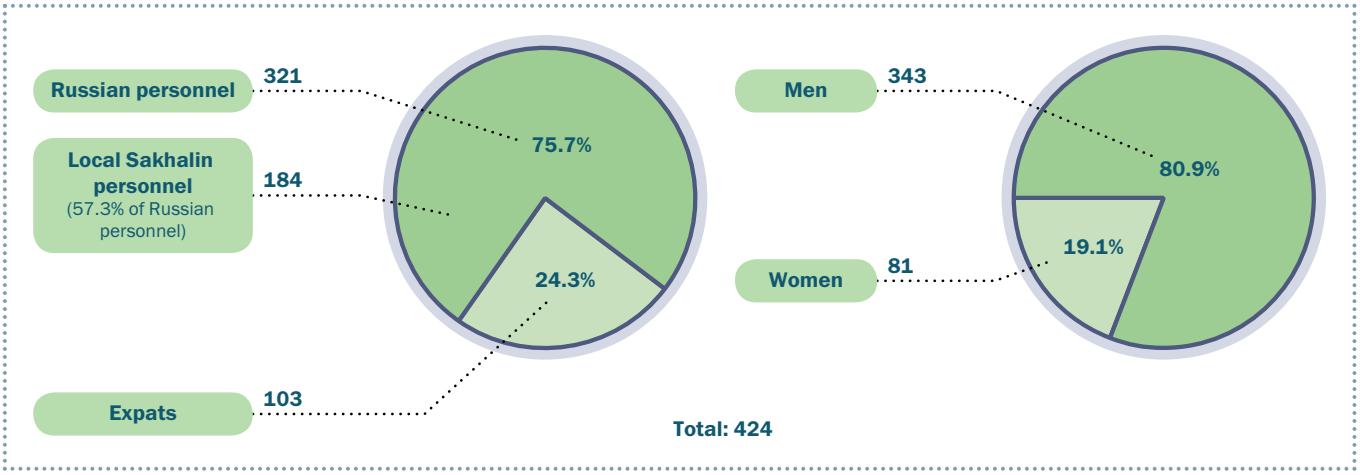
- Sakhalin Energy Code of Conduct;
- Internal Working Rules;
- Diversity and Inclusiveness Policy;
- Conflict of Interest Procedure;
- Manpower Plan;
- Harassment and Discrimination Procedure;
- Whistle Blowing Policy;
- Whistle Blowing/Grievance Procedure;
- Grievance and Inquiry Procedure for Sakhalin Energy Personnel;
- Learning and Development Guideline;
- Recruitment Procedure for Russian National Staff;
- Procedure on Protection of Personal Data of Employees;
- Occupational Health Standard.



Personnel structure by facility



Managerial personnel structure



9.1.2 GENERAL

At the end of 2011, the total number of the Company employees was 1,932, of which 87.4%, or 1,689 people, were Russian Nationals. Out of this total number, 1,895 employees were based in Sakhalin, working at production sites and offices, and the rest were working at the Moscow office. The Company seeks to recruit as many Russian Nationals as possible, especially Sakhalin locals, under the Sakhalin-2 project. This is not only stipulated by the Sakhalin-2 PSA, but first and foremost it is the approach dictated by the Company's HR policy. To date, 55.8% of the Company personnel are Sakhalin residents (see 'Personnel Structure' chart).

In view of specific nature of the Company's activities as the project operator, 82% of its personnel are managers and specialists, including about 60% are office staff; and the rest work at the Sakhalin-2 production facilities (see 'Personnel Structure by Facility' chart). In 2011, 26.8% of the Company's employees worked rotating shifts. They were accommodated in fully furnished shared housing facilities, like hotels and shift camps, established in accordance with Russian legislation and best international practices.

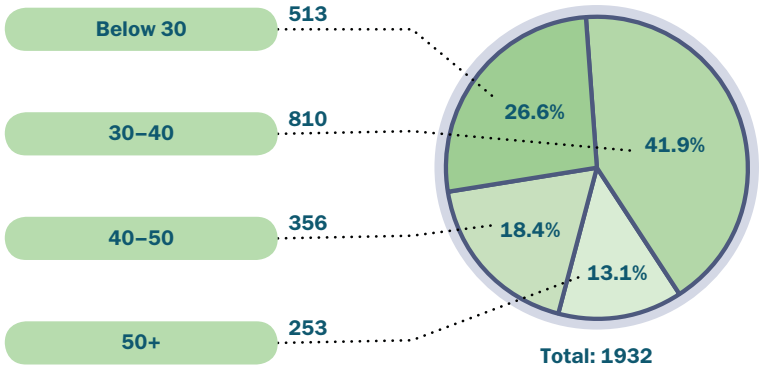
In 2011, 321 managerial positions in Sakhalin Energy were held by Russian nationals, including 184 Sakhalin residents (see 'Managerial Personnel Structure' chart). The Company plans to have 75% Russians in managerial positions by 2018. Sakhalin Energy has an action plan to achieve these goals. In addition to the proactive approach to training and promoting Russian nationals who are already employed, the action plan calls for hiring new skilled Russian employees, as

well as apprentices, who represent a source of constant technical personnel inflow to the Company (see Section 9.1.7 on planning and developing successors pool and on-the-job training, apprenticeship programme).

Over 30% of the Company's personnel are women, 568 as at the end of 2011, of which 81 are managers (see 'Managerial Personnel Structure' chart).

Over the past three years of the transitional period from construction to operation, Sakhalin Energy's workforce has gradually decreased and stabilised. Yet, due to the on-going Russianisation process, Sakhalin Energy is short of Russian skilled personnel, including technical personnel. In 2011, the voluntary attrition rate was 5.39%. The number of staff working on permanent contract is 1551, or 80% of the total number.

The average age of the Company's employees was 36 in 2011. Employees under 40 constitute the majority (about 68%) (see 'Personnel Age Structure' chart).



Personnel age structure

In 2011, in addition to the modules in use, introduction of 2 following additional functional modules of the SAP HCM automated enterprise control system was completed: electronic recruitment and staff competence assessment. Integrated use of all introduced functional modules ensures system approach to maintaining business processes of the HR Directorate, integrity of personal and organisational data and preparation of reports to a high professional standard.

9.1.3 PERSONNEL RECRUITMENT AND ADAPTATION OF NEW EMPLOYEES

Recruitment of the Sakhalin Energy personnel is based on a corporate recruitment plan, which is developed and approved on an annual basis.

To advertise new vacancies and attract candidates, the HR Directorate uses various mechanisms based on the practices inherent in the host region (to maximise a share of local residents in the Company personnel), positions' special requirements and advanced head-hunting methods, including:

- posting all vacancies on Sakhalin Energy's public website where an applicant questionnaire form is available;
- provision of information to the Yuzhno-Sakhalinsk Labour Centre (on a monthly basis);
- cooperation with recruitment agencies;
- participation in vacancy fairs;
- publication of vacancies on external internet resources and in newspapers and magazines;
- using social networks when searching for candidates;
- Company Employee Referral Programme;
- Gazprom recruitment potential, including the Gazprom website to publish hot vacancies.

In 2011, the Company participated in 8 vacancy fairs in Yuzhno-Sakhalinsk and in similar events in Yekaterinburg, Tomsk and Kazan. As a result, Sakhalin Energy received more than 350 applications for vacancies.

Average age of the Company's employees is 36 years

As a result, 359 new employees were recruited in 2011, of which 297 are Russian employees (51% are Sakhalin residents).

In 2011, Sakhalin Energy continued its adaptation programme aimed to help new employees get off to a good start.

9.1.4 REMUNERATION AND BONUS SYSTEM

Sakhalin Energy's main principle regarding remuneration is to pay competitive salaries to its employees, the level of which is not less than the average level of pay within the Russian oil and gas industry, and also to use transparent bonus schemes for all staff categories. Also, the Company makes every effort to provide competitive package of compensation and benefits to attract highly skilled workforce.

The remuneration system used by the Company is based on grades and establishes remuneration depending on the employee's skills and position level. Such remuneration system encourages efficient work and provides motivation for good performance.

Remuneration of Sakhalin Energy's employee includes:

- Base salary or hourly rate as per manning schedule and labour agreement;
- Supplementary allowances and uplifts of a compensatory and incentive nature to base salaries and hourly rates payable as per Regulations on Labour Remuneration, Bonuses and Social Benefits, RF Labour Code and other regulatory acts;
- Bonuses payable as per Regulations on Labour Remuneration, Bonuses and Social Benefits and other local regulations.

Sakhalin Energy's remuneration policy, practices and methods are aimed at recognition and encouragement of good personal and production performance, in short as well as long term. The existing incentive system uses one unified approach to incentivising employees in all Company units. This is achieved with the following types of bonuses as per Regulations on Labour Remuneration, Bonuses and Social Benefits:

- Annual Performance Bonus;
- Special Recognition Award (SRA);
- Long Service Award (10 years or more);
- Employee Referral Reward;

- One-off bonus for award; and
- One-off bonus for participation in a research-to-practice conference held by the Company on a regular basis.

To make its salaries competitive, Sakhalin Energy regularly monitors the financial segment of the job market and annually reviews salaries, depending on the employees' individual performance factors (see Section 9.1.6 on performance appraisal). In 2011, the initial-level salary in Sakhalin Energy was 4.6 times higher than the minimum remuneration rate established by Russian legislation.

Sakhalin Energy's labour remuneration expenses totalled RUR 3.68 billion, with award/bonus payments equalling RUR 50.9 million in 2011.

9.1.5 SOCIAL GUARANTEES, BENEFITS AND COMPENSATIONS

Social benefits and guarantees for the Sakhalin Energy personnel ensure improvement of the well-being and social security of Sakhalin Energy's employees and their families.

Sakhalin Energy offers to its employees a benefits package that includes incentives and additional benefits, that goes beyond Russian labour law. The package includes:

- Voluntary health insurance both for employees and their families;
- Health benefits;
- Personal accident and sickness insurance;
- Travel insurance;
- Free meals at the Company offices and facilities;
- Accommodation for employees and their families for their employment period — for those employed on terms of relocation from other regions of RF and CIS (Commonwealth of Independent States) countries, as well as from Far North and areas equal to Far North;
- Annual payment of expenses for round trip to the place of vacation within the RF territory for employees and non-working members of their families (spouse, children up to the age of 18 years) living in the areas of the Far North and equivalent localities;
- Lump cash allowances in case of difficult personal circumstances;
- Recreational sports facilities (see also Section 9.3 'Occupational Health'); and
- Corporate pension programme.

To enhance competitiveness of social and benefits package, a corporate pension programme for the RF personnel was rolled out in 2010. The programme was developed together with Gazfond non-state pension fund. It is based on joint funding of the future non-state pension by the employee and by the Company. By late 2011, 41% of the Company Russian national staff have joined the corporate pension programme. The amount transferred to Gazfond in 2011 by the Company constitutes RUR 31.05 mln.

In 2011, analysis of the existing social guarantees and benefits was conducted, which resulted in expansion of their list by inclusion of the following programmes:

- Birth (adoption) material aid to Company's employees;
- Additional benefits to women employees being on a maternity protection/parental leave;
- 'Summer camp'—organisation of summer recreation for employees' children; and
- 'School bus'—delivery of employees' children to Yuzhno-Sakhalinsk schools.

Starting from December 2010, provision of services to Sakhalin Energy employees under personal insurance was transferred to OAO Sogaz insurance company. With the help of OAO Sogaz, the Company has managed to considerably expand programmes covering personal insurance groups.

Swimming pool in the corporate sports and recreation centre in Yuzhno-Sakhalinsk

Voluntary health insurance:

- maternity protection/parental leave is included;
- servicing without assignment/de-assignment is organised in 16 major Russian cities, including Moscow and Saint-Petersburg; and
- provision of medicines free of charge in the amount up to RUR 30,000 per year is introduced.

The Social Insurance Committee is elected on principles of parity from representatives of management (staff of the HR Directorate, Finance Directorate, Legal Department, etc.) and employees at the staff general meeting to execute practical work on social insurance, improvement of health protection and medical services, preventive health care and mitigation of diseases among employees.

Accident and illness insurance:

- survivor's insurance benefits are paid irrespective of the loss of breadwinner causes;
- list of critical diseases, for which insurance benefits are paid, is expanded; and
- list and amount of temporary disability insurance benefits is revised by the insurer upwards despite the absence of some risks in the OAO Sogaz insurance rules, without increasing insurance premium.

Smooth and well-organised work of OAO Sogaz specialists has allowed to reduce Company's expenses on administration of these contracts and to ensure expansion of the Company's social package.

In 2011, new membership of the Social Insurance Committee was elected. According to the Provision on the Social Insurance Committee approved by the Company, the Committee deals with the following issues:

- spending of social insurance funds provided for sanatorium-resort therapy and rest of the Company's employees and members of their families;
- distribution, procedure and conditions of issuing booking documents for sanatorium-resort therapy, rest, nutritional (dietary) therapy acquired at the expense of social insurance funds; and
- control over correct accrual and timely payment of social insurance benefits.

In addition, the Committee reviews the use of social insurance funds, makes proposals for health promotion of employees and members of their families, improvement of working conditions and conducting other social insurance activities.

9.1.6 INDIVIDUAL PERFORMANCE REVIEW

Sakhalin Energy pays a special attention to building a stable culture of labour efficiency in the Company, and the process of personnel Goals and Performance Appraisal is a major tool to reach the strategic goals.

Employee Goals and Performance Appraisal with account for everybody's contribution to the Company performance is the most important tool enabling us to discover the individual's potential and to make it work for the Company's goals. All employees go through the Goals and Performance Appraisal process every year. Their labour efficiency is evaluated based on their Goals and Performance Appraisal at the end of the year. Such evaluation shows needs for professional training required for further professional growth and improvement of the Company's efficiency in general. The appraisal process and its outcome are closely linked with the personnel development process, including career development and training planning.

9.1.7 DEVELOPMENT AND TRAINING

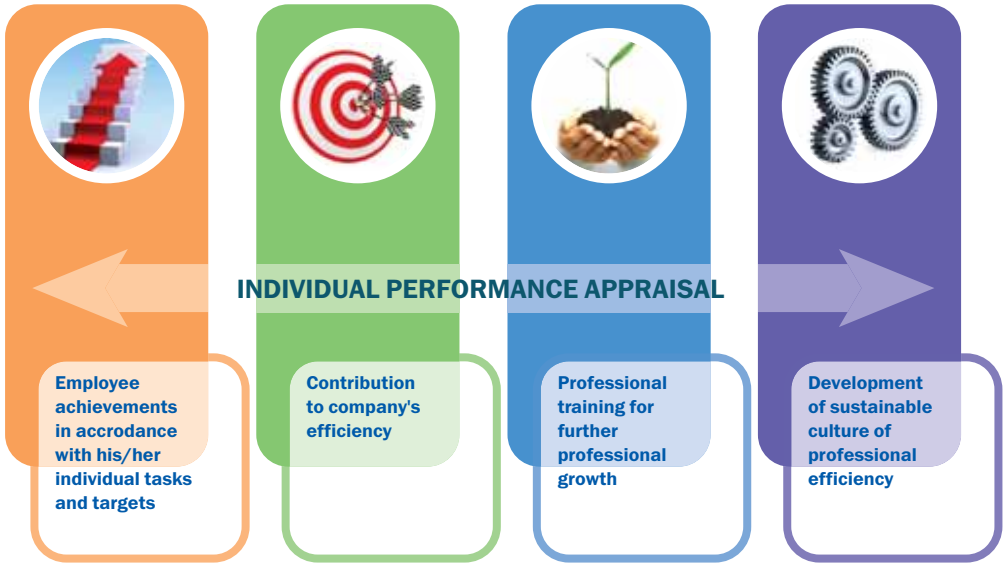
Development of Sakhalin Energy staff at all levels is a key element used for achieving and maintaining a high level of competence, motivating personnel to ensure maximum production efficiency, helping people to fulfil their potential, and promoting the principles and values of diversity and inclusiveness.

On 10 February 2011, Sakhalin Energy and the Sakhalin State University signed a strategic partnership agreement, which captured the capabilities involved in the many years of efficient cooperation between the Company and the oldest educational institution of the region and outlined new areas of joint activities. This agreement is unique as it integrates all previous experiences of our cooperation.

The Company's comprehensive approach in its personnel development includes as follows:

- Training planning and implementation;
- Regular Goals and Performance Appraisal;

Employees Goals and Performance Appraisal



- Career planning and development;
- Recruitment and development of Talent pool;
- Graduates' development;
- Development of scientific potential; and
- Traineeship and pre-graduation internship programme.

9.1.7.1 PERSONNEL TRAINING

Based on the Goals and Performance Appraisal and career development plans, the Company annually prepares plans for personnel training and professional development. Implementation of these plans is monitored by employees, their managers, HR Directorate as well as senior management.

Forms of training comprise on-the-job training, distant learning, conventional training courses, workshops, and case studies. 1,711 people attended training at workshops, class training and advanced training courses (including distant learning) in 2011 (more than one course attended by an individual). Average duration of training was 10.6 training man-days per one employee (without on-the-job training taken into account). In 2011, Sakhalin Energy spent more than RUR 260 million on personnel training.

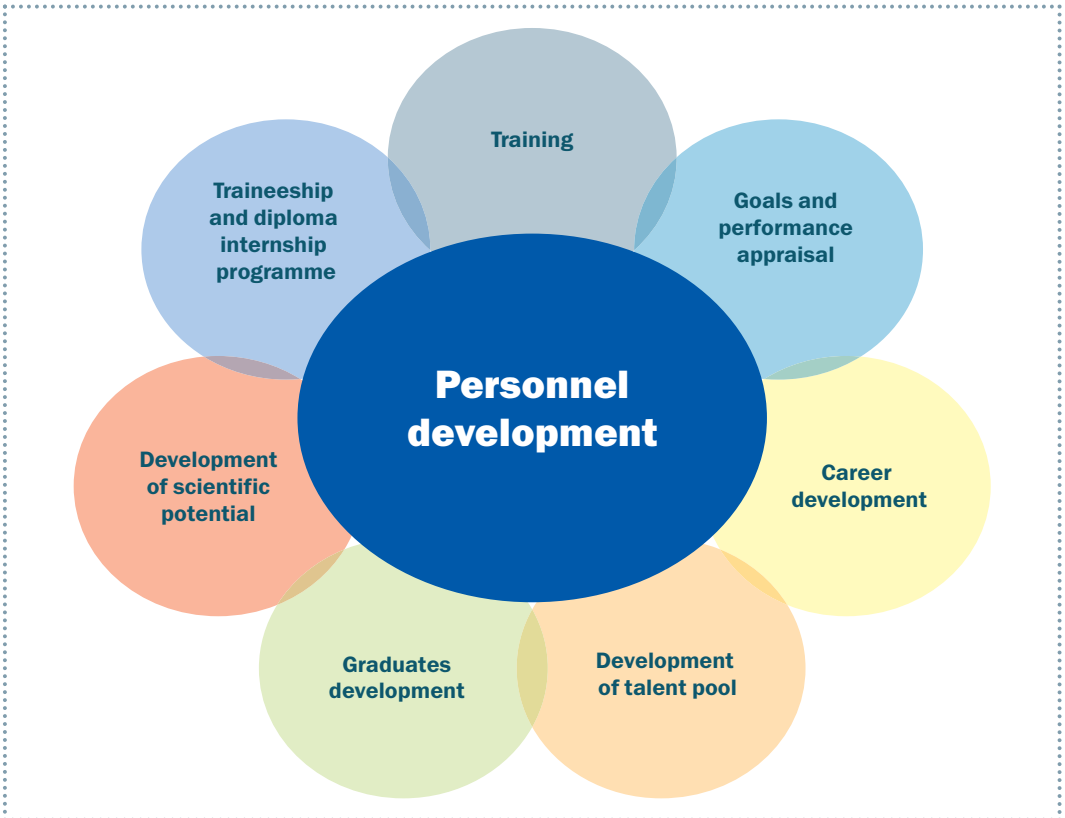
Sakhalin Energy training resources are unique and include both Russian and foreign providers of training services.

The HR Talent and development team is engaged in creation of courses and carries out the business request for the Ensure Safe Production training course. This year, 92 employees have already used this system for training.

As for disciplines, Sakhalin Energy top priorities in its training are as follows:

- Health, safety and environment (HSE);
- Professional courses in technical and other areas (finance, business, HR, etc.);
- Management and business administration;
- PC skills, Internet and Intranet training and other IT courses;
- Long-term training programmes for professional certification (CIMA, ACCA, CIPS, etc.);
- Different advance training courses; and
- Language courses.

Personnel development



Graduates' training as part of the internship programme

As part of the Apprenticeship Programme, 150 apprentices have already completed training, 20 individuals started training in 2010 and 25 — in 2011

Training under the Apprenticeship Programme has been implemented since 2003 and is aimed at assistance in development of the Sakhalin residents' potential. Its goal is training and development of operational and maintenance technicians for subsequent employment at the Company's production facilities.

The training programme includes several phases. The first phase is a six-month intensive English course.

Upon successful completion of this phase, trainees start enhanced studying of engineering disciplines directly at facilities, combining theoretical and practical training.

- Identification of potential candidates from among the Russian personnel for the positions occupied by Expatriate staff, key and managerial positions occupied by Russian Nationals;

In 2011, the HR Directorate launched one more distance learning tool: SAP HCM Portal for employees and managers. The HR specialists activated and learned to operate the Authoring Tool application to create a tailored electronic training course or enter courses provided by other suppliers in the the Company's system. Now employees can be offered 50 remote training courses, which herald the beginning of an intranet training system in Sakhalin Energy. It provides great possibilities for convenient and cost-efficient education and has good prospects as a modern method for informing employees about the Company internal standards and training the staff in the use of internal systems, thus improving their performance.

9.1.7.2 PLANNING & DEVELOPING SUCCESSORS POOL

The HR Directorate sees developing the successors pool as a high priority for HR potential development, with the main objectives here being as follows:

- Assessment of potential successors' readiness to succeed the positions according to a succession plan; and
- Planning the potential successors' development in accordance with job requirements to the positions planned for succession.

To achieve these objectives, Sakhalin Energy's management approved the 2011-2015 successors' pool development strategy. The strategy was approved at the meeting of Management Development Committee, the controlling body for successors pool planning and development.

In 2011, there were 690 positions included into the succession plan, among them:

- 128 positions held by expatriates and planned for replacement by Russian Nationals within the next 5 years. (In 2011, more than 90% of expatriate positions planned for replacement were succeeded by Russian specialists from the internal successors pool); and
- 204 managerial positions currently occupied by Russian Nationals.

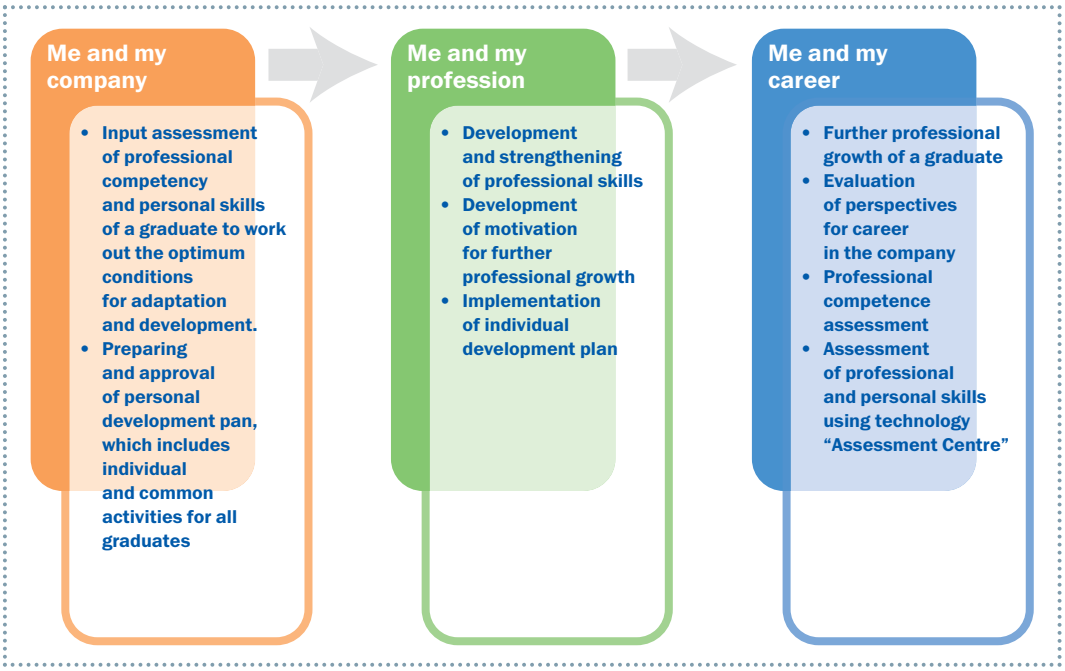
During the succession planning process for 2011–2015 potential successors were identified for 551 positions (80% of total number of the positions planned for succession) in the short- and long-term. For all employees included into the successors pool with readiness of '0–1 year' or '2–3 years Individual Development Plans were developed that incorporate potential successors targeted development under the Company's current HR learning and development system.

Potential successors' readiness to succeed the role is assessed twice a year at the relevant management and leading team meetings. The successors' readiness to fulfil positions currently occupied by expatriates is additionally assessed within Evaluation Committees activities in the Production and Technical Directorates.

9.1.7.3 GRADUATE DEVELOPMENT PROGRAMME

In 2010, the Company drew up the Graduate Development Programme, the main goal of which is to satisfy the requirement of Sakhalin Energy for talented people. Within the framework of this programme, Sakhalin Energy's graduates are young professionals under 30 years old, who have graduated from a university and are employed by the Company within the first three years after graduation in line with their qualification stated in the graduation certificates, for full-time dedicated positions agreed specifically for this category of employees in the Company's Establishment.

Graduates' development programme



The basic requirements to the candidates are as follows:

- relevant academic background (average academic score 4.0 and above for technical and 4.5 and above for non-technical skill pools);
- good command of English;
- high Headroom Assessment scores identified during Structured Interview;
- excellent references

The Company organises development of its young professionals in a planned manner, in accordance with the 3-year Graduate Development Programme, which consists of the following phases:

- 'Me and My Company';
- 'Me and My Profession'; and
- 'Me and My Career'.

Upon completion of 'Me and My Career' phase, a Graduate prepares a Presentation Report. The Graduate's Line manager and Coach jointly prepare a letter of reference for the Graduate, where they reflect on the Graduate's competency assessment results, strengths and areas for development, and provide recommendations to include the Graduate into the Company successor's pool.

9.1.7.4 DEVELOPING THE SCIENTIFIC POTENTIAL

Of great importance to Sakhalin Energy is development of its young professionals' scientific potential. In November 2011, the Third Scientific and Practical Conference was held.

11 papers on development of oil and gas fields, maintenance, automation of production processes, industrial safety and environment protection were presented as part of it. The Conference Panel was represented by high-level professionals from Sakhalin Energy's various departments.

The topics of the papers were as follows: "Seismic Data used for Planning of the Piltun-Astokhskoye Field Development", "Dip Determination by Azimuthal Density Logs in the Lunskoye Field Wells", "Adapting of the Production Processes Visualisation System for Comprehensive Monitoring of Company's Oil and Gas Balances", "Sakhalin Energy's Rock Dumping Campaigns for Offshore Asset Protection from Changing Marine Environment", "Integrated Approach to Piltun High GOR Management", "Engineering and Optimisation of Barrier Waterflood System at the Piltun Area of the Piltun-Astokhskoye Field", etc.

The Company plans to continue holding annual conferences of young professionals, thus giving employees an opportunity to share interesting ideas and Lean Execution proposals with their colleagues, which will improve efficiency of production processes.

9.1.7.5 INTERNSHIP PROGRAMME

The Internship programme for undergraduates has been implemented in the Company since 2000 to form an external pool for young professionals' positions. The internship programme makes it possible for the students to consolidate their theoretical knowledge, gain hands-on experience and develop their professional skills. The programme is also aimed at:

- providing students with an opportunity to work for a unique company;
- giving them some best business practices.

124 University and college students undertook their internship at the Company in 2011. Nearly 85% of the interns were Sakhalin residents.

9.2 LABOUR SAFETY AND PROTECTION

To implement and operate large-scale projects successfully, a special effort has to be focused on labour safety and protection. Sakhalin Energy is committed to pursuing the goal of doing no harm to people and industrial safety.

For this purpose, the Company applies a systematic approach to HSE management (see section 5.6 HSE and Social Performance Management System). This approach is designed to ensure both compliance with the law and risk management in order to achieve a continuous improvement of HSE performance. We also require our contractors to manage HSE issues in line with this policy and international standards, accepted by the Company. Our main spheres of HSE activities remain:

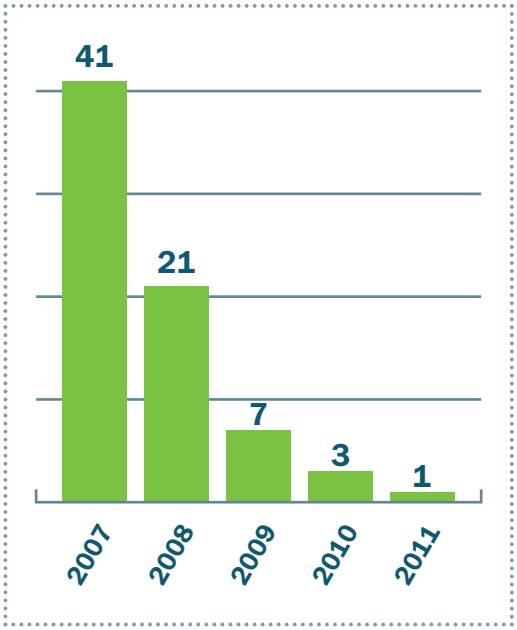
- Industrial safety;
- Road safety;
- Behavioural safety.

Life Saving Rules is a suite of ten obligatory rules developed and implemented by the Company. Breaking of these rules results in disciplinary actions, including immediate dismissal. The rules prohibit appearing at work under the influence of alcohol, possession or use of illegal drugs, smoking in an active hydrocarbon area, carrying or use of electronic or other ignition sources in an active hydrocarbon area, exceeding the speed limit, travelling in a vehicle without wearing a seatbelt, driving whilst using hand held communication devices, driving without the required Journey Authorisation and valid Defensive Driver Training, undertaking work without the required Permit To Work.

9.2.1 PERFORMANCE

In 2011, Sakhalin Energy continued to build on the outstanding safety performance achieved in 2010. The number of incidents measured by the Total Recordable Case Frequency (TRCF) has decreased by about 3.5%. In 2011 this indicator was equal to 0.55 (in 2010 – 0.57).

The Company continued to take measures to enhance road safety and ensure high road safety performance. The vehicles involved in the project travelled nearly 11 million km in 2011. Company's vehicles were not involved in road accidents involving injuries; however, one of the buses of the Company's contractors was incidentally involved in a road accident just six days before the Company marked a very important occasion—1,000 days without road accidents involving injuries. "The Company was maintaining this highest world level for more than two and a half years — from



Dynamics of lost time incidents

February 2009 to November 2011. But we now have to start anew" (Andrei Galaev, Chief Executive Officer).

Not a single serious process safety incident was registered at the Company facilities in 2011.

In 2011, the Company registered no cases of illnesses which could be classified as occupational diseases as per Russian law.

9.2.2 ROAD SAFETY

In 2011, the Company continued to implement the road safety programme. The programme includes the following basic components:

- daily monitoring of technical condition of vehicles, compliance with the requirements for the drivers, and availability of mandatory documentation;
- additional types of training for defensive driving in various conditions;
- appointment of officers responsible for road safety at the Company sites;
- close interface with contractors and subcontractors;
- use of built-in integrated vehicle management system (IVMS);
- pro-active approach when handling third-party vehicle risks.

The Company implemented a range of measures to establish interface with other Sakhalin project operators, including introduction of Life Saving Rules, five out of which being on road safety.

With the increased activities at Kirinskoye field (Sakhalin 3 project) vehicle

Personnel transportation, Prigorodnoye production complex

driving increased at South Access Road. Main transport was heavy vehicles used for construction materials transportation. Cases of breaking road rules were registered. Company cooperated with Sakhalin 3 project operator to implement urgent improvement measures.

The important aspect of the road safety programme is promoting high corporate standards of road safety outside the Company and its contractors, with the focus on the communities where we work. This is implemented via Sakhalin Road Safety Partnership, whose establishment was initiated by the Company in 2005. In 2011 Sakhalin Road Safety Partnership transformed to Sakhalin Road Safety Council (see Section 9.5.8 Sakhalin Road Safety Council).

In order to control the situation the road safety a joint committee was set up and met every month, and the monitoring team including main Sakhalin 3 project contractors was organised.

In addition to implementing road safety standards and ensuring strict compliance with such standards, the Company is running a road safety education and communication programme. This programme includes subject-oriented contests, presentations, release of information brochures and video clips on road safety. Also, the Company's sites implemented incentive systems to encourage the drivers for defensive driving.

Sakhalin Energy employees and contractors place high emphasis on HSE communication and awareness, knowledge in work place risk management, compliance with the 10 Life Saving Rules, permit-to-work system and ignition source control. All this is done to create a feeling of ongoing concern which results in a strong safety culture and prevention of careless behaviour.

An important aspect of the road safety programme is to promote a high level of road safety culture among contractors and subcontractors by way of checks and close interface.

9.2.3 OPERATIONAL SAFETY

Sakhalin Energy's approach to HSE management is based on a combination of strict compliance with Russian rules and standards and compliance with the international management systems. The Company focuses on three areas: technologies and standards, management systems and safety culture.

State-of-the-art technologies and systems were successfully used to start production. In 2011, we continued making our standards easier to follow by clarifying those mandatory requirements which ensure personnel and operations safety.

We updated the HSE risk analysis and controls description for each facility by including in them all HSE-critical operations which are supervised by competent specialists. Vast experience was gained from the development and implementation of combined HSE management systems which include audits of all levels, investigation of incidents, safety and health training, occupational hazard analysis, emergency response, integrated operational safety systems and many other instruments of safety management at all the facilities.

9.2.4 LABOUR SAFETY CULTURE

It is one of Sakhalin Energy's priorities to develop, both in the Company and in contractor organisations, a corporate culture aimed at reduction of accident rate and introduction of pro-active behaviour of personnel in the area of health and safety.

The diagram shows safety culture development ladder where safety culture gradually achieves the creative level at

which Company employees have sufficient trust in the managers and share information to prevent accidents. It is exactly the achievement of this level of corporate culture that represents the basic task of all Company's behavioural programmes in the area of labour safety.

Change of employees' behavioural motivation where safe behaviour becomes a norm at production site, office and home is a tremendous step on the way toward achievement of highest creative level of culture.

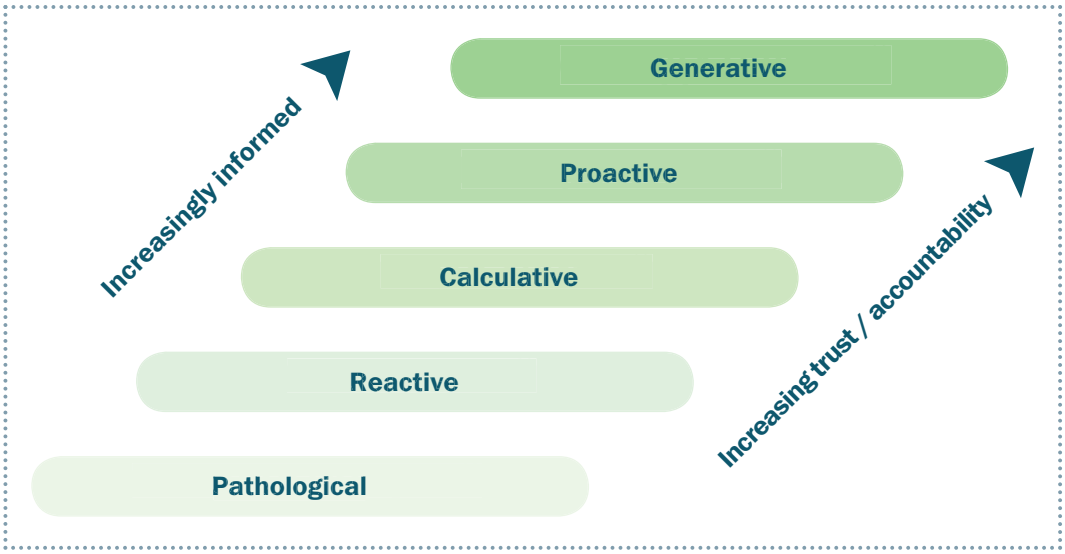
The key factor for a successful development of safety culture is the adherence of the Company's top managers to HSE culture. In 2011 HSE manager commitment programme was therefore developed and implemented. Under this programme 80 top managers (directors, contract holders and production asset managers) have undergone special training and visited the Company's production facilities in line with the schedule approved by the Company's Chief Executive Officer.

In the course of such visits the managers mainly focused on communication with ordinary employees and demonstration of sincere commitment to labour safety, which served as an important element of employee motivation to enhance general level of safety culture.

Dmitry ULITIN (Production Directorate) receives a safety award from Andrei GALAEV, Sakhalin Energy CEO

To shape safety culture and recognise HSE leaders at each level, Sakhalin Energy continued its practice of awarding, by the Chief Executive Officer, individual employees, departments and contractors for the best safety efforts. In 2011, the Chief Executive Officer handed out 9 awards to Company employees, 1 award to Company department, and 9 awards to the Company contractors.

In 2011, a STOP programme training was arranged at all of Company facilities for more than 1,700 employees of Sakhalin Energy and contractor organisations. The essence of this programme consists in generation of sustainable habit to constantly watch the varying work environment, timely identify dangerous factors and stop dangerous works, thus preventing the accidents.



HSE culture ladder

9.3 OCCUPATIONAL HEALTH

The Company's sports and recreation centre in Yuzhno-Sakhalinsk

The Company has a structured approach to its employees' health. The Company has developed and approved internal occupational health and hygiene standards including the following specifications:

- Health risk assessment;
- Medical emergency response;
- Medical evaluations for fitness to work;
- Medical conditions of contract;
- Management of alcohol and drugs at work, etc.

The Company's compliance with the above standards resulted in continuous improvement of its 2011 occupational health performance (as reflected in the total recordable occupational illness frequency and lost time occupational illness frequency results). The occupational health performance and various other related indicators are reviewed on a regular basis, so that the Company could develop and adopt appropriate measures to further improve the employees' working conditions and prevent occupational diseases.

The Company continues to implement high standards of medical emergency response. In 2011, first aid training was undertaken by 260 employees of the Company and its contractor. Four doctors undertook internships abroad.

The HSE performance comparison between Sakhalin Energy and other oil and gas companies has demonstrated the positive benefits of applying such health standards.

In 2011, employees of the Company and its contractors were examined to assess the risk of acute coronary syndrome development.

In addition to the mandatory health and welfare, the Company continued to encourage healthier lifestyles and prevent the development of diseases. In order to achieve this, the following measures were implemented:

- Colds and influenza prevention campaigns, including awareness and vaccination.
- A wellness and sports programme that was part of the health and welfare plans of the Company and all its units. The Company employees took part in various sports events, both on the unit and company levels, as well as in various open competitions organised by local and regional communities.

- A recreation centre, which includes a gym, a swimming pool, a football pitch and tennis courts is available to all the Company employees and their families living in Yuzhno-Sakhalinsk. In addition, various sports facilities and grounds are available to people working at the Company's remote sites. The Company's employees who live outside Yuzhno-Sakhalinsk get gym membership compensations.
- The programme aimed at preventing alcoholism and drug habit and raising the alcohol and drugs awareness.
- An aggressive anti-smoking programme; on 31 May of each year, Sakhalin Energy holds a No-Tobacco Day. On this day in 2011, like in previous years, discussions were held to consider the health benefits of giving up tobacco. The smokers are offered free counselling service and treatment. The campaign includes posters, leaflets and incentives to all employees.
- Shortly before the World AIDS Day, employees of the Company's Health Department participated in a round-table meeting arranged by UNAIDS (UN initiative to fight AIDS). On 01 December 2011, on the World AIDS Day, an annual internal awareness campaign was conducted.

9.4 HUMAN RIGHTS

9.4.1 HUMAN RIGHTS: PRINCIPLES AND MANAGEMENT SYSTEM

One of the key business principles of Sakhalin Energy is running business in a socially responsible manner, observing the laws of the Russian Federation and the countries where Sakhalin Energy operates, as well as giving support to the fundamental human rights, working in the legal business framework.

These principles are set forth in the following main documents of the Company, which provide foundation for the human rights compliance in everyday business:

- Sakhalin Energy Statement of General Business Principles;
- Sakhalin Energy Code of Conduct;
- Whistle Blowing/Grievance Procedure;
- Sustainable Development Policy.

Appropriate training and awareness sessions are held at the Company offices and assets to ensure compliance with the human rights principles and procedures as set forth in the above documents. The human rights principles control system requires that the Company management provides the employees with safe and confidential channels to raise any concerns and report noncompliance. On the other hand, all Sakhalin Energy employees are to report to the Company of any identified violations of the General Business Principles. As a key mechanism for this reporting the Company uses the Whistle Blowing/Grievance Procedure.

Experience of Sakhalin Energy in grievance resolution as well as the mechanisms provided by the Grievance Procedure were taken into account during development of the UN Guiding Principles for Business and Human Rights.
In 2011, these principles were approved by the UN Council on Human Rights and became a practical guide for international business community in the area of human rights, including the issues of improving the efficiency of grievance resolution mechanisms. Thus, the complaints handling model applied in Sakhalin Energy contributed to development of the new international standard in the area of social corporate responsibility.

9.4.2 COMMUNITY GRIEVANCE PROCEDURE

The Procedure supports the long-term goal of building strong and effective relationships with all stakeholders impacted

The information session 'Business and Human Rights: New United Nations Standard' held in Moscow in June 2011 was organised by the United Nations Global Contract network in Russia. The session was devoted to the new United Nations standard in the area of human rights: the 'Guiding principles for Business and Human Rights Principles (the 'Ruggie principles'). The Company presented its experience of participation in practical introduction and testing of the guiding principles and, by the example of non-judicial grievance mechanisms, demonstrated how this new UN standard in the area of human rights could be applicable for business.

by the Sakhalin Energy activities and provides for effective and timely resolution of grievances, reduction or avoidance of a repetition of similar grievances, as well as ensuring careful documentation of grievances and remedial actions to enhance accountability and reduce liability.

Starting from this stage of facilities construction, Sakhalin Energy successfully implements the Community Grievance Procedure. This mechanism is one of the key social monitoring instruments.

Extract from the report of ENVIRON, Lenders' independent consultant, following the 2011 audit results

The following are key principles of the Sakhalin Energy's Grievance Procedure:

- **Legitimacy and incorporation into management systems** (grievance procedure consists of elements and mechanisms that ensure trust by stakeholders and affected groups targeted by this procedure).

  The Grievance Procedure includes independent patterns for assessment, resolution and monitoring of grievances. The Grievance addressing status and progress are controlled by the Company's top management, and audited both externally and internally. Furthermore, the grievance handling process is assessed by independent committees, and carefully registered and tracked in the automated incident tracking system, the so-called Fountain System.

- **Accessibility** (ensure awareness of all targeted stakeholders).

  There are different channels for lodging grievances and, thus making the Company maximum accessible in communicating with complainants. Among those channels are the Company's Information Centres set up in

23 Sakhalin communities, Community Liaison Organisation, dedicated hotline, email, etc. The Company uses feedback from communities and other stakeholders to assess the effectiveness of these channels. Effective awareness campaigns and trainings are held to keep community and contractors/subcontractors up to date of the Grievance Procedure.

- **Transparency and openness.**
  The Company regularly informs all stakeholders of the status and progress of grievances handling, furnishing enough details on their results, and incorporates the grievance updates in public corporate reports.

- **Stakeholder engagement and ensuring dialogue during grievance addressing.**
  Sakhalin Energy conducts regular consultations with communities and other stakeholders with regard to effectiveness of the grievance addressing process. Such consultations are part of community engagement and meetings with focus groups, as well as of internal social performance monitoring. Special emphasis is made on dialogue with complainants as part of grievance addressing and decision making for resolution.

- **Predictability in terms of process and ensuring concerted actions** (ensuring predictability that is a clear and straightforward procedure, setting time limits for each stage).
  The Procedure sets clear time limits for grievance handling and communication with complainants throughout the process of its resolution.

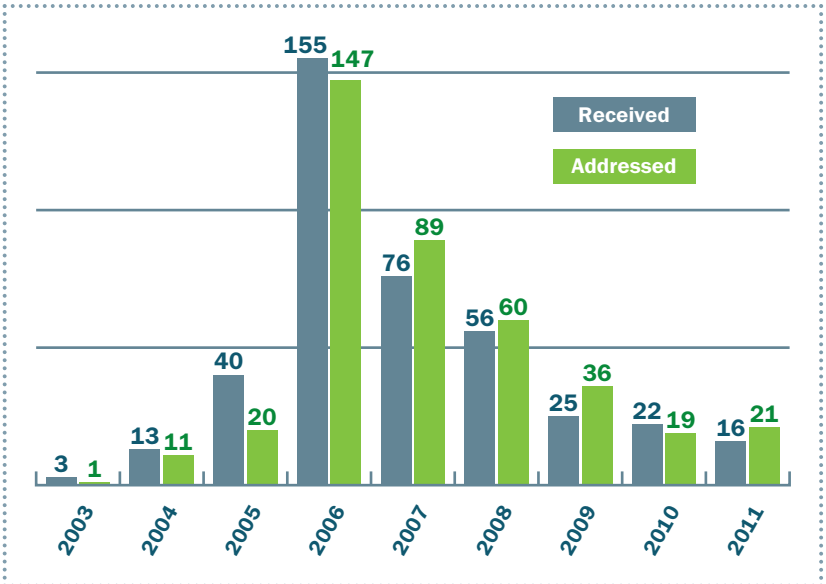
- **Confidentiality.**
  All grievance-related issues are addressed confidentially. Information of complainants is not to be disclosed without a complainant's written consent thereto.

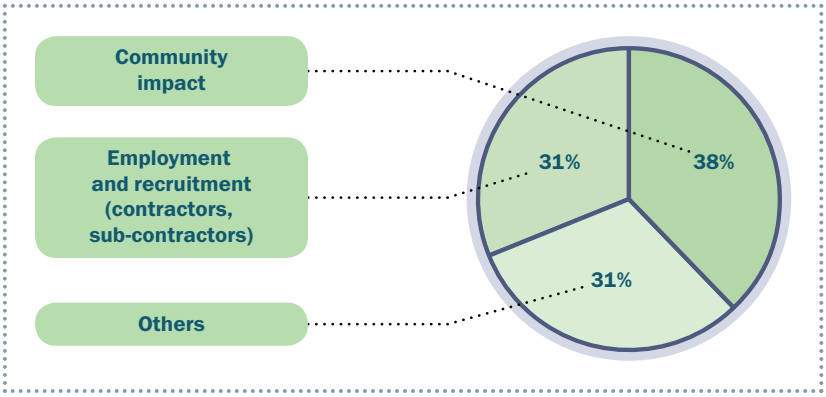
- **Applicability both for the Company and contractors.**
  The Company's Grievance Procedure is mandatory for all of the Company's functions, as well as by contractors and subcontractors.

- **Using the experience gained for preventive and proactive measures and continuous improvement.**
  All grievances lodged by Sakhalin Energy are tracked and the tendencies are analysed. Based on such analysis, recommendations are formulated to the Company's relative functions and contractors/subcontractors with respect to impact mitigation and preventive measures.

Sakhalin Energy conducts regular information campaigns to ensure awareness of all stakeholders about the Grievance Procedure. Such campaigns include placement of posters in communities and districts, dissemination in the Company's information centres a leaflet describing how to file a complaint, making announcements in district newspapers, informing

Prompt identification and resolution of potential issues of concern





Categories of grievances in 2011

about the Procedure during public and other meetings.

In 2011, Sakhalin Energy continued sharing work experience in this area, including events held in the international arena.

To ensure effective and timely settlement of potential issues and grievances arising in connection with implementation of the Sakhalin Indigenous Minorities Development Plan, a special Grievance Procedure was developed.
It is based on the principles and key requirements of the corporate Community Grievance Procedure. UN experts have recognised it as one of the world's best practices related to development and implementation of the grievance handling mechanisms.
Application of the Grievance Procedure organising the process of acceptance, registration and settlement of grievances related to implementation of the Development Plan serves as an excellent example of establishing cordial relationship with the local population.

Thus, at the request of the German party, the Company presented its experience of development, introduction and application of the Grievance Procedure at the conference arranged in Berlin under the general name of 'Business and Human Rights' by the Global Contract network in Germany.

The Company received 16 grievances in 2011. This is 28 per cent less than in 2010 and 36 per cent less than the number of grievances received in 2009. It is connected, on the one side, with inconsiderable amount of construction work under the Sakhalin-2 project and, consequently, minor impact on Sakhalin communities and, on the other side, with proactive identification and resolution of potential issues of concern.

31% of grievances received in 2011 concerned Project impacts on local communities; 31% pertained to labour disputes (contractors); 31% were grievances concerning implementation of the Sakhalin Indigenous Minorities Development Plan, and 7% — grievances regarding other issues.

As of the end of 2011, 13 grievances out of 16 received ones were resolved and, among them, initiators of 8 grievances signed statements of satisfaction.

9.5 SOCIAL INVESTMENT AND CONTRIBUTION TO SUSTAINABLE DEVELOPMENT OF THE HOST REGION

9.5.1 SOCIAL INVESTMENT AND SUSTAINABLE DEVELOPMENT: SAKHALIN ENERGY'S PRINCIPLES AND APPROACHES

Since the Company's foundation in 1994, the Company has paid a lot of attention to the socially significant programmes in Sakhalin. Investments — sizable and consistent — in the social area, as well as a long-term policy focused on addressing social issues correspond to Sakhalin Energy's commitment to sustainable development principles.

In 2011, the Company invested over RUR 55 million (over $1.83 million) in community social programmes in Sakhalin Oblast.

The main purpose of Sakhalin Energy's social investment programme is to contribute to the sustainable development of Sakhalin Island through projects that:

- Result from consultations with the public and meet the needs of the communities impacted by the Company's activities;
- Relate to issues that affect the Company's reputation;

- May not directly connect to the Company's activity, however, contribute to economic, environmental and social development of Sakhalin;
- Contribute to the sustainable economic, environmental and social development of Sakhalin and demonstrate to stakeholders the Company's commitment to sustainable development.

The Social Investment Strategy is part of the Social Performance Management Standard. This document applies to all social investments and sustainable development activities of the Company that aim to contribute to the economic, environmental and social advancement of the community. The Social Investment Strategy provides that Sakhalin Energy should conduct internal monitoring (ongoing) and independent external evaluation (once per two years) of social investment projects in accordance with Social Performance Monitoring and Company internal audit requirements.

The social investment programmes of Sakhalin Energy are agreed with local authorities and integrated into the general business strategy of the Company's. Main focus of the Company's social investment activities is on implementation of flagship long-term partnership projects with external stakeholders. Priority is given to programmes with clearly spelt out objectives, targets and deliverables.

Social responsibility of a business community is about the social impacts that it generates and the responsibility to those who are impacted, whether directly, or indirectly. Therefore, in choosing its projects and development strategies, Sakhalin Energy is guided by whether such projects are viable and have a long-term potential and also whether they are really capable of changing the community's life for the better.

The following social investment targets are Sakhalin Energy's priority:

- Education;
- Health;
- Safety;
- Environmental protection and biodiversity;
- Culture and arts;
- Sakhalin indigenous minorities.

Sakhalin Energy was named one of the leaders of charitable activities in Russia and awarded the second prize under the national project for ranking effectiveness of corporate charitable programmes — 2011 Study of Corporate Charity. This time, 50 organisations took part in the ranking project. Among them are Uralsib, ALCOA RUS, Deutsche Bank, MegaFon. The organisers and jury of the ranking are also well known — these are Vedomosti business newspaper, PricewaterhouseCoopers and the Donors Forum.

The Company's methods of developing and implementing projects and programmes are based on a transparent and unbiased approach. This approach is applied to the process of evaluation of the best local initiatives as part of the Company's grants programmes. For some programmes, such as 'Small Grants — Big Deeds', the Company invites third-party experts to evaluate the projects submitted for sponsorship.

Sakhalin Energy won the All-Russia contest 'Best Russian Enterprises. Dynamics, Efficiency, Responsibility-2010' in the nomination 'For Social Investments and Projects'.
An honorary diploma of the contest organiser, the Russian Union of Industrialists and Entrepreneurs (RUIE), was presented to Sakhalin Energy by Alexander Shokhin, the RUIE president, on 19 April 2011 during the Russian Business Week in Moscow.
Sakhalin Energy has become a prize winner of this prestigious contest for the second year in a row: in 2010, RUIE also noted great social activities of the Company on Sakhalin Island.

Sakhalin Energy continues to be a leader in the area of corporate social responsibility. At the end of March 2011, the Company was awarded by the 'Benefactor of the Year 2010' diploma of the Sakhalin Oblast Government in the nomination 'Organisation of High Social Efficiency'. The 'Benefactor of the Year' regional contest is conducted under the auspices of the Sakhalin Oblast Governor since 2005. This is already the Company's seventh victory in the contest.

The system the Company uses for social investment management is similar to managing its other activities. It involves a clear prioritisation technique and detailed descriptions of the programme implementation plans, decision-making processes and social investment management procedures.

In September 2011, Sakhalin Energy won the nomination 'Do Good' for active charitable activities and high efficiency of social programmes.
This award established by the administration of Yuzhno-Sakhalinsk is by far not the first one in the Company's collection. The Company's programmes, its practices and tripartite partnerships, advanced principles and approaches to implementation of social investments are recognised not only at the city level, but at the Russian and international levels as well.

9.5.2 SMALL GRANTS — BIG DEEDS

'Small Grants — Big Deeds' is a competitive programme for support of projects aimed at solving problems of local communities. Support of such initiatives at the local level can make a serious contribution to solving small problems that are still topical for certain target groups and reinforce confidence of active citizens and organisations in the ability to improve their life and environment. Methods being used in implementation of this Company's programme are built on a transparent and unbiased approach.

The 'Small Grants — Big Deeds' programme has been implemented by Sakhalin Energy in the Sakhalin Oblast since 2003. It has become one of the first Sakhalin competitive grant programmes with simple rules and objective assessment, which involves the Company's staff, representatives of government bodies as well as representatives of non-profit organisations (NPO), known for their objectiveness, and external experts.

Taking into account that applications to competition are sent from all Sakhalin districts, the programme has influence on development of the Sakhalin social sphere as a whole. At the same time, the programme facilitates development of social organisations. Participation in the competition itself results in introduction of new methods for management of social institutions, development of project-oriented approach to work and building of teams whose members are effective executors of such projects.

Competition is announced in an open manner. Competition announcements are published in all district newspapers and placed on the Company's website. Information on the competition as well as consultations regarding its conditions are available through the Company's information centres located in libraries of many Sakhalin communities.

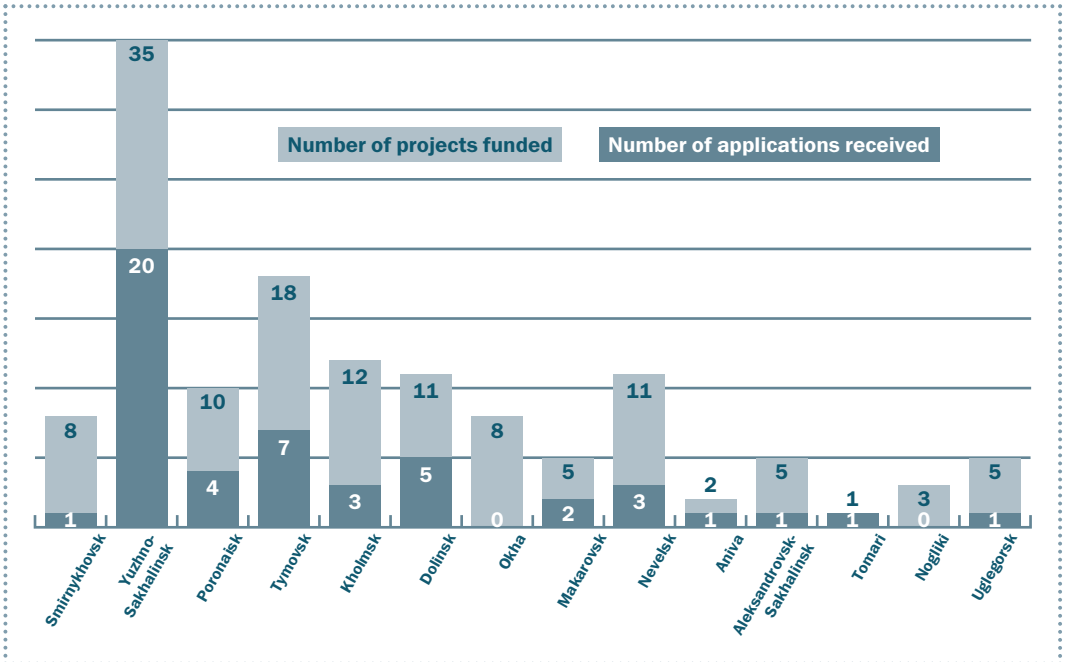
Culture and art, healthy lifestyle, education and enlightenment, sports and physical culture, environment protection and social support remain traditional areas of the programme. Starting from 2003, 311 projects have been implemented in 57 Sakhalin communities with the Company's assistance. In 2011, 49 initiatives won the competition, among which 13 were partnership projects, for implementation of which the Company allocated more than RUR 5.5 mln.

Below are presented the most outstanding projects of 2011.

- The ‘Song to Sakhalin’ regional contest held by the Sakhalin People’s Art Regional Centre. A gala concert, which represented new music pieces in various vocal art areas devoted to the Sakhalin Oblast, was the final event of this project.
- ‘Experiments are a Great Way to help Kids Understand the Surrounding World’ Kolokolchik kindergarten No.2 in the Troitskoye village, Aniva District. The laboratory arranged in this kindergarten provides for enhancing children’s perceptions of nature, animal and floral life and formation of ecological culture of both children and their parents.
- The ‘Help Me Find my Place and Stand on my Own Feet’ project of the Preodoleniye (Overcoming) rehabilitation centre for children with disabilities. As part of this project a sewing room has been arranged for social and labour adaptation, self-sufficiency of children and teenagers with disabilities and integration of those into society.
- ‘Touching the Heart’ therapeutic horseback riding club of Autonomous Non-commercial Organisation Magnolia children’s ecological camp. Hippotherapy, a popular method of disabled children’s rehabilitation evolved as part of this project.

Lesson in the *Touching the Heart* therapeutic horseback riding club

- The ‘Peer to Peer, Do Not Stand Aside! We Appeal to You!’ project. The primary goal of this project, implemented jointly by the Autonomous Non-commercial Organisation Healthy Generation and Sakhalin Regional Children’s Hospital, is to develop volunteer movement among schoolchildren of Yuzhno-Sakhalinsk and raise children and teenager awareness of adverse effects of psychoactive substances (drugs, alcoholic drinks, energy drinks and tobacco) on health and mental capacity.



Received and financed projects in 2011 (by district)

9.5.3 'WHAT TO DO IN EMERGENCY SITUATIONS' PROGRAMME

On 7 July 2011, at the Emercom Crisis Management Centre, Sakhalin Energy, Sakhalin EMERCOM and Sakhalin Ministry of Education signed a Cooperation Agreement as part of "What to Do in Emergency Situations" Programme. The parties confirmed their intention to continue cooperation on the programme, which has been run in the region starting from 2005.

In 2010 – 2011, a contest was held for the best instruction manual developed using the What to Do in Emergency Situations Programme material. 42 works from 13 Sakhalin districts were submitted for this contest. The winner awarding ceremony was conducted as part of the 'Safety Day' children's regional holiday held in Yuzhno-Sakhalinsk on 12 October 2011. Traditionally, this holiday is celebrated on the International Day for Natural Disaster Prevention and Mitigation within the All-Russian Emercom festival 'Constellation of Courage'. 15 children's teams, more than 130 children from 14 districts of the Sakhalin Oblast competed to become the best expert in safe behaviour rules.

Six years of the programme implementation have yielded significant results. The material developed under this programme, such as cartoons, comics, etc., is actively introduced into the educational process by Sakhalin teachers. The main and best-known programme element is educational cartoons with the main character — a boy named Senya.

In 2011, four new cartoons were made regarding safety in the Internet, communication with strangers, safe cycling and using public transport safely.

A special project 'Warning from Senya: local information boards in tsunami-hazardous communities and avalanche-hazardous areas of the Sakhalin Oblast' became a new programme area in 2011. Nevelsk District was the first Russia's district, where local boards were installed providing information on hazardous areas, evacuation routes in case of tsunami and simple rules to be observed when in avalanche and tsunami-hazardous area,

In 2011, 'What to Do in Emergency Situations' Programme website www.senya-spasatel.ru was launched.

The website visitors can obtain information about contests, watch Senya cartoons on safety, flip through comics based on the cartoons and even ask any question to the main character. Scenarios of safety educational events as well as resource packs of information developed by the programme partners are placed at the website to help teachers.

Presentation of the information stand in tsunami hazardous area

9.5.4 'ENIGMATIC WORLD. THE AINU'

In 2011, Sakhalin Energy, in cooperation with the Sakhalin Regional Art Museum, organised the 'Enigmatic World. The Ainu' exhibition. For more than a month, from 14 June to 21 July, the museum exhibited the world's largest collection of images by Byozan Hirasawa, a famous Japanese painter of the 19th century. The collection told about the culture of one of the most enigmatic peoples that lived on the Sakhalin Island not so long ago.

A unique series of water-colours from the Omsk M.A. Vrubel Museum of Fine Arts includes 12 paintings made in the 1860s.

Byozan Hirasawa watercolour paintings on Sakhalin

9.5.5 SAKHALIN SALMON INITIATIVE

In 2011, activities were conducted under the Sakhalin Salmon Initiative, a partnership project aimed at support of preservation and sustainable use of wild salmon and ecosystems of salmon river basins and facilitating sustainable economic development of the Sakhalin Oblast. Sakhalin Energy and the non-profit organisation Wild Salmon Centre (USA) are its initiators and general sponsors.

Six public salmon Councils established within the framework of this initiative continued their work. Nine organisations from various districts of the Sakhalin Oblast were given financial support for implementation of educational projects. Work under 'Preservation of Habitats' and 'Sustainable Fishery Development' projects continued.

The ninth salmon festival for children's ecological teams was held on the Lyutoga river bank in Aniva District on 10 September. 300 schoolchildren from Uglegorsk, Aniva, Yuzhno-Sakhalinsk, Taranai, Sinegorsk, Kholmsk, Korsakov, and Poronaysk communities took part in the festival. The number of participants grows every year.

In September, 'Watching Salmon' educational excursions were organised for school children. Excursions were conducted at spawning streams near the Aniva District hatcheries. During excursions, children were made aware of the species composition of salmons in the Sakhalin Oblast, learned about Pacific salmon features as well as factors responsible for their life and spawning as well as Pacific salmon lifecycle phases. In spring, before release of salmon fry, about 500 younger and older children from day-care centres and secondary schools of Yuzhno-Sakhalinsk visited Sakhalin Oblast hatcheries

Sakhalin without salmon is unthinkable

(Bereznyaki village, Aniva city, Taranai village).

On 28 May 2011, 'Let Salmon Live' regional exhibition of children's pictures, which has become a regular event, opened in Yuzhno-Sakhalinsk. Prizes were awarded to the best pictures.

9.5.6 'HURRY UP FOR GOOD DEEDS!'

The 'Hurry Up for Good Deeds!' programme to support charitable initiatives of the Company employees has been in place since 2003.

In 2011, the programme gained momentum. With long-term objectives of the programme remaining the same, approaches to its implementation were significantly altered. The new programme format opens new areas and opportunities for employee participation in charitable actions and projects. An updated programme offers various forms of work, involving those who initiate and implement charitable projects and those who would like just to attend an event.

New equipment in Sakhalin Oblast children's hospital

One of the new ideas that proved to be viable is corporate fundraising. As part of the 'Time of Kindness' spring action conducted by the Company's employees, new equipment to monitor small patient condition was installed in the newborn and preterm infants pathology department of the Sakhalin Regional Children's Hospital in September 2011.

In August, the Company's employees and their families participated in an environmental action to improve the site allocated for the Salmon Park to be constructed.

Volunteers cleared more than 400 metres of path in the salmon park, the first environmental, educational and tourist complex, which is being created in the Aniva District of Sakhalin Oblast near the 'Sakhalin Artek' children's camp.

In the course of the autumn charitable action of employees that coincided with the Oil and Gas Workers' Day the musical hall and fine arts studio was refurbished at the Preodoleniye (Overcoming) rehabilitation centre for children and teenagers with disabilities.

In September 2011, Nysh orphanage playground was opened. The OPF employees who had initiated the project attended the opening ceremony. As always, the Company doubled the funds collected by the Company's employees to make their initiatives happen.

The last charitable action for 2011 was 'New Year Miracles', which has become a regular event. The Company's employees collected RUR 350,000 for implementation of 3 projects. The ideas for miracles and recipients of those were selected by the Company's employees. Most of the respondents believe that lonely elderly people, orphans and children with disabilities primary needed 'miracles' on New Year 's Eve. They became the main recipients of the 'miracles'.

9.5.7 KORSAKOV PARTNERSHIP COUNCIL FOR SUSTAINABLE DEVELOPMENT

The Korsakov Partnership Council for Sustainable Development is an open organisational structure based on voluntary cooperation of stakeholders aimed at considering projects on sustainable development and social investments. To ensure the balance between interests and expectations of all people living in the Korsakov Municipal District, the administration, business and community have an equal number of representatives in the Council.

The key objectives of the Partnership Council include analysis, monitoring and recommendations to be made for implementation of socially important projects. Projects are assessed by the Council based on their topicality, usefulness for local community and longevity. And, of course, any project should meet the sustainable development principles including achievement of the balance between economical, social and environmental factors.

In 2011, presentation of a range of projects took place, such as the 'Open Carpet' competitions arranged on a new tatami purchased under the 'Mastery' project of the judo department of the Korsakov junior and youth sports school, cycle of training sessions of the 'Legal Knowledge School' created for the evening school students at the Korsakov Central Library.

On 1 June, the International Children's Day, a presentation of a multi-purpose modern ultrasonograph, new equipment for the district, took place in the maternity clinic of the Korsakov Central District Hospital. This apparatus as well as training material for educational events to be arranged for mums-to-be were purchased under the 'Perinatal Medical Care: Positive Maternity' project.

Two rounds of the 'Korsakov Initiatives' competitive programme were held in 2011, during which 11 initiatives were supported. The final event of the 12th round of competition was a trade fair, where open defence of projects took place. A decision on the financial aid recipients was made by Korsakov people themselves at the trade fair.

Time of kindness **charity action of the company employees**

9.5.8 SAKHALIN ROAD SAFETY COUNCIL

The Sakhalin Partnership for Road Safety was established in 2005. It was initiated by Sakhalin Energy which has been its active participant since then. In 2011 the Partnership was re-cast as the Sakhalin Road Safety Council on the basis of a decision approved by 12th meeting of the Partnership's Steering Committee on 23 December 2010. On 6 July Sakhalin Energy signed an agreement with the Sakhalin Government and Sakhalin Ministry of Internal Affairs about the launch of the Council.

The Council will focus on educational and awareness-raising campaigns and on enhancing the efficiency of emergency services in case of a road accident.

The project "Safe Route to School" continued in 2011. Schoolchildren in Primary School No. 7 in Yuzhno, Children and Youths' Recreational Centre and School No. 4 in Korsakov had an unusual lesson where they were shown special maps demonstrating their safe route to school. The campa-

***Safe Way to School* map presentation**

ign's date was timed to coincide with the beginning of school term on 1 September. Promotional leaflets for drivers and children were handed out by volunteers in 13 communities. Children were shown special educational cartoons with main character Senya, and learned how to draw up a safe route to school and where it is safe to bike. Eighty specialists from 11 municipalities took part in the advance training course 'First-Aid in Road Accidents'.

An open meeting of the Steering Committee was held in December 2011, which approved strategic areas of activity for 2012–2013.

9.5.9 SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN

The Sakhalin Indigenous Minorities Development Plan (hereinafter 'SIMDP' or 'Plan') is a partnership programme that is jointly implemented by Sakhalin Energy, the Regional Council of the Authorised Representatives of Indigenous Peoples of Sakhalin Oblast and the Government of Sakhalin Oblast since 2006.

In November 2011, SIMDP won the All-Russia Contest 'Leaders of Corporate Philanthropy' in the nomination 'The Best Programme for Corporate Philanthropy Policy and Social Investment Principles'.

9.5.9.1 THE SECOND SIMDP — DEVELOPMENT

An agreement on implementation of the second five-year Sakhalin Indigenous Minorities Development Plan (2011-2015) was signed by all partners on 14 December 2010.

The second SIMDP, like the first one, is based on international standards concerning indigenous peoples. As with the previous plan, the implementation procedures and management structure of the second Plan reflect the requirements of new international standards. They were developed by the International Finance Corporation (2006), the European Bank for Reconstruction and Development (2008) and the Asian Development Bank (2010), and contain more stringent requirements for participation of representatives of Sakhalin indigenous peoples (IP), conducting consultations and distribution of benefits. The second Plan was developed in accordance with the 'free, prior and informed consent' (FPIC) principle contained in the United Nations Declaration on the Rights of Indigenous Peoples (2007).

In order to take the opinions of IP into account during the development of the second SIMDP, two rounds of extensive and

open consultations were conducted at places of their traditional living and economic activity. Consultations were held in 10 Sakhalin communities and involved more than 500 representatives of indigenous peoples.

Compared to development of the first Plan, when approximately 200 IP representatives took part in consultations, indigenous people were more actively involved in preparation of the second Plan. This points to an increased level of confidence among population and to a higher level of responsibility.

Many recommendations obtained in the course of consultations, results of final evaluation and public opinion survey were also taken into account during further work on the Plan, which was significantly modified during preparation.

Information on implementation of the Plan is continuously updated on a specially developed SIMDP web-site (www.simdp.ru).

9.5.9.2 FREE, PRIOR AND INFORMED CONSENT (FPIC)

During the first round of consultations, the working group created to prepare the second Plan had collected recommendations and opinions of indigenous stakeholders. Giving consideration to these comments, a draft plan was prepared and delivered to all stakeholders including general public from among indigenous peoples. During the second round of consultations, the working group presented it to IP representatives in seven Sakhalin districts for familiarisation and comments.

In November 2010, a special conference organised by the Regional Council of Authorised Representatives of Sakhalin Indigenous Peoples was held in Yuzhno-Sakhalinsk to approve and/or amend the Plan. IP representatives elected in all communities of IP traditional living took part in the conference. The conference participants agreed that the consultations did not have compulsory nature, were conducted in a timely manner, thus giving people the possibility and time for subsequent discussion of problematic aspects, and were accompanied by the first and second Plan information necessary to form an independent objective opinion about the Plan.

Implementation of a programme, where representatives of indigenous people independently make decisions with respect to social and economic issues of development of Sakhalin Oblast ethnic communities as well as obtaining of a formal consent for Plan implementation is a unique experience of development and approval of a programme by local population.

The conference delegates empowered the Chairman of the Regional Council of Authorised Representatives of Indigenous Peoples of Sakhalin Oblast to sign a statement of consent with the second SIMDP and a new tripartite agreement on its implementation.

9.5.9.3 GOALS AND STRUCTURE OF THE PLAN

Main goals of the SIMDP are:

- Improving the lives and livelihoods of the Indigenous Peoples of Sakhalin Oblast through support for the delivery of benefits (social development programmes) in a culturally appropriate and sustainable manner.
- Enhancing the capacity of indigenous communities and individuals to actively participate in the management of the SIMDP and, by extension, similar sociocultural and economic intervention strategies.
- Assisting Sakhalin's Indigenous Peoples to prepare for the eventual establishment of an independent Indigenous Minorities development fund.
- Avoiding or mitigating in an environmentally sustainable manner any potential negative effects caused by the operation of oil and natural gas pipelines and associated Sakhalin-2 Project facilities.

SIMDP is managed by the Governing Board supported by the Executive Committee, Committee of Traditional Economic Activities Support Programme (TEASP) and Council of the Social Development Fund (SDF). Distribution of funds allocated for implementation of projects is carried out by representatives of indigenous minorities elected from each district to work in the SDF Council and TEASP Committee, which has become an important distinguishing feature of the second Plan.

Active participation of Sakhalin indigenous minorities is a critical component of the approach employed by the three partners to development of indigenous people of the Sakhalin Island. Both programmes (TEASP and SDF) as well as the Plan preparation and implementation processes should consider approaches that will involve Sakhalin indigenous peoples in Plan management in the most efficient manner.

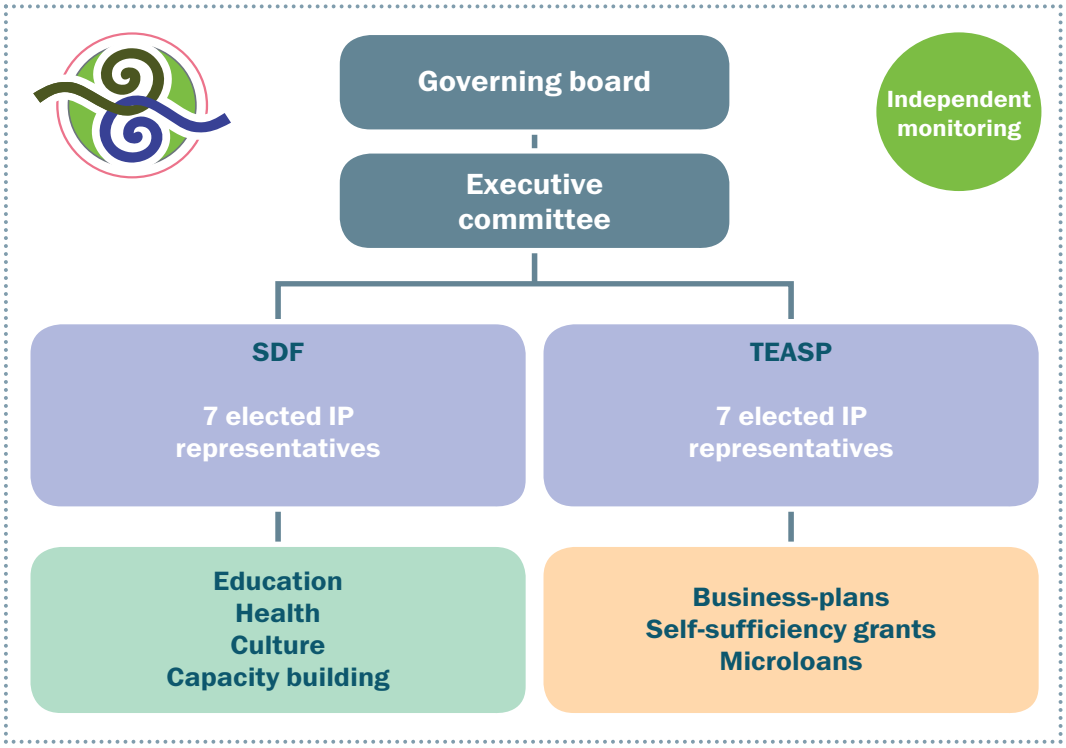
Therefore, making all decisions, implementing programmes and exercising control under this initiative have become an exclusive prerogative of IP representatives.

Independent monitoring of the SIMDP is conducted every year. External monitoring provides the Plan partners and indigenous people with an independent review of the SIMDP, periodic objective assessments of the Plan programmes, their results and impacts, and allows identification of problems for development of corrective actions in a timely manner. Monitoring is conducted by a specialist having large international experience in development and exercising control over implementation of social projects concerning indigenous minorities.
Internal monitoring is conducted to ensure control over implementation of the SIMDP programmes and proper use of money funds. It is conducted by an internal monitoring team, which includes representatives of each of three Plan partners.
In 2011, the internal monitoring team conducted monitoring of 35 projects implemented under the SIMDP.

9.5.9.4 TRADITIONAL ECONOMIC ACTIVITIES SUPPORT PROGRAMME OF THE SIMDP

The Traditional Economic Activities Support Programme has been developed to solve issues related to employment and business development of indigenous minorities. Representatives of Sakhalin indigenous peoples emphasised the importance of the traditional use of natural resources (reindeer herding, fishing, gathe-

SIMDP governance



International Day of indigenous people, Sakhalin Oblast historical museum

ring, artistic crafts) for preservation of their cultural heritage.

Resources of the programme are distributed by the following components:

- Business planning;
- Self-sufficiency grants;
- Programme of microloans.

In all, 82 applications concerning the first two areas were received in 2011. The Committee selected 17 projects covering provision of support to clan and family enterprises/communities and other associations of indigenous minorities, rendering assistance to reindeer herders. The Company appropriated RUR 3.45 mln for their implementation in 5 districts of traditional living of Sakhalin indigenous minorities.

The Programme of microloans has been laid down with the aim to develop traditional economic activities of Sakhalin indigenous peoples and to improve access of communities and other economic entities of indigenous minorities to financing sources through providing them with the possibility to use market relations and microloans.

The Programme of microloans was launched on 1 September 2011. It is implemented by the Batani International Fund for Development of Indigenous Peoples of the North, Siberia and the Russian Far East. In 2011, 7 applications for granting of loans were received. In 2011, three loans for the total amount of RUR 850,000 have already been granted.

9.5.9.5 SOCIAL DEVELOPMENT FUND OF THE SIMDP

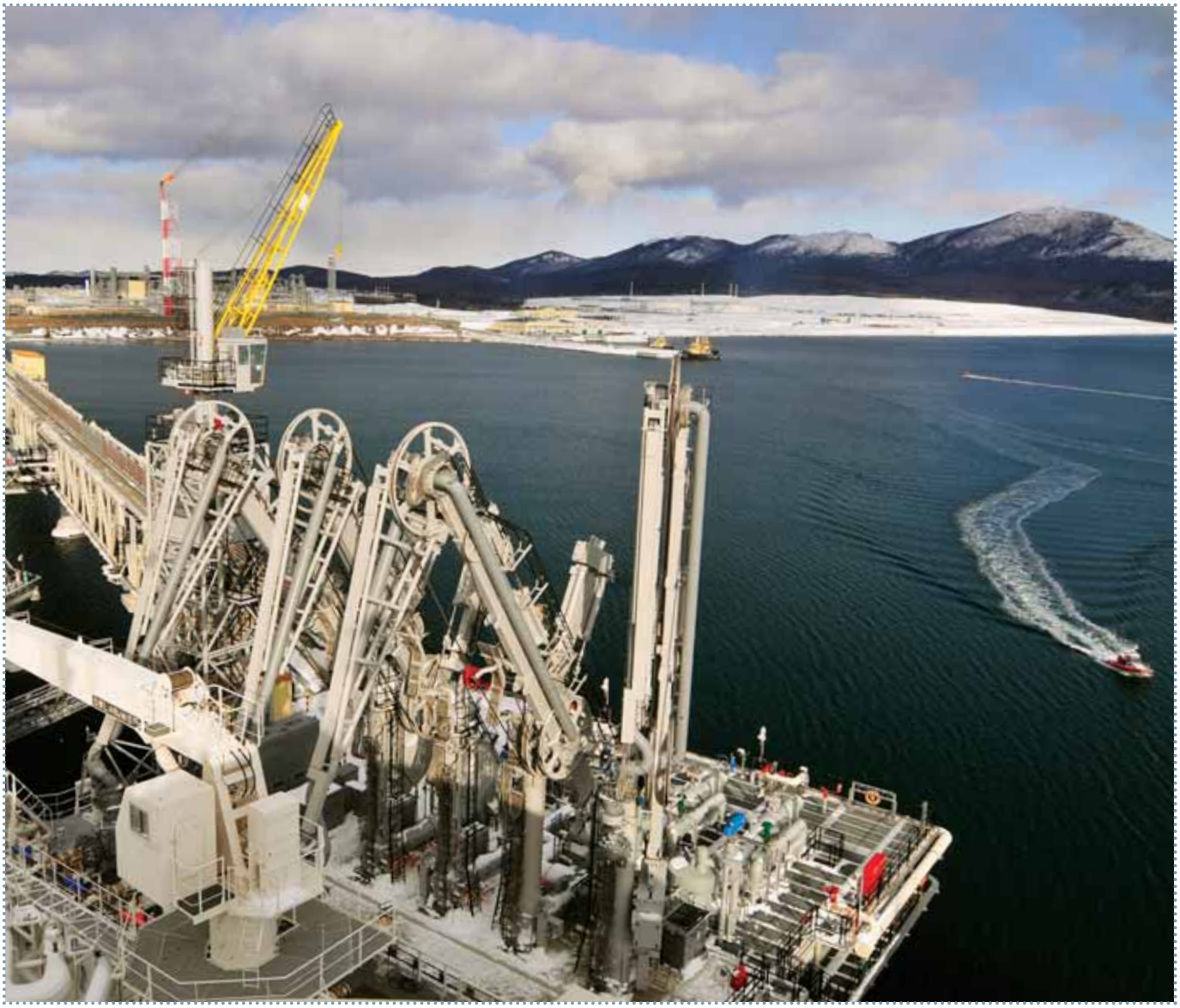
Resources of the Fund are distributed by a number of components including, above all:

- Education, health, capacity building;
- 'Ancestors' Heritage' competitive programme.

The projects were developed and selected by representatives of the indigenous peoples (programmes in the area of education, health, preservation and studying of IP languages). Training workshops aimed at capacity building of local organisations and communities were carried out. Sixty students studying at specialised secondary schools and higher education professional institutions gained financial support.

In 2011, the Social Development Fund Council supported 29 projects to the total amount of RUR 4.548 mln; these projects were implemented in seven districts of traditional living of Sakhalin indigenous peoples.

10. 2012 PLANS AND DEVELOPMENT STRATEGY UP TO 2016



LNG jetty, Prigorodnoye production complex

The 2012 objectives of our Company are determined by its priorities. These are safety, reliability, cargos, costs and growth. Our approach was related in our mission with safety, operational excellence, reliability, ecologically and socially responsible business approach. As before, the cornerstone of our business is safety.

The main production projects in 2012 involve:

- active work at all three offshore platforms including optimisation of drilling, maintaining stably high hydrocarbons production performance and LNG production;
- defining the concept and preparing the plan of development of the South Piltun area of Piltun-Astokh field, commencement of work on the Compressor Station project at OPF;
- completion of construction and commissioning at the Gas Transfer Terminals.

The plans of further development up to 2016 involve:

- optimisation of oil recovery, LNG production and gas supply to the internal market and improving operation of facilities;
- increase the production potential.

The Company intends to produce and export LNG in 2012–2016 at the level of previous years. Due to resumption of dril-

ling operations at the Molikpaq platform, increase in oil production in 2012–2013 is forecasted; it is proposed to export more than 50 million barrels of Vityaz oil blend in 2012. The volumes of natural gas to be delivered to the internal market in 2012 are at least 1,400 million cubic metres. In all, it is planned to supply more than 19 billion cubic metres of gas to the internal market up to 2020; approximately one third of this volume is to be left on the Sakhalin Island, while two thirds are to be transferred to the mainland via the Sakhalin–Khabarovsk–Vladivostok pipeline.

As early as 2012, the Company will achieve the project payback stage. This means that the budget incomes of the Russian Party including the Sakhalin Oblast will increase.

Among the priorities in human resources management in 2012 and subsequent years is meeting the Company's demands for labour resources through development and retention of staff as well as engagement of highly qualified specialists in the external job market. As before, special emphasis in activities related to personnel development will be laid on training, improvement of staff professional and leadership skills and talent pool formation. Among the key indicators in this area are: fulfilment of technical vacancies important for the Company (80% in 2012 with a continuous increase up to 85% in 2016) and reduction in turnover of personnel occupying technical positions important for the Company (less than 11% in 2012 with continuous reduction to less than 8% in 2016).

In 2012, projects aimed at environment protection, health and safety (HSE) will continue. The Company will continue to respect its HSE and social obligations and standards (relevant documents and indicators are published on the Company's web-site). Sakhalin Energy seeks to hold leading positions in these areas globally by sustaining compliance with the highest international standards or even setting new standards.

Regular and meaningful engagement with stakeholders remains an important component of Sakhalin Energy successful activities. The strategy and plans for engagement with general public for 2012 are contained in the Public Consultations and Disclosure Plan (see the Company's website). The key indicator in this area is the number of grievances resolved within the specified period (80% in 2012 with continuous increase up to 90% in 2016).

With regards to social investments and sustainable development, Sakhalin Energy, as before, will give priority to social partnerships and socially oriented initiatives. The Company will continue participating in such partnerships as 'What to Do in Emergency Situations', the Sakhalin Indigenous Minorities Development Plan, the Korsakov Partnership Council for Sustainable Development, the Sakhalin Road Safety Council, etc. and implementing grant programmes within the established budgets.

Sakhalin Energy will continue conducting planned operational and financial activities in compliance with the General Business Principles and Sustainable Development Policy adopted by the Company and principles of the UN Global Contract and making efforts towards further improvement of its activities aimed at sustainable development.

Grand Mereya
LNG carrier

APPENDIX 1: GRI GUIDELINES COMPLIANCE TABLE (REV. 3.0)

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
1. STRATEGY AND ANALYSIS					
1.1	Statement from the most senior decision-maker of the organisation	Full	Chief Executive Officer statement	4-6	
1.2	Description of key impacts, risks, and opportunities	Full	Chief Executive Officer statement Risk Management System Introduction HSE and Social Management System Economic Impact Management Environmental Impact Management Social Impact Management Company 2012 Plans and Development Strategy up to 2016	4-6 36-39 12-16 40-43 44-47 61-75 76-107 108-109	
2. ORGANISATIONAL PROFILE					
2.1	Name of the organisation	Full	About Sakhalin Energy	17	
2.2	Primary brands, products and/or services	Full	About Sakhalin Energy	21-22	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	Full	About Sakhalin Energy Corporate governance model	17 32	
2.4	Location of organisation's headquarters	Full	On the outside rear cover		www.sakhalinenergy.com/en/contactus.asp
2.5	Number of countries where the Company operates, and names of countries with either major operations or those specifically relevant to the sustainability issues covered in the Report	Full	About Sakhalin Energy	17	
2.6	Nature of ownership and legal form	Full	Corporate Governance	30	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Full	About Sakhalin Energy	21-22	
2.8	Scale of the reporting organisation	Full	About Sakhalin Energy Economic Impact Management Personnel: Management and Development	17-22 44-47 78-79	
2.9	Significant changes during the reporting period regarding size, structure, or ownership	Full			No significant changes of Company size, structure of ownership form occurred in 2011
2.10	Awards received in the reporting period	Full	Chief Executive Officer statement Main Achievements of the Company in 2011 Social Impact Management	6 18 20 77 97-98 104	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
3. REPORT PARAMETERS					
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	Full	About the Report	7	
3.2	Date of most recent previous report (if any)	Full	About the Report	7	
3.3	Reporting cycle (annual, biannual, etc.)	Full	About the Report	7	Annual
3.4	Contact point for questions regarding the Report or its contents	Full	About the Report Appendices 5, 8	7 128 135	
3.5	Process for defining report content	Full	About the Report	7-9	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	Full	About the Report	10	
3.7	State any specific limitations on the scope or boundary of the report	Full	About the Report	8	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	Full	About the Report	8-9	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	Full	About the Report	8-9	
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such re-statement	Full	About the Report	8-9	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Full	About the Report	8-9	
3.12	Table identifying the location of the Standard Aspects in the Report	Full	Appendix 1	110-117	
3.13	Policy and current practice with regard to seeking external assurance for the Report	Full	About the Report	10	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT					
4.1	Governance structure of the organisation, including main committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	Full	Corporate Governance Model	30-32	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Full			The Chair of the highest governance body is not an executive officer
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Full	Corporate Governance Model	30-31	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Full	Corporate Governance System and Structure Corporate Culture Engagement with Personnel	28-30 32-33 50-51	
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements) and the organisation's performance (including social and environmental performance)	Full			There is a unified compensation system in place in the Company based on performance evaluation (including social and environmental performance)
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Full			Avoiding any conflict of interests with regulative authorities/committees have been stipulated in the shareholders agreement All Company employees must comply with the Conflict of Interest Regulation Procedure
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social sustainable development issues	Full			One single system of competence evaluation acting in the Company
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation	Full	Company Mission, Vision, Values and Operation Principles Corporate Culture HSE and Social Management System	27 32-33 40-42	
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities, and adherence to, or compliance with, internationally agreed standards, codes of conduct and principles	Full	Corporate Governance System and Structure Risk Management System HSE and Social Management System	28-29 34-35 40-42	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	Full			Performance evaluation by the highest governance body takes into consideration economic, environmental, and social performance achieved against the planned performance indicators
4.11	Explanation of whether and how the precautionary approach or principles is addressed by the organisation	Full	Introduction Risk Management System Impact Assessment	16 32-33 42	
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	Full	Introduction	13-15	The Company supports the UN Global Contract principles. The Company applies international health, safety and environment standards, as well as standards in the area of handling social issues. These standards are listed in the HSE and Social Action Plan (see details of the Plan in Section 5.6.1). In preparing the Sustainable Development Report, the Company uses the Global Initiative Sustainable Reporting Guidelines (GRI, G3). When preparing this report, the Company holds dialogues with its stakeholders according to the AA1000SES International Standard.
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic.	Full	International and Regional Cooperation	58-60	In November 2009, the Company joined the UN Global Contract. The Company is a member of the UN Global Contract network in Russia. The Company Chief Executive Officer is the Chairman of the Steering Committee of the UN Global Contract network in Russia. The Company is a member of the following organisations: • Global Compact LEAD, • Working Group on Human Rights of the UN Global Contract, • European Business Congress (EBC).
4.14	List of stakeholder groups engaged by the organisation	Full	About the Report Stakeholder Engagement in 2011	8 49-50	
4.15	Basis for identification and selection of stakeholders with whom to engage	Full	Stakeholder Engagement Management	48-49	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Full	Stakeholder Engagement Management	48-50	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	Full	Stakeholder Engagement Management	50-60	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS					
Management Approach					
DMA EC	Disclosure on management approach—economic	Full	About Sakhalin Energy Corporate Governance Model Economical impact management	17 30 45	
DMA EN	Disclosure on management approach — environmental	Full	HSE and Social Management System Environmental Impact Management	40-41 61	
DMA LA	Disclosure on management approach — labour practices and decent work	Full	HR Management and HR Policy	76-78	
DMA HR	Disclosure on management approach — human rights	Full	Human Rights: Principles and Management System	93	
DMA SO	Disclosure on management approach — social	Full	Stakeholder Engagement: Strategy, Principles, Mechanisms and Tools Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	48-49	
DMA PR	Disclosure on management approach — product responsibility	Full	About the company Engagement with customers	20-22 57	
Economic performance					
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payment to capital providers and governments	Full	About Sakhalin Energy Economic Impact Management Remuneration and Bonus System Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	17 44-47 81 96	
EC3	Coverage of the organisation's defined benefit/pension plan obligations	Full	Social Guarantees, Benefits and Compensations	81-82	
EC4	Significant financial assistance received from government	Full			In 2011, the Company received no financial assistance from government
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Full	Remuneration and Bonus System	81	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Full	Introduction Russian Content	16 46-47	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Full	HR management and HR policy General information Personnel Recruitment and Adaptation of New Employees	78-80	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Full	Benefits from Sakhalin-2 for the Russian Federation and Sakhalin Oblast Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	44 96-98	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Full	Economic Impact Management	44-47	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
Environmental performance					
EN3	Direct energy consumption by primary energy source	Full	Energy Consumption	63	
EN4	Indirect energy consumption by primary energy source	Full	Energy Consumption	63	
EN8	Total water withdrawal by source	Full	Water Use and Water Discharge Management	62	
EN9	Water sources significantly affected by withdrawal of water	Full	Water Use and Water Discharge Management	62	No water sources are materially affected by the Company's withdrawal of water
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Full	Environmental Monitoring and Biodiversity	65-75	
EN13	Habitats protected or restored	Full	Environmental Monitoring and Biodiversity	65-75	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Full	Environmental Monitoring and Biodiversity	65-75	
EN16	Total direct and indirect greenhouse gas emissions by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	63	
EN17	Other relevant indirect greenhouse gas emissions by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	63	
EN19	Emissions of ozone-depleting substances by weight	Full	Greenhouse Gas and Ozone Depleting Substances Emissions	63	
EN20	NOX, SOX and other significant air emissions by type and weight	Full	Air Emissions Control	61	
EN21	Total water discharge by quality and destination	Full	Water Use and Water Discharge Management	62	
EN22	Total weight of waste by type and disposal method	Full	Waste Management	61-62	
EN23	Total amount and volume of significant oil spills	Full	Chief Executive Officer statement Oil Spill Prevention and Response Preparedness	5 24-25	No considerable oil spills were recorded
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Full	Environmental Monitoring and Biodiversity	65-75	The Company evaluates environmental impacts and develops impact mitigation measures. The results are presented in impact assessment reports and in HSE and Social Action Plan, which are publicly available on the Company's website
EN28	Amount of significant of pecuniary penalties and total of non-monetary penalties imposed for failure to comply with environmental laws and regulations	Full	Environment Protection Costs and Environmental Pollution Payments	64	There were no significant fines or nonfinancial penalties imposed because of incompliance with the environmental legislation and regulatory requirements
EN30	Total of environmental protection expenditures and investments by type	Full	Environment Protection Costs and Environmental Pollution Payments	64	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
Labour practices and decent work					
LA1	Total workforce by employment type, employment contract, and region	Full	General	78-79	
LA2	Total number and rate of employee turnover by age group, gender, and region	Full	General	79	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Full			As per RF Labour Code (at least two months)
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	Full	Labour Safety and Protection Occupational Health	88-89 92	
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	Full	Occupational Health	92	
LA10	Average hours of training per year per employee, by employee category	Full	Personnel Training	84-85	Average duration of training was 10.6 training man-days per one employee (without regard to training at the workplace). Duration of one training day is no more than 8 hours on average.
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Full	Personnel Development and Training	83-88	
LA12	Percentage of employees receiving regular performance and career development reviews	Full	Personnel Goals and Performance Appraisal	83	100%
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Full	General	78-79	
LA14	Ratio of basic salary of men to women by employee category	Full			Basic salaries of men and women do not differ by employee category
Human rights					
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Full			100%
HR4	Total number of incidents of discrimination and actions taken	Full			No registered cases of discrimination during the reporting period

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and action taken to support these rights	Full			No operations in which the right to exercise freedom of association and collective bargaining may be at significant risk
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	Full			No operations risk of involving child labour
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	Full			No operations risk of involving forced or compulsory labour
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Full			No registered cases of violation of rights of indigenous people during the reporting period
Society					
SO1	Nature, scope, and effectiveness of any programmes and practices that asses and manage the impacts of operations on communities, including entering, operating and exiting	Full	Impact Assessment Social Investment and Contribution to Sustainable Development of the Host Region	42 93-107	
SO3	Percentage of employees trained in the organisation's anti-corruption policies and procedures	Full			100%
SO4	Actions taken in response to incidents of corruption	Full			Counteracting corruption is a goal of corporate Anti-bribery and corruption procedure and one of the components of the Sakhalin Energy Code of Conduct
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Full			This indicator is not relevant for the Company. The Company does not support any political parties nor any individual politicians
Product responsibility					
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Full	Impact assessment	42	Impact on health and safety of production and services are evaluated according to Russian legislation requirements and the Company's standards

APPENDIX 2: SAKHALIN ENERGY'S ANSWERS AND COMMITMENTS AS PART OF ITS DIALOGUES WITH STAKEHOLDERS ON THE COMPANY'S 2011 NON-FINANCIAL REPORT (SUSTAINABLE DEVELOPMENT REPORT)

While developing sustainable development reports, the Company undertook a commitment to regularly conduct rounds of dialogue and in-depth consultations with the stakeholders, where they could share their views of the Company's operations, including opinions of such issues as environmental protection, social initiatives, stakeholders engagement, employees development, etc., and to voice their comments and suggestions for the development of the Company's production, environmental and social responsibility.

In October 2011 and February 2012 the Company held two rounds of dialogue in the framework of its 2011 report development:

- October 2011 — the first round during which the Company introduced the stakeholders to the information about the Company and its achievements during the reporting 2011 year.
- February 2012 — the second round of the dialogue during which the Company responded to the comments, proposals and questions raised by the stakeholders in the first rounds.

The outcomes of the two rounds of dialogue (including written feedback) in the framework of the 2011 Report development are presented in the table below. The questions, comments or criticism voiced during the two dialogues with the stakeholders are placed in the left-hand side of the table. The answers to the question are placed in the right-hand side of the table.

	Comment, question or pointed remark	Company reply
	D.V. Lisitsyn, Chairman of Council, regional public organisation Sakhalin Environmental Watch	
1.	On 13 October, the Vedomosti newspaper published an article about problems arising on the Molikpaq platform when 6 wells out of 12 ones were decommissioned. Could you tell in more detail what this problem was, what dangers it constituted and what consequences for environmental safety could occur?	Shutting-in of wells is a systematic process. Development of any onshore or offshore field is accompanied by flow of water, and, as a consequence, by sand production. Approximately 90% of Russian oil & gas enterprises have to deal with such situation. This process neither has any impact nor poses any threat for people. There is no danger for environmental safety either. Currently/Note: at the moment of the dialogue/, the wells are shut-in and no production is carried out. A plan for re-commissioning of these wells is developed and approved. Its implementation will start after completion of the platform upgrade.
2.	Does the Company have a permit for commissioning of main pipelines? When was it obtained? When did oil injection start and first oil export take place?	In March 2010, the Company obtained a permit for commissioning of main pipelines. First oil injection and first oil export started within the framework of commissioning in 2008. All operations were carried out in strict compliance with the approved documents and under supervision of Rostechnadzor.
	A.I. Gafner, Chairman of the Management Committee, Stroitel cooperative	
3.	During the last meeting/Note: during the second dialogue with the framework of preparation of the 2010 report, which took place in February 2011, see the 2010 Report/, I addressed Company representatives with a request to organise a joint meeting with Rostechnadzor, the Ministry of Natural Resources and Sakhalin Environmental Watch. Organisation of such meeting was denied to me.	The Company is ready to participate in such meeting, however, in our opinion, it should be organised by the initiating party.
4.	I sent an official letter to the Company with a request to provide the results of soil sampling conducted in 2010. The Company answered that no samples were taken in 2008 and 2009.	The Company responded to this letter in February 2011, informing that no exceedance of pollutants was identified following the results of soil samples taken in 2008 and 2009. At the time of responding, analysis of soil samples obtained in 2010 was not completed. Accordingly, this information was not included into the Company's response.

	Comment, question or pointed remark	Company reply
5.	During the last meeting/Note: during the second dialogue with the framework of preparation of the 2010 Report, which took place in February 2011, see the 2010 Report/, the ecologist/Note: the Company's ecologist is meant/ told that soil samples had been taken and benz(a)pyrene had been found.	The Company has been conducting the soil monitoring since 2008. In 2008–2010, work was carried out according to the same programme and sampling procedure. Samples are taken within a radius of 500 m, 1 km, 2 km и 4 km from the Prigorodnoye production complex boundaries including westerly direction, i.e. in front of dachas and behind dachas. Samples are not taken on the territory of dachas, since fires that often burn at dacha plots, utilisation of domestic garbage, application of fertilisers, spraying and other activities have uncontrollable impact on soils, which is not related to the Company's production operations. In 2008–2010, no benz(a)pyrene exceedance was found. The content of benz(a)pyrene is tens times, and in many cases, hundreds times smaller than MPC (maximum permissible concentrations). At a distance of 1,000 metres/Note: dachas are located at a distance of approximately 1,200 m from the Prigorodnoye production complex boundaries/ the following indicators were obtained under the industrial environmental control and local monitoring programme in 2010: - The content of benz(a)pyrene in soil is 0.0002–0.0034 mkg/kg (depending on the soil layer), which is considerably smaller than MPC (0.02 mg/kg); - The weighted average concentration of oil hydrocarbons being equal to 122.97 mg/kg is permissible; - The amount of humus is 4–8%, which is characteristic for upper horizons of studied soils. Thus, according to the results of soil monitoring conducted around the Prigorodnoye production complex in 2010, the content of studied pollutants in soil is within natural limits. The content of humus is within the levels characteristic of these soil sub-types.
6.	With reference to the size of sanitary protection zone around Prigorodnoye Production Complex: why has SPZ around the plant become equal to 700 m instead of 1 km?	See information on this issue in Section 4.2.3 'Sanitary protection and exclusion zones'.
7.	Air monitoring is conducted once per month. This is insufficient. According to monitoring conducted last year and this year, exceedance of noise level was revealed.	The programme of air quality monitoring in dachas' areas was agreed upon with the dacha owners and representatives of the Company's lenders. Air sampling is conducted by a licensed organisation during the dacha season from May to October. This programme has been implemented since 2005 up to now. Over the entire period of atmosphere air monitoring, MPC exceedance was never recorded. Noise level monitoring has been conducted by a licensed organisation since 2006. Insignificant exceedance of MPL (maximum permissible level) took place twice — in May 2010 and in July 2011. According to experts' opinion, this exceedance is caused by singing birds. Air quality and noise level monitoring will be continued.
8.	In spring, a Company's specialist visited us to meet dacha owners. The dacha owners expressed their opinions and comments, but no replies were received from the Company.	This meeting with representatives of the Stroitel cooperative was held within the framework of Company's regular internal monitoring stipulated in the Resettlement Action Plan/Note: see information on the Resettlement Action Plan and reports on the results of external reviews of its implementation on the Company's official website http://www.sakhalinenergy.com/ru/documents/doc_lender_soc_2.pdf)./. These meetings are conducted every year. During the meetings, dacha owners may express their opinions with respect to any issues. During the said meeting, no questions were raised which would require a written answer. If such questions are received, the Company always gives proper answers. The results of internal monitoring are reviewed by an independent expert. External review is performed by independent international resettlement expert. The final external review was conducted in July 2011. The report will be issued in 2012.

	Comment, question or pointed remark	Company reply
	D.V. Lisitsyn, Chairman of Council, regional public organisation Sakhalin Environmental Watch	
9.	Why were no actions taken with respect to members of the Stroitel co-operative under the Resettlement Action Plan?	The Resettlement Action Plan (hereinafter — the Plan) was developed in compliance with Russian legislation and international standards. The main international standard, by which the Company was guided in development of the Plan, is World Bank Operational Directive (OD) 4.30 'Involuntary Resettlement'. According to Russian legislation, there are no grounds for resettlement of the Stroitel cooperative members. In spite of this fact, the Company had actively engaged with the Stroitel cooperative members for several years. In cooperation with them, the Company has voluntarily developed and implemented an integrated programme that provided for the following compensations: - for voluntary waiver of the rights for a land plot/Note: in favour of the Korsakov City District administration/ in the amount of land plot's market value at the time of valuation; - for the loss of market value of land plots. Also, measures were taken to minimise inconveniences related to construction of the Prigorodnoye production complex. This programme was agreed upon with the dacha owners and project lenders, and was reviewed by representatives of lenders and by an independent resettlement expert within the framework of Resettlement Action Plan implementation monitoring. Relying upon World Bank OD 4.30 'Involuntary Resettlement', the Company has paid compensation to all dacha owners. Only two dacha owners, who failed to express their interest in compensations, did not receive compensations. Dacha owners were proposed either to receive 50% of the cost of property as compensation for the loss of market value, or to receive 100% of the property market value and waive their rights in favour of the municipal government. Valuation of property was carried out by an independent valuator with direct participation of dacha owners in 2006. The compensation payment process started in September 2006 and was completed in April 2008. 28 members of the Stroitel cooperative used the possibility to receive compensation in the amount of 100% of the property market value and voluntarily abandoned their rights to land plots, others received 50% compensation. /Note: see information on payments in the 2009 Sustainable Development Report, Appendix 2, page 99, Question No. 5./ From the Lenders' Independent Environmental Consultant Site Visit Report, May 2009: "…AEA (lenders' independent environmental consultant) has reviewed the market evaluation of Dachas that was undertaken by an independent locally recruited agency 'GAKS'. AEA considers the compensation offer proposed by Sakhalin Energy to the affected Prigorodnoye dacha owners, including the 50% loss of value, to be adequate". . (http://www.sakhalinenergy.com/en/documents/IEC_May_2009_Site_Visit_Report_FINAL.pdf) From the resettlement expert's report within the framework of Resettlement Action Plan implementation monitoring, December 2010: "… the compensation and resettlement issues with respect to the dachas are closed now, with the acceptance of either the waiver package or the loss of value amount by the Dacha owners". (http://www.sakhalinenergy.com/en/documents/Sixth_RAP_external_monitoring_Final_Report_14_December_10.pdf) Measures aimed at minimisation of inconveniences related to construction of the Prigorodnoye Production Complex included: provision of a bus during the dacha-related period, improvement of internal road, assistance in water transport, installation of a bus stop, etc. The Company continuously provided information and answered questions relating to any aspects of Sakhalin-2 project that aroused concern of dacha owners. Currently, the Company continues implementation of the air quality and noise level monitoring programme in the dacha community territory (see Question No. 7 hereof).

	Comment, question or pointed remark	Company reply
		The above actions with respect to the Stroitel GNCC are provided by the Resettlement Action Plan. All of them were completed. From the resettlement expert's report within the framework of Resettlement Action Plan implementation monitoring, July 2011: "The company has therefore met its agreed obligations. Continual engagement mechanism is in place and recommended to be continued along with the air and noise monitoring programme as agreed with the Dacha owners".
10.	Is this plan/Note: Resettlement Action Plan/ intended for affected people?	This is a special plan, which outlines the Company's main principles, approaches and procedures related to land allocation for construction of Sakhalin Energy infrastructure facilities. This document describes measures for payment of compensations and management of impact on persons whose land plots are affected by project related activities including persons exposed to social-economic impact due to land allocation.
	N.Ye. Samarina, Head of Natural Resources Management, Department of Environmental Monitoring, Yuzhno-Sakhalinsk Municipal Administration	
11.	Have the works on recultivation of disturbed soils in the city district area been completed? Have they been transferred in accordance with the established procedure? If not, then what problems does the Company meet and how does it resolve them?	Works on biological recultivation were carried out in full. Works on land transfer have been actually completed in full, except for several land plots. Currently, the Company is conducting negotiations with the owners of these land plots.
	G.A. Leonova, Deputy Head for Cultural-Mass Work of the Yu.A. Gagarin City Park for Recreation and Leisure	
12.	On the whole, I have a good opinion on the Company. It is a pleasure to deal with professionals who can always clearly define goals and objectives. The Company activities within the preparation of the Oil and Gas Workers Day is very useful for the whole society. I suggest to increase the volume of investments into culture when planning future budget of Company social programmes.	The Company appreciates such a response and recognises cooperation with the Yu. A. Gagarin City Park for Recreation and Leisure. Financing of all social projects of the Company is arranged under strategic programmes by selection of the best applications in all spheres including education, culture, art, safety, etc.
	N.S. Dunav, Regional State Institution Preodoleniye (Overcoming) Rehabilitation Centre for children and teenagers with disabilities	
13.	I have the most positive impressions of engagement with the Company under the 'Small grants — Big deeds', 'Hurry Up for Good Deeds' programmes, special projects. The Company always responds to our requests and tries to help in implementing our intentions and ideas using grant programmes. Also, it is necessary to mention high level of discipline in implementation of grant projects: the Company meets its obligations in a timely manner. Apart from the grant activities, the Company implements various initiatives that also help improve performance of our centre. ('Sound Beam of Hope', actions under the 'Hurry up for Good Deeds' programme). Thanks to grant activities, material and technical resources of the Centre have considerably improved. It provides better conditions for children rehabilitation. The operational performance and qualification of our personnel have also improved, since they can use the innovative equipment now. I suggest to continue active cooperation without slowing down.	The Company appreciates this opinion. RSI Preodoleniye (Overcoming) Rehabilitation Centre for children and teenagers with disabilities is our long-term partner under many programmes. We are glad to cooperate with the Centre and hope for fruitful continuation. The Company is ready to consider innovative and interesting projects, useful for community.
	V.I. Murnaev, Deputy Head of Sakhalin Emercom	
14.	In 2004, when we just started dealing with the Company, the priorities for further cooperation were set up, and our priorities coincided. This makes implementation of our projects maximum efficient. The largest of them are establishment of life safety fundamentals classes, installation of information boards in avalanche- and tsunami-hazardous locations and in places to stay in case of tsunami alarm. We have found common understanding of the tasks to be sought	The Company appreciates this opinion. We are pleased that our partnership relationship with the Main Department of Russian Emercom for Sakhalin Oblast has attained such an efficient and productive level. As for expansion of the programme frames, all new initiatives and directions are assessed according to the criteria adopted by the Company, and we are ready to discuss these initiatives with our partners. See information on the 'What to Do in Emergency Situations' programme in Section 9.5.3.

	Comment, question or pointed remark	Company reply
	in implementation of population and territory protection measures both within Sakhalin Energy and in the entire territory of Sakhalin Oblast, which brings only positive results. Sakhalin Energy is a very good and reliable partner in implementation of measures aimed at mitigation of emergencies that, due to specifics of its work, clearly understands the necessity of these measures. In my view, participation of the Company in the 'School of Safety' regional competitions would be strongly sought-for as a way for further development of cooperation. This will allow to expand the audience of our projects and to make programme of our competitions, which have already become traditional, more diversified. I wish Sakhalin Energy to remain the same reliable partner in implementation of measures for protection of Sakhalin population and territory against emergencies and to bring the results of our cooperation to the regional and maybe even to the federal level.	
	O.A. Timofeeva, Head of Newborns Pathology Department of the Sakhalin Regional Children's Hospital	
15.	In 2011, cooperative work of Sakhalin Regional Children's Hospital and Sakhalin Energy continued under the 'Hurry up for Good Deeds" programme. Ordinary employees of the Company organised a charitable action to raise funds for purchasing equipment for newborns including small premature infants. The raised funds have allowed to purchase equipment for the newborns pathology department. We hope for fruitful cooperation in future.	This project is initiative of our employees supported by the Company. We are sincerely glad that it has brought material benefits to children healthcare system of the Sakhalin Oblast. And we will be glad to develop cooperation within the framework of our other social programmes. See information on the 'Hurry to Do Good' programme in Section 9.5.6.
	A.I. Gafner, Chairman of the Management Committee, Stroitel cooperative	
16.	RUR 3.5 million were allocated to the Korsakov district for implementation of projects. What are these projects? What was the exact goal of these allocations?	The total amount allocated by Sakhalin Energy for financing projects within the framework of the Korsakov Partnership Council for Sustainable Development from 2004 to 2011 came to more than US$3.5 mln. The Korsakov Partnership Council has been operating since 2004. It comprises representatives of community, the Korsakov District administration and the Company. In 2011, 17 projects to the total amount of RUR 5.2 mln were financed. Six projects were implemented under sustainable development and social investment programmes, 11 — under the 'Korsakov Initiatives' programmes. See information on the Korsakov Partnership Council for Sustainable Development in Section 9.5.7 of this Report and on www.korsakovsovet.ru.
	D.V. Lisitsyn, Chairman of Council, regional public organisation Sakhalin Environmental Watch	
17.	What modifications in the environmental monitoring programme are planned for 2012?	In 2011, in accordance with the results of monitoring, the Company prepared reports and developed strategic programmes for three following years. Monitoring will be continued in the same areas as during previous years/Note: detailed information on the environmental monitoring programmes in 2011 is presented in Section 8.2/. Now they are refined inside the Company and in the course of dialogue with our lenders taking into account the results of previous studies. Besides, it is planned to arrange special event in 2012 to discuss the results of environmental monitoring programmes with stakeholders.
	A.S. Ivelskiy, Head of Propaganda and External Affairs Department of Sakhalin Emercom	
18.	Prevention of emergencies is one of the primary focus areas of Sakhalin Emercom. As practice shows, this is much more efficient than elimination of consequences. Provision of information to the public and training in life safety fundamentals play the main role in this process. Here, our cooperation with Sakhalin Energy plays an essential role. We implement the 'What to Do in Emergency Situations' programme, create cartoons for schoolchildren from 4 to 10 years old thus laying	The Company appreciates this response, such assessments confirm the correctness of way we have chosen. Safety is among our priorities, and cooperation under the partnership programme will continue. See information on the 'What to Do in Emergency Situations' programme in Section 9.5.3 and on www.senya-spasatel.ru.

	Comment, question or pointed remark	Company reply
	foundation of future safety. If children know and understand how to behave correctly in emergency, they will become worthy citizens who are able to render assistance not only to themselves, but to other people as well. In 2011, a pilot cooperation project started in the Nevelsk District for installation of information boards in avalanche- and tsunami-hazardous locations and in places where to go in case of hazards. This work will be continued in other Sakhalin districts. We suggest to extend our cooperation under the 'School of Safety' programme. Participation of the Company would allow to expand this programme and to make it more interesting for children.	
	A.Ya. Nachetkina, Member of the Yuzhno-Sakhalinsk Council of the Sakhalin Indigenous Peoples	
19.	I am a member of the Sakhalin Indigenous Minorities Development Plan (SIMDP) Governing Board. Engagement with Sakhalin indigenous peoples is one of the social priorities. This work has been carried out for a long time — currently, the second SIMDP is being implemented in the Sakhalin Oblast. The Company won an award for SIMDP implementation, and we are very pleased with this fact. Unfortunately, indigenous people are not businessmen but the Company and its employees cooperate with us, explain and detail patiently. They are very attentive to us. During meetings, we try to learn from them and help each other. We, indigenous people, have a lot of problems and tasks to work on. Hopefully, we will put the second SIMDP into practice jointly.	The Company appreciates this opinion. Cooperation under SIMDP is fruitful for all parties. The Company will continue developing its activities under SIMDP in cooperation with all its partners.
	Z.P. Luschan, Director of the Sakhalin People's Art Regional Centre	
20.	Our centre also participated in implementation of projects related to support of culture of Sakhalin indigenous people. Nowadays, the frames of our cooperation are considerably expanded, for which we are grateful to the Company. We have become one of the winners of the 'Best Project of the Year' contest, and, once again, would like to thank the Company for support. Our partnership relations have reached a higher stage. We are very pleased to render creative support to the Company's projects. We are grateful to the team immediately dealing with us for advice they sometimes give to us with respect to the issues concerning drawing up of projects. Dealing with reports is rather difficult for us, creative professionals. This year/Note: 2012/, there are a lot of projects, in which we would like to become Company's partners. These projects are related both to indigenous people and to development of cultural and recreation activities. We would like to participate in all existing grants and continue our cooperation.	The Company highly values participation of the Sakhalin People's Art Regional Centre both in our social programmes and in organisation and preparation of corporate events. We are glad to develop our joint cooperation in all spheres.
	I.G. Malkova, Deputy Director of Sakhalin Regional State Museum of Art	
21.	I wish to express my gratitude concerning the 'Enigmatic World. The Ainu' exhibition held in our museum with support from the Company. More than two thousand people visited this nice exhibition. Our museum also takes part in other programmes, in particular, in Small Grants-Big Deeds" programme annually. Travelling exhibitions in municipal museums of Sakhalin Oblast exist only due to this programme, and we have never obtained support at the regional level. In 2011, the 'Everything in the World is for You' exhibition (exposition of Soviet posters) devoted to struggle against bad habits was held. It evoked a good response throughout the region, the project was called successful. We also participate in work of the Sakhalin Salmon Initiative organisation: every year the museum holds exhibitions of children's drawings, our employees take part in work of the jury. In 2011, this contest placed more emphasis on combating against poaching. Owing to the Sakhalin Salmon Initiative project, our children give more attention to preservation of the Sakhalin nature. Hopefully, the 2012 exhibition will take place as well. We would like to thank the Company for the possibility to participate in a larger grant — the 'Alive Traditions' project that will be launched in March, though its preparation started in 2011. This is real support of Russian folk culture traditions development. As for the 'Enigmatic World. The Ainu' exhibition held in our museum with support of the Company, it did not just come in and depart — its	The Company is grateful to staff of the Sakhalin Regional State Museum of Art for support of our proposals and initiatives on holding events. We find reliable and professional partners in the persons of museum employees, and we believe that our cooperation will further develop.

	Comment, question or pointed remark	Company reply
	memory has remained in the museum in the form of modern lighting equipment located in two halls. Thus, the Company took part in development of our museum.	
	S.A. Siyanov, Vice President of the Sakhalin Fishery Managers Association	
22.	During the last two years, pink salmon are lower than anticipated. Some fishery managers relate this to the commencement of active operations at the Prigorodnoye Complex and ballast water discharge. Is it possible to conduct monitoring to clarify this issue?	Such monitoring is included into the regional programme to be executed up to 2015 (it is proposed to finance this programme oriented generally to the Aniva Bay from the Sakhalin Oblast budget). Starting from 2007, the Company has been implementing an extensive set of measures intended to mitigate impact on the ecosystem of the Aniva Bay to as low as reasonably practicable, including application of the Procedure for Ballast Water Discharge from LNG and Oil Tankers to Aniva Bay being an advanced procedure for Russia. According to this Procedure, every tanker arriving at the port should replace ballast water in the open sea en route (at a distance of 200–50 nautical miles from the shore and in a water area of depth no less than 200 m) with subsequent reporting and conducting a rapid chemical analysis. Only if the report on ballast water replacement and results of analysis conducted by the Company contractors with respect to parameters of salinity, coloured dissolved organic matters and oil products confirms proper replacement of ballast water, the ship master is given a permit for loading of hydrocarbons and ballast water discharge. Besides, the Company conducts regular seasonal monitoring of the living environment and condition of various flora and fauna communities in the offshore zone of the Aniva Bay. The results of studies confirm that hydrochemical parameters of the water column are within the limits of earlier established background levels and do not exceed fishery maximum permissible concentrations.Consequently, the possibility of influence exerted by the Company's production operations, including ballast water discharge, on the chemical composition and temperature of seawater in the Aniva Bay is virtually excluded. Studies of the composition and quantitative hydrobiont distribution, including migrations of various fish species in the nearshore zone and surface watercourses located in the immediate vicinity of the production facilities, are also part of the monitoring programmes conducted by SakhNIRO.The results of studying reproduction efficiency of the Pacific salmons suggest that indicators of filling spawning grounds in the Goluboy stream in 2011 were at the optimum level for watercourses of this district. Thus, the Company reasonably believes that ballast water discharge has no influence on migration of Pacific salmon in the offshore zone of the Aniva Bay and spawning in watercourses located in the territory (in the influence zone) of the Prigorodnoye production complex.
	D.V. Lisitsyn, Chairman of Council, regional public organisation Sakhalin Environmental Watch	
23.	This year, we have learned the results of soil monitoring conducted by Sakhalin Energy, and this data has demonstrated that growth of pollutants, such as hydrocarbons, was observed in 2009–2010. The Company releases 12 items according to permits issued by state authorities. This data is obtained by the Company in the course of environmental monitoring including soil monitoring in Prigorodnoye. Monitoring is conducted on 12 sites at different distances from the plant, most of these sites are located in the forest that is not affected by the sources of pollution. Most notably, the content of hydrocarbons has exceeded MPC on 11 out of 12 sites. On some of them, concentration in 2010 became 4 times higher compared to 2009. The main source of pollution is the LNG plant and everything related to it. Considering this data and results of independent survey, it can be said that in spring–early summer, right after the melting of snow cover, the content of such high toxic substance as benz(a)pyrene on the territory of the dacha cooperative exceeded MPC. In September, the content decreased, which is explained by experts as accumulation of harmful substances from air in snow cover. Environment including the dacha community is exposed to harmful impact that will increase in the fu-	Environmental impact of the Prigorodnoye production complex is limited by the size of sanitary protection zone (SPZ) established for this facility in compliance with the RF legislation (see this issue in Section 4.2.3 'Sanitary protection and exclusion zones'). The Stroitel cooperative is located outside of SPZ, and there is no ground for resettlement of dacha owners. Nevertheless, the Company, from the very beginning, respected the concern of dacha owners about proximity of the Prigorodnoye production complex and proposed an integrated compensation programme, which was agreed upon with the dacha owners and project lenders. Compensation was paid to ALL dacha owners (see details in Item 9 of this Appendix). According to the provisions of a standard agreement signed by ALL dacha owners, "a land plot owner shall: - accept compensation in accordance with this agreement and recognise it full and final reimbursement of all losses of the market value of his/her land plot; - confirm voluntariness of his/her actions under this agreement and absence of any claims to the Company in connection with this Agreement."

	Comment, question or pointed remark	Company reply
	ture. Emissions will continue during the entire period of the plant operation. In my opinion, it is necessary to solve the issue of resettlement people from this dacha community	The Company believes that, having signed these agreements, dacha owners recognised the paid compensation sufficient and confirmed absence of any claims to the Company. See detailed information on industrial environmental monitoring in Item 5 of this Appendix.
	D.I. Sangadeev, Deputy Head of Yuzhno-Sakhalinsk Municipal Administration	
24.	The 'Risk Mitigation' section in the Sustainable Development Report seems to be topical. As for sustainable development per se, I remember issues related to construction of the Company's office, new technological solutions for heating, ventilation, water supply. There was nothing in the Russian legislation about these matters. Each issue, including the LNG plant sanitary protection zone, passed through the approval process. The LNG one was established by a decision of the RF chief state health officer. Does Sakhalin Energy brand exist in the city today? Yes. Is it attractive for people living in the city? Yes, it is attractive. Does this brand have some clearly negative features? Surely it has, because this is business, this is production. But what aspects prevail — negative or positive? From the viewpoint of the city residents, I would emphasise positive aspects above all. 'Philanthropist of the Year' Award is only a small bit of public recognition of the charity-oriented organisation. I see a lot of positive influence related to the intra-corporate development: contests of artists, journalists, photographers. I would like to say that this company has a desirable and positive impact. It is for good reason that I asked who was ranked first in Philanthropy Research. The second place is indeed a high achievement. Sakhalin Energy is not the only enterprise in the city. I would like to attend sustainable development meetings of other enterprises as well.	The Company appreciates this response, such assessments confirm the correctness of the chosen strategy of sustainable development and engagement with stakeholders.
	A.V. Romanov, First Deputy Minister, Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast	
25.	I wish to thank the Company for invitation to participate in this dialogue. It was very interesting to hear this lively discussion. I can see that engagement between business, authorities and public indeed exists. As well as engagement with MNR /the Ministry of Natural Resources/ in various spheres. Certainly, the Ministry supports this dialogue on the whole. We have gained a bundle of knowledge about the Company. I express my gratitude to all attendees for their criticism and constructive suggestions that are useful not only for the Company, but for the government authorities as well. Together, we will be better informed about activities of Sakhalin-2 project operator in the Oblast territory.	The Company appreciates such a response and will continue interaction between business, government and community under the framework of implementation of its environmental and social programmes.
	N.S. Gustova, Vice Mayor of the Korsakov City District	
26.	The Korsakov Partnership Council for Sustainable Development presents a separate area of Company's activities. Over the years of Council existence, much has been done for development of the Korsakov District as a whole and for the city in particular. This involves both the hospital, and the 'Korsakov Initiatives', 'Small Grants — Big Deeds'. Only this year we have approved 11 grants for the amount of RUR 1,200 thousand for development of education at all levels, culture and medicine. The Korsakov Central District Hospital is one of health care institutions, which has such equipment that sometimes regional-level health care professionals feel envious. Therefore, I would like to thank the Company for its cooperation, attention and assistance; to express our gratitude to the Company representatives who directly assist in ensuring sustainable development for their creative attitude towards their activities. It is by their initiative that this year we started to present grants for public discussion for the first time. It is important because the mindset of local people who participate in grant activities is gradually changing. Finally, a bit of criticism: when we invite the Company to participate in city events, the Company responds lately: "This is not our sphere of activity now." I would like everything that concerns our engagement to be our mutual sphere of activity.	The Korsakov Partnership Council for Sustainable Development is important for the Company as one of the most meaningful programmes aimed at development of the territory of presence and in terms of approaches to management of such programme. Over the period of its activities, the Korsakov Partnership Council has demonstrated the efficiency of applied methods for management and decision-making, which allows to take into account the interests of all stakeholders and to involve them in an open dialogue. We are always ready to discuss the ways of our cooperation development.

APPENDIX 3: THE LIST OF STAKEHOLDERS WHO PARTICIPATED IN DIALOGUES FOR PREPARATION OF THE 2011 SUSTAINABLE DEVELOPMENT REPORT

1. Department of Environmental Monitoring, Yuzhno-Sakhalinsk Municipal Administration, Samarina N.Ye., Head of Natural Resources Management.
2. Yuzhno-Sakhalinsk Municipal Administration, D.I. Sangadeev, Deputy Head.
3. Yuzhno-Sakhalinsk Municipal Administration, Sports and Youth Policy Department, Ye.Ye. Umnov, Deputy Head, Head of Youth Policy Division.
4. Yuzhno-Sakhalinsk Municipal Administration, Local Self-Government Department, N.V. Belyaeva, Chief Specialist.
5. Korsakov Municipal Administration, M.S. Gustova, Vice Mayor.
6. Autonomous Non-commercial Organisation “Healthy Generation”, L.Yu. Fateeva, Head Doctor.
7. Sakhalin Salmon Initiative, S.Yu. Didenko, Executive Director.
8. Sakhalin Fishery Managers Association, S.A. Siyanov, Vice President.
9. Sakhalin Emercom, A.S. Ivelskiy, Head of Propaganda and External Affairs Department.
10. Sakhalin Regional Centre for Folk Arts, Z.P. Luschan, Director.
11. Sakhalin Regional Centre for Folk Arts, O.A. Komaromi, Artistic Director.
12. Yuzhno-Sakhalinsk City Council, S.V. Dmitriev, Chairman.
13. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, A.V. Romanov, First Deputy Minister.
14. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, E.D. Nevenchina, Leading Advisor.
15. Sakhalin Oblast Ministry of Agriculture, Fisheries and Food, Division for Fauna Protection and Special Protected Natural Areas, E.G. Chernyavskaya, Chief Specialist.
16. Sakhalin Regional Universal Research Library, O.D. Turkina, Deputy Director.
17. Sakhalin Regional Universal Research Library, V.V. Volkova, Specialist.
18. Sakhalin Regional Universal Research Library, E.S. Khomenko, Supervisor
19. Sakhalin Environmental Watch, regional public organisation, D.V. Lisitsyn, Chairman of Council,
20. OOO Morskoy Briz, O.B. Konstantinova, General Director.
21. “Kidsave” NGO representative office, E.G. Manoilenko, Project Manager.
22. Korsakov Rotary Club, S.A. Usova, President.
23. Korsakov Rotary Club, I.A. Baevskaya, Member.
24. Korsakov Rotary Club, O.V. Rusanova, Member.
25. The Yuzhno-Sakhalinsk Municipal Council of Authorised Representatives of Northern Indigenous Minorities, A.Ya. Nachetkina, Member of Council.
26. Sakhalin Regional Council of Veterans of War, Labour, Military Forces and Law Enforcement Authorities, A.A. Shabelnikov, Chairman.
27. Sakhalin Oblast Duma, the Committee for Economic Development, T.G. Spirina, Principal Advisor.
28. Sakhalin Regional State Museum of Art, A.V. Buryka, Director.
29. Sakhalin Regional State Museum of Art, I.G. Malkova, Deputy Director.
30. Sakhalin State University, Sustainable Development Department, E. N. Lisitsyna, Head of Department.
31. Stroitel dacha cooperative, A.I. Gafner, Chairman of the Management Committee.
32. Stroitel dacha cooperative, T.S. Voskoboynikova, Member of cooperative.
33. Traffic Police Administration of Sakhalin Department of the RF Ministry of Internal Affairs, P.N. Chugunov, Inspector for Special Missions.
34. Traffic Police Administration of Sakhalin Department of the RF Ministry of Internal Affairs, Yu.V. Svyataya, Inspector for Special Missions.
35. Sakhalin Oblast Rosprirodnadzor Office, A.S. Ignatenko, Lead Specialist.
36. FSUE Sakhalin Research Institute for Fishing and Oceanography, E.V. Frolov, Acting Department Manager.

APPENDIX 4: USEFUL LINKS

Company public website	http://www.sakhalinenergy.com
Information on the Company	http://www.sakhalinenergy.com/en/aboutus.asp
On the Sakhalin-2 Project	http://www.sakhalinenergy.com/en/project.asp?p=explore_phase2
Statement of General Business Principles	http://www.sakhalinenergy.com/en/aboutus.asp?p=business_principles
Sustainable Development	http://www.sakhalinenergy.ru/en/default.asp?p=channel_home&c=2
Media centre	http://www.sakhalinenergy.ru/en/mediacentre.asp
Information for contractors	http://www.sakhalinenergy.ru/ru/aboutus.asp?p=contracting_with_us
Information about vacancies	http://www.sakhalinenergy.ru/en/aboutus.asp?p=contracting_with_us
Vesti corporate newspaper	http://www.sakhalinenergy.com/ru/media4.asp
Energy TV programme	http://www.sakhalinenergy.com/ru/media6.asp
Interesting facts	http://www.sakhalinenergy.ru/en/mediacentre/facts.asp
Whistle blowing procedure	http://www.sakhalinenergy.ru/en/aboutus.asp?p=whistleblowing
Company documents and material referred to in the Report	
Sustainable Development Reports	http://www.sakhalinenergy.ru/en/aboutus.asp?p=annual_reports
Annual Reports	http://www.sakhalinenergy.ru/en/aboutus.asp?p=annual_reports
Health Safety Environmental and Social Action Plan	http://www.sakhalinenergy.ru/en/library.asp?p=lib_actions_shelf&l=lib_social_plan2010rev3
Lenders' Independent Environmental Consultant Reports on Conducted Monitoring	http://www.sakhalinenergy.ru/en/library.asp?p=lib_3rdparty_shelf&l=lib_3rdparty_lendersreport
Company social performance management standard	http://www.sakhalinenergy.com/en/documents/61_Social_Performance_Standard_Overview_E.pdf
Public Consultations and Information Disclosure Plan (updated annually)	http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&l=lib_social_campaignplan
Biodiversity Action Plan	http://www.sakhalinenergy.com/en/library.asp?p=lib_environment_shelf&l=lib_environment_biodiversity
Environmental protection at Prigorodnoye production facilities	http://www.sakhalinenergy.com/en/documents/Environment_brochure_eng.pdf
Public Consultations and Disclosure Plan for 2011	http://www.sakhalinenergy.com/en/library.asp?p=lib_social_shelf&l=lib_social_campaignplan
Projects and Programmes websites	
Sakhalin Indigenous Minority Development Plan	http://www.simdp.ru/eng.php
Korsakov Partnership Council for Sustainable Development	http://www.korsakovsovet.ru/eng.php?PHPSESSID=c0a46093e1da26f26ad3dd8627055f89
'What to Do in Emergency Situations' Programme	http://senya-spasatel.ru/
ANCO 'Sakhalin Salmon Initiative'	http://sakhsalmoninitiative.org/
Western Gray Whale Advisory Panel (WGWAP)	http://www.iucn.org/wgwap/wgwap/
Printed Materials	
Liquefied natural gas (collection of interesting facts)	http://www.sakhalinenergy.com/ru/documents/LNG_brochure_100_facts.pdf
Photo album 'World in focus'	http://www.sakhalinenergy.com/ru/documents/The_World_through_the_Lens_photo_album.pdf
ABC-book of the Uilta language	http://simdp.ru/?id=56
Public Relations. Best Practices Book	http://www.sakhalinenergy.com/docs/ru/319/Broshura-SE-PR_08_09.pdf
Sakhalin Birds (photo album)	http://www.sakhalinenergy.com/ru/documents/Birds_of_Sakhalin_Island.pdf
Sakhalin-2 Encyclopedia	http://www.sakhalinenergy.ru/en/documents/Sakhalin_2_A-Z_eng.pdf
Reference Material and Other	
UN Global Compact	www.unglobalcompact.org
UN Global Compact in Russia	http://www.undp.ru/index.php?iso=RU&lid=1
Global Compact LEAD	http://www.unglobalcompact.org/HowToParticipate/Lead/index.html
Global Initiative Sustainability Reporting Guidelines	http://www.globalreporting.org
'Global Compact in Russia' Leaflet	http://www.undp.ru/documents/GC_in_Russia_2011-rus.pdf
UNGC Network, Russia. Corporate Social Responsibility Practices	http://www.undp.ru/index.php?iso=RU&lid=1&pid=160

APPENDIX 5: COMPANY INFORMATION CENTRES LIST

District	Locality	Organisation	Address
Aniva	Troitskoye	Rural library, Branch No.7, Sub-division of the Municipal Institution Aniva Municipal Centralised Library System	13, Sovetskaya Str.
Dolinsk	Vzmorye	Rural library, Branch No.6, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	22, Pionerskaya Str.
	Sovetskoye	Rural library, Branch No.10, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	122, Tsentralnaya Str.
	Dolinsk	Dolinsk Central City Library, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	31, Lenina Str.
	Sokol	Rural library, Branch No.5, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	26, Sovkhoznaya Str.
Kholmsk	Kholmsk	Central Regional Library named after Yury Nikolayev, Sub-division of the Municipal Institution of Culture Kholmsk Centralised Library System of Kholmsk Municipality	124, Sovetskaya Str.
Makarov	Vostochnoye	Rural library, Branch No.2, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	8, Privokzalnaya Str.
	Makarov	Makarov Central Library, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	9a, 50 Let Oktyabrya Str.
	Novoye	Rural library, Branch No.4, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	11-7, Tsentralnaya Str.
Poronaysk	Poronaysk	Poronaysk Central Library, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	45, Gagarina Str.
	Gastello	Rural library, Branch No.4, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	42-2, Tsentralnaya Str.
	Vostok	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Poronaysk Central Library System	10a, Gagarina Str.
Smirnykh	Onor	Rural library, Branch No.3, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	5, Sovetskaya Str.
	Pobedino	Pobedino Rural Library-Museum, Branch No.4, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	60, Tsentralnaya Str.
	Smirnykh	Smirnykh Central Library, Sub-division of Municipal Institution of Culture Smirnykh Centralised Library System	12, Lenina Str.
	Roschino	Rural library, Branch No.6, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	4, Komsomolskaya Str.
	Buyukly	Rural library, Branch No.7, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	1, Kosmonavtov Str.
Tymovsk	Molodezhnoye	Rural library, Branch No.17, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	15, Sovetskaya Str.
	Tymovskoye	Central District Library, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	68a, Kirovskaya Str.
	Yasnoye	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	2, Titova Str.
	Kirovskoye	Rural library, Branch No.8, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	70, Tsentralnaya Str.
Nogliki	Nogliki	Nogliki District Central Library, Sub-division of the Municipal Institution of Culture Nogliki Centralised Library System	5a, Pogranichnaya Str.
Korsakov	Korsakov	Korsakov city Youth Library, Branch No.13, Sub-division of the Municipal Institution of Culture Korsakov Centralised Library System	7, Molodezhny Per.

APPENDIX 6: PUBLIC ENDORSEMENT CERTIFICATE

TRANSLATION FROM RUSSIAN

Russian Union of Industrialists and Entrepreneurs

CERTIFICATE

of Public Endorsement of Corporate Non-Financial Report
Sustainable Development Report for 2011

Sakhalin Energy Investment Company Ltd.

Has passed public endorsement at the RUIE Council
for Non-Financial Reporting

The detailed Conclusions of the Council of the Russian Union of Industrialists and Entrepreneurs (RUIE) regarding public endorsement of Sakhalin Energy Investment Company Ltd.'s Sustainable Development Report for 2011 have been forwarded to the Company, and the Company may publish them without any changes and use both for in-house purposes and for communication with stakeholders.

Registration No. 019.01.004.01.11

President of RUIE /stamp, signature/ A.N. Shokhin

Seal: Russian Union of Industrialists and Entrepreneurs

Moscow, 2012

Российский союз промышленников и предпринимателей

СВИДЕТЕЛЬСТВО

Об общественном заверении
корпоративного нефинансового отчета

Отчет об устойчивом развитии за 2011 год

«Сахалин Энерджи
Инвестмент Компани Лтд.»

Прошел общественное заверение в Совете РСПП
по нефинансовой отчетности

Развернутое заключение Совета РСПП об общественном заверении Отчета об устойчивом развитии «Сахалин Энерджи Инвестмент Компани Лтд.» за 2011 год направлено в Компанию, которая может публиковать его без каких-либо изменений и использовать как для внутрикорпоративных целей, так и в целях коммуникаций с заинтересованными сторонами.

Регистрационный номер № 019.01.004.01.11

Президент РСПП А.Н. Шохин

Москва, 2012

APPENDIX 7: CONCLUSION OF RUIE NON-FINANCIAL REPORTING COUNCIL ON THE RESULTS OF EXAMINATION OF THE 2011 SUSTAINABLE DEVELOPMENT REPORT OF SAKHALIN ENERGY INVESTMENT COMPANY LTD. FOR THE PURPOSE OF PUBLIC ENDORSEMENT

TRANSLATION FROM RUSSIAN

Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs

Conclusion of the RUIE Non-Financial Reporting Board on the review of the Sakhalin Energy Investment Company Ltd. 2011 Sustainable Development Report for the purpose of public endorsement

The Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs (hereinafter referred to as Council), established in accordance with the decision of the Office of the Board (Decision dated 28.06.2007), has reviewed on the initiative of Sakhalin Energy Investment Company Ltd. (Hereinafter referred to as Sakhalin Energy) the Sakhalin Energy 2011 Sustainable Development Report (hereinafter referred to as report).

The company has addressed the RUIE with a request to organise the holding of public endorsement by the Board, which forms an opinion about the relevance and completeness of the information disclosed in the non-financial report on the Company performance in the context of the Social Charter of Russian Business, containing principles of responsible business practices.

During the period from 17 February to 7 March 2012 the members of the Board have examined the contents of the Report submitted by the Company and have made this Conclusion in accordance with the Regulations on public endorsement of non-financial corporate reports, approved by the Board.

Council members have the necessary competence in the field of corporate responsibility, sustainable development and non-financial reporting, observe the ethical requirements of independence and objectivity of assessments, express their personal opinion of experts and not the opinion of organisations they represent.

The report was assessed on the basis on the following criteria for completeness and relevance of the information contained in the Report:

Information is recognised important as far as it reflects the activity of Sakhalin Energy on the implementation of principles of responsible business practices disclosed in the Social Charter of Russian Business (www.rspp.ru).

Completeness implies that the Company comprehensively reflects its activity in the Report — underlying values and strategic guidelines, management systems and structure, key performance indicators, system of interaction with stakeholders.

The Board notes that in the preparation the conclusion the progress in the disclosure of information as compared with the previous report of the Company is taken into account.

Application by the Company of the international reporting system is taken into account as part of the Report public endorsement report. However, confirmation of the level of compliance of the Report with the international reporting system is beyond the scope of this Conclusion.

Responsibility for the information and representations contained in the Report lies with Sakhalin Energy. The reliability of the factual data contained in the Report is not a matter of public endorsement.

This conclusion is prepared for Sakhalin Energy. The Company may use this Conclusion both for internal corporate purposes and in order to communicate with stakeholders by publishing it without making any changes.

FINDINGS

Based on the analysis of the Report, as well as public information posted on the official corporate website and collective discussion of the results of the independent assessment of the Report carried out by members of the RUIE Non-Financial Reporting Board, the Council confirms the following:

The Sakhalin Energy Investment Company Ltd. 2011 Sustainable Development Report contains important and significant information, covering key areas of responsible business practices in accordance with the principles of the Social Charter of Russian Business, and with sufficient detail reveals information about the Company's activity in these areas.

Recommendations of the RUIE Board on the results of public endorsement of the previous Sakhalin Energy 2010 Report are reflected in the 2011 Report. The aspect concerning Company's environmental impact was reinforced. The plans for the future, including quantitative targets, are presented in more detail. More attention is paid to the risk management system, including non-financial risks.

Company's 2011 Report contains important and significant information regarding the following aspects of responsible business practices:

Economic freedom and responsibility: the Report informs on key performance indicators for the reporting year, the second year of full operation of the oil and gas structure created in the course of implementation of the Sakhalin-2 Project.

Among main achievements it is noted the addition of natural gas to the Company's core products and the beginning of gas supply into the trunk gas pipeline system of OAO Gazprom for use in the Far East and Primorye fuel and energy complex development programmes. There is also data confirming the significance of the Sakhalin-2 Project for the economy of Russia and of the Sakhalin Oblast. The Report presents the role of the Company as a major taxpayer and exporter of light oil that is unique for Russia and liquefied natural gas (LNG). There is a brief characteristic of the Operational Excellence Programme adopted in 2010, concrete examples of results obtained in the course of the modernisation of equipment, use of advanced technologies for well drilling and oil production are provided. There is information on the involvement of employees in the process of improving efficiency and promoting their initiatives. In the context of improving the productivity and competitiveness of the Company there are presented data on the management of economic efficiency, product quality, interaction with Company suppliers.

Along with detailed information about the structure of corporate governance where management of sustainable development and interaction with stakeholders is integrated into, the risk management system including non-financial risks is presented in detail. Principles of responsible business practices are formulated in official corporate documents, primarily in the General Business Principles, Sustainable Development Policy and the Code of Conduct, Company policies on various areas of activity.

Business partnership: Interaction with stakeholders as an important factor in ensuring the sustainability of the Company and its performance is one of the dominant features of the Report, sounding in all its sections. The management system in this field is presented, the range of stakeholders is determined, regulatory documents and guidelines to work with stakeholders in 2011 are indicated. In detail, in the context of improving the quality of the labour potential and production efficiency, there is presented the system of relations with the staff, including training and development of human resources, labour conditions and health care, the system of incentives, development of corporate culture, and internal communications. Cooperation with authorities is covered in some sections of the Report in the context of multilateral partnership, exemplified by the implementation of the agreement on cooperation with the Sakhalin Oblast Administration in the socio-economic field.

Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs

There are given examples of cooperation with a wide range of organisations in addressing vital social and environmental tasks in the host region, the practice of engagement with business partners aimed at observing ethical business standards. Much attention is paid to the coverage of operational principles and feedback from the communities, as well as local, regional and international NGOs. Information is provided on the Company's participation in the events of national and international level to promote the ideology and best practices in the field of social responsibility and sustainable development. Topic concerning relations with shareholders and product customers has been addressed. The report informs on wide range of tools ofengagement with stakeholders, many of which correspond to the best practice (suppliers development programme, operation of Company's information centres and community liaison officers working at the locations of Company's facilities on Sakhalin Island, mechanism for addressing of grievances from communities, employees, contractors, etc.).

Human rights: The report informs that the observance and respect for human rights are among the key principles of the Company. This approach is fixed in the basic corporate documents and procedures. There are developed and implemented mechanisms to monitor and control the compliance with human rights standards. Among the most important documents of this kind there may be noted the Health, Safety, Environment and Social Action Plan (the third version was issued at the beginning of 2011). It is reported that the implementation of the Plan is monitored on a regular basis by the Company, creditors and independent experts, the monitoring results are made available to the public. Special attention is given in the Report to the grievance procedure, which was developed by the Company and applied in practice for several years. The information enclosed in the Report demonstrates the success and worldwide recognition of the Company's activity in the development of non-judicial mechanisms for processing complaints. It is reported that the experience of Sakhalin Energy was taken into consideration when developing the document "Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework which was approved by the UN Human Rights Council in 2011.

Environmental conservation: the Report informs that assurance of environmental and industrial safety, preservation of environment and natural resources is one of the main responsibility priorities of the Company. There is information about the basic elements of the management system in this area. The Health, Safety and Environmental (HSE) Policy is approved and being implemented. The Integrated HSE and Social Performance Management System of the Company is based on the Planning — Implementation — Inspection — Actions method in accordance with ISO 14001 and OHSAS 18001 standards. Detailed information is presented on the environmental impact of operations: ecological indicators on air emissions, water use, waste management over a period of time, there is detailed information on the results of environmental monitoring which is carried out in collaboration with environmental organisations and experts. Significant results achieved by the Company in the field of pollution prevention are reported, there is provided information on expenditures for these purposes. Information is presented on oil and oil products spills, as well as in relation to the volume of oil produced. Data is presented confirming the Company's commitment to effective action in case of emergencies. Considerable attention is paid to the implementation of the Company's approved Biodiversity Action Plan. In this area, according to the Report, the Company occupies a leading position in the global oil and gas industry and actively cooperates with the Russian, foreign and international organisations on environmental protection issues.

Participation in development of the local communities: The report provides information on systematic work conducted by the Company on the host territory, consistently implementing proven approaches to social investments and building of effective multilateral partnership.

In the 2011 Report the Company continues to reflect the events and results of social programs and projects recognised by the population of Sakhalin, some of which have become widely known outside the region. It is reported that the corporate programme "Hurry up for good deeds" has obtained new development; within this programme the Company's staff charitable activities are supported. Details are provided on preparation and launch of the second Sakhalin Indigenous Minorities Development Plan for 2011-2015, in the development of which the Company has used the principle of "free, prior and informed consent" (FPIC). Information on the dialogues conducted by Sakhalin Energy in the region with stakeholders' representatives during the course of preparation of the Report is presented, including the Company's responses to the questions addressed by the participants in dialogues. Information on the opinions of stakeholders is complemented by extracts from the reports of an independent consultant who carried out verification of territorial social programs implemented by the Company. Information on high social assessment of Company's projects, obtained at the regional and federal levels.

In general, the Report suggests that sustainable development principles are addressed in the Company on a systematic basis. There is clearly reflected position of the Company's corporate social responsibility and commitment to the principles of sustainable development based on the interpretation of these concepts, corresponding to the standard ISO 26000 Guidelines on Social Responsibility. The Company informs on participation in the development and promotion of international standards in the field of responsible business in Russia and internationally.

The Sakhalin Energy 2011 Sustainable Development Report is the third report of the Company, which demonstrates the consistency in the development of the non-financial reporting process and the commitment of the Company to the principles of transparency and openness. The Report presents essential topics that are important for stakeholders. There is a comprehensive approach to the disclosure of information in key areas, including economic, environmental and social components, the composition of disclosed indicators is expanded. The Report was prepared on the basis of recommendations used in the Russian and international reporting practice (IFRS, GRI Guide, AA 1000 SES), which ensures continuity and comparability of information of different reporting cycles, as well as comparability with other companies' reports.

RECOMMENDATIONS

Noting the advantages of Sakhalin Energy 2011 Sustainable Development Report, the Board draws the Company's attention to a number of aspects important for stakeholders concerning the significance and completeness of information disclosure and encourages to consider them for further improvement of the reporting process.

Recommendations formulated following 2010 Report review, in particular, with respect to not only achievements but also existing problems in the work of Sakhalin Energy and approaches to their solution, still remain to be valid and may be used in the Company's reporting practice.

It is recommended to strengthen the analysis of the economic aspects of the Company's activity, include in report the vision for the future development of the sector in relation to the Company's own strategy and taking into account the global challenges of the oil and gas industry, energy and economy as a whole which are also relevant to the country.

Publication in the 2011 Report of the targets and measurable indicators for 2012 provides a good opportunity in the next reporting cycle to match the planned parameters with actual results and objectively assess the progress. It is recommended to further apply this approach to matching achievements with planned parameters in order to enhance the information value of reports, and use comparative data starting with 2009 – the first year of Company's public non-financial reporting by international standards. This will expand the time horizon of information comparison.

Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs

Describing the interaction with stakeholders in 2011, the Company has not emphasised among the main directions engagement with government agencies, although information on some areas of such engagement is contained in the Report. It seems that cooperation with the authorities should be included in this list, especially taking into account the specific status of the Sakhalin-2 Project and the special role in the development of the region. It would also be useful to provide a more complete presentation of such areas of relations with interested parties as the relationship with shareholders and customers.

Attention should be paid to the opportunity for broader use of he dialogues with stakeholders during preparation of the Report as a tool of engagement with stakeholders and demonstration of Company's openness. It is proposed for this purpose to reflect in the Report not only the Company's responses to stakeholders' questions and comments, as it is done in the relevant table in Annex to the Report, but to record the commitments made by the Company, the implementation of which should be reported in future. It is also recommended to include information on the procedure for conducting the dialogue with stakeholders (the notification procedure, principles of selection of participants in the dialogues, etc.).

The report contains significant information about the social activity and investment of the Company in the host region. We draw your attention to the opportunity for strengthening the analytical component of the Report in this part through the inclusion of data reflecting the positive changes in the level and quality of life of Sakhalin population (especially of the indigenous peoples of the North) resulted from implementation of social projects by the Company. This information would allow to demonstrate the social benefits from Company and will serve as an important argument to prove its social responsibility.

The report summarises the work carried out in the Company on self-assessment of the application of international standard ISO 26000:2010 Guidelines on Social Responsibility. The Board recommends that the Company includes in the next Report more detailed description of the results of self-assessment and the activities to be carried out thereafter. Such information may be of interest to a wide range of stakeholders.

The Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs gives a positive evaluation to the report, supports Sakhalin Energy's adherence to the principles of responsible business practices and marks the consistency of the reporting process, and confirms that the Sakhalin Energy Investment Company Ltd. 2011 Sustainable Development Report has obtained public endorsement.

Chairman of the Board of RUIE /stamp, signature/ F.T. Prokopov

Vice Chairman of the Board of RUIE
Executive Secretary /signature/ E.N. Feoktistova

APPENDIX 8: FEEDBACK FORM

DEAR READERS,

You have just read 2011 Sakhalin Energy Sustainable Development Report (hereinafter – 'Report').
Your opinion on this Report is very important to us and we would really appreciate if you help us improve the quality of reporting by answering questions stated in this Form.

1. After reading Report, do you have a better idea and understanding of Sakhalin Energy activities in sustainable development?

☐ Yes ☐ Mostly Yes ☐ Equal ☐ Mostly No ☐ Unsure

Please provide comments in support of your answer

2. What is your impression on information contained in this Report?

☐ Very interesting ☐ Mostly interesting ☐ Equal ☐ Mostly uninteresting ☐ Greatly uninteresting ☐ Unsure

3. How do you rate this Report in terms of credibility and unbiassness of information provided?

☐ Very favourable ☐ Mostly favourable ☐ Equal ☐ Mostly unfavourable ☐ Very unfavourable ☐ Unsure

Please provide comments in support of your answer

4. How do you rate the Report in terms of how easy it to find required information?

☐ Very easy ☐ Mostly easy ☐ Equal ☐ Mostly uneasy ☐ Very uneasy ☐ Unsure

Please provide comments in support of your answer

5. What Section of the Report was most interesting and valuable to you?

6. What aspects of Sakhalin Energy activity, in your opinion, are to be improved in order to enhance its social responsibility?

7. What other information would you like to have in the next Sakhalin Energy Sustainable Development Reports?

8. Please provide general comments on the Report:

9. Are you or your organisation interested in participating in dialogues about preparation of 2012 Sustainable Development Report?

Yes (please provide your contact information) | ☐ No

10. What other organisations in your opinion may be invited to take part in subsequent dialogues about preparation of the Sustainable Development Report?

11. Which group of parties or persons concerned do you belong?

☐ Company's employee ☐ Customer (Buyer) ☐ Representative of public organisation ☐ Investor ☐ Partner (Contractor)

☐ Shareholder ☐ Representative of authorities ☐ Mass media ☐ Other group of persons concerned

Please indicate your contact information below:

Name:	
Job title:	Telephone:
Organisation:	Fax:
Address:	E-mail:

12. What type of communication is preferable?

☐ By mail ☐ By E-Mail

Please return the completed Form on the 2011 Sustainable Development Report to:
35 Dzerzhinskogo Str., Yuzhno-Sakhalinsk, Sakhalin Region, Russian Federation, 693020
You may also send this Form by e-mail: Ask-sakhalinenergy@sakhalinenergy.ru
or leave it in one of the Company's Information Centres
List and addresses of information centres are given in Appendix 5 to the Report.

THANK YOU FOR YOUR FEEDBACK!


САХАЛИНСКАЯ ЭНЕРГИЯ
SAKHALIN ENERGY

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