SUSTAINABLE DEVELOPMENT REPORT 2018

ENERGY FOR GROWTH

25

САХАЛИН ЭНЕРДЖИ

SAKHALIN ENERGY

ЭНЕРГИЯ РАЗВИТИЯ

SUSTAINABLE DEVELOPMENT REPORT

2018

1. Message from the Chairman of the Committee of Executive Directors and Chief Executive Officer of Sakhalin Energy 5

2. About the Report 9
2.1. General Information 10
2.2. Principles of the Report Content and Quality Definition 11
2.3. Defining Material and Priority Topics to Be Included in the Report 12
2.4. Definition of the Report Scope 17
2.5. Public Endorsement of the Report 17

3. Corporate Social Responsibility and Sustainable Development 19
3.1. Introduction 20
3.2. Sakhalin Energy's CSR System 21
3.3. Performance Standards 22
3.4. Sustainable Development Policy 23
3.4.1. Key Provisions of the Sustainable Development Policy 23
3.4.2. UN Sustainable Development Goals 24
3.5. HSE and Social Performance Management 26
3.5.1. HSE and Social Performance Management System 32
3.5.2. Impact Assessment 32
3.5.3. Inspection and Audit 34

4. About the Company 35
4.1. Sakhalin Energy 37
4.2. Main Production Results in 2018 38
4.2.1. Assets 39
4.2.2. Development Projects 39
4.2.3. Hydrocarbon Production and Export 46
4.3. Continuous Improvement Programme 47

5. Corporate Governance 49
5.1. Company's Mission, Vision, Values, and Principles 51
5.2. Corporate Governance System and Structure 52
5.3. Corporate Governance Model 52
5.4. Risk Management 54
5.5. Corporate Culture 57
5.6. Code of Conduct 60
5.7. Anti-bribery and Corruption 62

6. Stakeholder Engagement Management 62
6.1. Strategy, Principles, Mechanisms and Engagement Tools 65
6.2. Stakeholder Engagement in 2018 66
6.3. Engagement with Personnel 67
6.4. Local Communities Engagement through the Company's Information Centres 67
6.5. Engagement with the Sakhalin Indigenous Minorities (SIM) 69
6.6. Engagement with Non-governmental and Non-profit Organisations 70
6.7. Engagement with Japanese Stakeholders 72
6.8. Engagement with Customers 72
6.9. Engagement with State and Local Government Authorities 72
6.10. International and Regional Cooperation 74

7. Economic Impact Management 75
7.1. Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast 79
7.2. Financial Benefits to the Russian Federation and the Sakhalin Oblast 80
7.3. Russian Content 81
7.4. Supply Chain Management 82
7.5. Vendor Development Programme 83

8. Environmental Impact Management 85
8.1. General information 87
8.2. Industrial Environmental Control 88
8.2.1. General information 88
8.2.2. Impact on Atmospheric Air 88
8.2.3. Impact on Water Bodies 89
8.2.4. Waste Management 89
8.2.5. Energy Production and Consumption 91
8.2.6. Greenhouse Gas and Ozone-Depleting Substance Emissions 92
8.2.7. Utilisation of Associated Gas in Production 93
8.2.8. Environmental Protection Costs and Payments for the Negative Impact 95
8.3. Environmental Monitoring and Biodiversity Conservation 96
8.3.1. General Information 97
8.3.2. Soil Monitoring 97
8.3.3. River Ecosystems Monitoring 98
8.3.4. Flora and Vegetation Monitoring 99
8.3.5. Wetlands Monitoring 101
8.3.6. Monitoring of Protected Bird Species 102
8.3.7. Steller's Sea Eagle Monitoring 102
8.3.8. Monitoring of Marine Biota and Its Environment 103
8.3.9. Ballast Water Control 105
8.3.10. Gray Whale Monitoring and Marine Mammal Protection 105
8.4. Pipeline Right-of-Way Maintenance 106
8.5. Oil Spill Prevention and Response Preparedness 108
8.5.1. General Information 109
8.5.2. Oiled Wildlife Rehabilitation 109
8.6. Sanitary Protection and Safety Zones 110

9. Social Impact Management 111
9.1. Personnel: Management and Development 113
9.1.1. Approaches to HR Management and HR Policy 114
9.1.2. General Information 114
9.1.3. Recruiting, Hiring and Onboarding New Employees 115
9.1.4. Remuneration and Bonus System 120
9.1.5. Social Benefits and Compensations 122
9.1.6. Individual Performance Review 123
9.1.7. Learning and Development 126
9.2. Labour Safety and Protection 127
9.2.1. General Information 138
9.2.2. Industrial Safety 138
9.2.3. Safety Culture 139
9.2.4. Road Safety 141
9.3. Occupational Health 142
9.4. Human Rights 142
9.4.1. Human Rights: Principles and Management System 144
9.4.2. Grievance Mechanisms 144
9.4.3. Grievance Handling in 2018 145
9.4.4. Human Rights Training 146
9.4.5. Monitoring Human Rights 147
9.5. Social Investment and Contribution to the Sustainable Development of the Host Region 147
9.5.1. Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches 148
9.5.2. The Energy Social Initiatives Fund 148
9.5.3. The Safety Is Important Programme 149
9.5.4. Hurry Up for Good Deeds Programme (Support for Charitable Initiatives of Employees) 150
9.5.5. Korsakov Partnership Council for Sustainable Development 151
9.5.6. Sakhalin Indigenous Minorities Development Plan 152
9.5.7. Silhouette Magic by Semyon Nadein (a Cultural Project) 153
9.5.8. Special Projects Dedicated to the Year of Volunteers in the Russian Federation 156

10. 2019 Plans. Development Strategy up to 2023 157

APPENDIX 159

Appendix 1.
GRI Standards Compliance Table 163
General Standard Disclosures 164
Specific Standard Disclosures 164
Sector Disclosures (in Addition to General and Specific Standard Disclosures) 168

Appendix 2.
Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and The Company's Response and Commitments 174

Appendix 3.
List of Participants of the Stakeholder Engagement Meetings Held during Preparation of the 2018 Sustainable Development Report 175

Appendix 4.
Useful Links 180

Appendix 5.
Company's Information Centres List 182

Appendix 6.
Feedback Form 185

Appendix 7.
Certificate of Public Endorsement 187

Appendix 8.
Conclusion on the Results of the Review of Sakhalin Energy 2018 Sustainable Development Report by the RUIE Non-Financial Reporting Council for the Purpose of Public Endorsement 189

Appendix 9.
Abbreviations 190

MESSAGE
FROM THE CHAIRMAN OF THE COMMITTEE OF EXECUTIVE DIRECTORS AND CHIEF EXECUTIVE OFFICER OF SAKHALIN ENERGY

1

Dear colleagues and friends,

We are pleased to present you with Sakhalin Energy's 2018 Sustainable Development Report. This is our tenth, anniversary report, prepared in compliance with the Global Reporting Initiative (GRI) standards. In the previous three years, each of Sakhalin Energy's Sustainable Development Reports was devoted to a specific theme: safety, environment protection, and human rights. This year we are continuing this trend, and the key topic of the 2018 report is innovation.

In 2019, Sakhalin Energy celebrates its 25th anniversary. Over the years of successful operations, the company has steadily increased its production potential while demonstrating high performance. The energy community rightly considers our project to be a unique historic example of technological and innovative breakthrough, a successful combination of Russian and international experience. This is evidenced by Russia's first Production Sharing Agreement (PSA), the installation of the country's first ice-resistant offshore oil and gas platforms, the use of innovative technologies, and the implementation of integrated cutting-edge business solutions. The Sakhalin-2 project was the starting point for a new promising trend in the development of the Russian oil and gas industry: we were the first in the country to produce and export LNG.

Thanks to the adopted technical concept, Sakhalin-2 became one of the global leaders in LNG production: in 2018, it supplied about 4% of the world's LNG, and covered about 5% of the LNG market in the Asia-Pacific region. Today, we sell oil and LNG to 19 countries, attracting new customers and expanding our supply portfolio year after year.

In addition to the external market, the Sakhalin-2 project plays an important role in the economy of the Sakhalin Oblast and Russia in general. Over the 25 years of operation, the company has made a significant contribution to the development of the region, as well as to a number of sectors of Russian economy. Sakhalin Energy has paid more than US$ 25 bln in taxes and other payments to federal, regional and local governments since the launch of the project, and has also made a commitment to supply entitlement gas to domestic consumers. The share of Russian content has noticeably increased, which has promoted localisation of equipment and component manufacturing in Russia. For instance, in 2018 a total of three Russian companies were awarded contracts for the supply of electrical equipment to Sakhalin Energy. The company has also completed the renewal of its fleet, supplementing it with best-in-class vessels built under a long-term agreement with Sovcomflot. The economic sanctions imposed on Russia significantly boosted our import substitution efforts. Sakhalin Energy, in cooperation with TMK, was the first in Russia to use Russian-manufactured premium threaded connection pipes at an offshore field.

In 2018, the company produced 61.7 cargoes of oil and 175.5 cargoes of LNG. Since project launch, we have shipped more than 1,500 cargoes of LNG and 600 cargoes of oil. It has been 20 years since the Molikpaq oil platform was installed at the Piltun-Astokhskoye field and 10 years since we commenced year-round oil loading operations at Prigorodnoye. Our LNG plant was recognised as the best integrated gas facility in Shell's 2018 Rankings, while the onshore processing facility (OPF) was certified by Shell as MIE Proactive. Moreover, all three Sakhalin Energy offshore platforms topped the ranking of Shell offshore drilling platforms in terms of HSE. Pursuing its priority development area — resource base expansion — Sakhalin Energy has successfully carried out four-dimensional seismic surveys. This gives the company an opportunity to update its recoverable reserves estimates. The use of the most advanced technologies allowed us to drill a record ERD well from the LUN-A platform, thereby extracting hard-to-reach hydrocarbons and increasing the project's reserves.

Another large-scale integrated project currently undertaken by Sakhalin Energy is Sakhalin Industrial Park, which is designed to serve as a technical competence hub for oil and gas sector on the island.

Our impressive production performance was achieved without any HSE incidents or violations. This is undoubtedly the effect of our Goal Zero journey that has become a core value for all company's employees. This initiative has already gone far beyond the area of production. The company has made a transition to a new, proactive phase of the Goal Zero programme, aimed at expanding its scope, diversifying and improving personnel skills, and engaging contractors in Goal Zero activities. For example, Sakhalin Energy's offshore production platforms have reached an important milestone — two years without recordable injuries, which is especially significant given the increased complexity and hazards associated with working at offshore production facilities.

Social policy and environmental protection are essential components that are conducive to effective operations of Sakhalin Energy. From day one, the company has been focusing on occupational safety and health of its employees and the general population. The company runs industrial environmental monitoring activities and implements a number of programmes in the fields of education, volunteering, and development of Sakhalin Indigenous Minorities. Many of our corporate social responsibility practices have been recognised as the best not only in the Russian Federation, but also on the global scale. We are the only Russian company to be selected by the UN to participate in the new Global Compact LEAD initiative. One of the company's ongoing priorities is to contribute to the achievement of the UN Sustainable Development Goals (SDGs).

As a result of its integrated approach to environmental safety, Sakhalin Energy has topped the environmental responsibility rating of Russian oil and gas companies for the third year in a row.

Dear friends,

In 2019, we will celebrate a number of significant milestones: the 20th anniversary of the start of Russia's first offshore oil production, the 10th anniversary of the launch of Russia's first LNG plant and the debut of Russian liquefied natural gas on the global market, and our most important milestone — the company's 25th anniversary.

A powerful industrial complex with all the required infrastructure was built as a greenfield project in the severe climate and harsh natural environment of the Russian Far East. We were trailblazers in the development of Russian offshore oil and gas field, and we pioneered LNG production in our country.

Adherence to sustainable development principles is an integral part of Sakhalin Energy's strategy for strengthening its leading position in the global LNG market. The company aims to improve its performance across the range of its activities and looks into the future with confidence.

Roman Dashkov

2

ABOUT THE REPORT

2.1. General Information

Sakhalin Energy treats sustainable development reporting as a tool that systematises its non-financial efforts (environmental, social and other programmes and initiatives) and improves the quality of corporate governance, which increases the overall sustainability of the company.

An open reporting culture demonstrates the company's commitment to corporate social responsibility (CSR) and sustainable development (SD) principles and concepts and provides publicly meaningful information about the economic, environmental, social and ethical aspects of the company's activities.

CSR and SD reporting benefits Sakhalin Energy in a number of ways, in particular, allows the company to:

- identify the stakeholders' opinions and expectations of the company's activities and clarify the company's CSR and SD strategy;
- demonstrate that the company is aware of and takes into account the stakeholders' opinions, creating long-term trust as well as transparent and constructive cooperation;
- serve as an effective tool for identifying, preventing, and mitigating non-financial risks, creating a sustainable reputation (as a responsible employer, partner, etc.);
- create new opportunities and areas of involvement for the company in production, environmental, and social spheres;
- identify CSR and SD performance indicators, evaluate and apply them to enhance the quality of managerial decisions at all levels;
- help to comply with the principle of continuous improvement and stimulate the subsequent improvement of internal and external processes in the company;
- increase the company's competitiveness.

The company constantly analyses trends and new requirements in the field of non-financial reporting, both international and domestic. Thus, when preparing the 2018 Report, the company proceeded from the Public Non-Financial Reporting Concept and the Action Plan for the Implementation of the Public Non-Financial Reporting Concept, which were approved by the Government of the Russian Federation in May 2017, and also followed the recommendations of the European Commission on non-financial reporting, prepared in accordance with the EU Council Directive on Non-Financial Disclosure and adopted in 2017.

In the 2016 Report, Sakhalin Energy reported, for the first time, on its contribution to achieving the Sustainable Development Goals (SDGs). This work was continued in the 2018 Report (see Section 3. Corporate Social Responsibility and Sustainable Development and Appendix 1. GRI Standards Compliance Table).

The Priority SDGs for Sakhalin Energy, Based on Stakeholders' Opinions table lists the relevant SDGs pointed out by stakeholders in the specially conducted survey, during dialogues with external stakeholders and discussions with company employees, held as part of the preparation of sustainable development reports.

Each of Sakhalin Energy's four latest Sustainable Development Reports is devoted to a specific theme. The 2018 Report is dedicated to innovations, and will be published in the year when the company celebrates its 25th anniversary. Over the years, Sakhalin Energy has developed and applied a number of innovations and unique technologies that have no analogues in the world.

The Report reflects the company's innovative approaches and practices in various areas of its activities. Also, the Report discloses material topics, issues, and indicators of the company's economic, environmental, and social performance, including the stakeholders' areas of concern and executives' appraisals of the company's performance in the reporting period.

The target audience of the Report is both internal and external stakeholders listed in Section 6. Stakeholder Engagement Management.

The Report is prepared in accordance with the procedures and schedule approved by the Committee of Executive Directors. The procedures provide for the establishment of a dedicated working group to prepare the Report. This group includes managers and specialists from a majority of the company's divisions, responsible for particular aspects of corporate governance and production activities, as well as for economic, social, and environmental impacts. The Report is approved by the Committee of Executive Directors.

This Report has been prepared in accordance with the GRI Standards: Core option.

The Report is posted on the company's website and distributed in Sakhalin communities (through the company's information centres and district libraries), and among key stakeholders through targeted mailing.

The company values opinions, suggestions and comments from all stakeholders on this Report. To share your opinion, you may:

- fill out the Feedback Form (see Appendix 6. Feedback Form) and send it to the specified address;
- fill out the Feedback Form on the company's website (www.sakhalinenergy.ru);
- fill out the Feedback Form at one of the company's information centres (see Appendix 5. Company's Information Centres List).

Priority SDGs for Sakhalin Energy, Based on Stakeholders' Opinions, Number of Answers

1 NO POVERTY	40
2 ZERO HUNGER	44
3 GOOD HEALTH AND WELL-BEING	87
4 QUALITY EDUCATION	86
5 GENDER EQUALITY	43
6 CLEAN WATER AND SANITATION	46
7 AFFORDABLE AND CLEAN ENERGY	77
8 DECENT WORK AND ECONOMIC GROWTH	79
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	67
10 REDUCED INEQUALITIES	40
11 SUSTAINABLE CITIES AND COMMUNITIES	54
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	70
13 CLIMATE ACTION	49
14 LIFE BELOW WATER	76
15 LIFE ON LAND	84
16 PEACE AND JUSTICE STRONG INSTITUTIONS	66
17 PARTNERSHIPS FOR THE GOALS	45

2.2.Principles of the Report Content and Quality Definition

The company acknowledges and uses the following SD reporting principles presented in the Principles of Report Content and Quality Definition chart.

Principles of the Report Content and Quality Definition

2.3. Defining Material and Priority Topics to Be Included in the Report

Material topics of the company's activities, which are reflected in the 2018 Report, and their priority were identified in close cooperation with all key stakeholders of the company, including:

- shareholders;
- lenders;
- government authorities;
- customers;
- personnel;
- contractors;
- community;
- mass media;
- Japanese stakeholders;
- international organisations;
- NGOs;
- other stakeholders.

To determine material topics for inclusion in the Report, the company used the following procedure:

1. DETERMINING MATERIAL TOPICS TO BE INCLUDED IN THE 2018 REPORT BASED ON EXTERNAL AND INTERNAL STAKEHOLDERS' OPINIONS

The company used the most preferred engagement mechanisms and information exchange channels for interacting with each group of stakeholders, taking into account the practice of relationships (see Section 6. Stakeholder Engagement Management). Representatives of stakeholders were involved in defining the Report content by means of:

- electronic surveys and surveys at various events;
- interviews during personal meetings;
- meetings;
- dialogue meetings with external stakeholders;
- discussions with the company personnel.

Two rounds of dialogue meetings were traditionally held while preparing the Report. The stakeholder representatives had an opportunity to put questions to the company's representatives and to receive answers, as well as to express their opinions on the materiality of any

aspect of Sakhalin Energy's activities (see Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and Company's Response and Commitments).

In addition, in defining the Report content, the company took into account the following :

- results of regular media monitoring;
- annual public opinion surveys and analysis of the subjects of the grievances submitted to the company (see Section 6. Stakeholder Engagement Management);
- recommendations and comments regarding the 2017 Sustainable Development Report and recommendations of the RUIE Non-Financial Reporting Council that conducted the public endorsement of the 2017 Report.

The company has also analysed the materiality of the topics presented in the non-financial reports prepared by Russian and foreign companies in accordance with best international practices.

Detailed information on the results of stakeholder engagement work conducted in the preparation of the Report, including dialogue meetings, surveys, etc., is presented in the Most Priority Topics to Be Included in the 2018 Report Based on Stakeholders' Opinions table.

2. EVALUATION OF THE TOPIC MATERIALITY IN TERMS OF IMPACT, BASED ON TWO IMPACT CRITERIA:

- Impact on stakeholder assessments and decisions;
- significance of the economic, environmental, and social impact of the company's activities

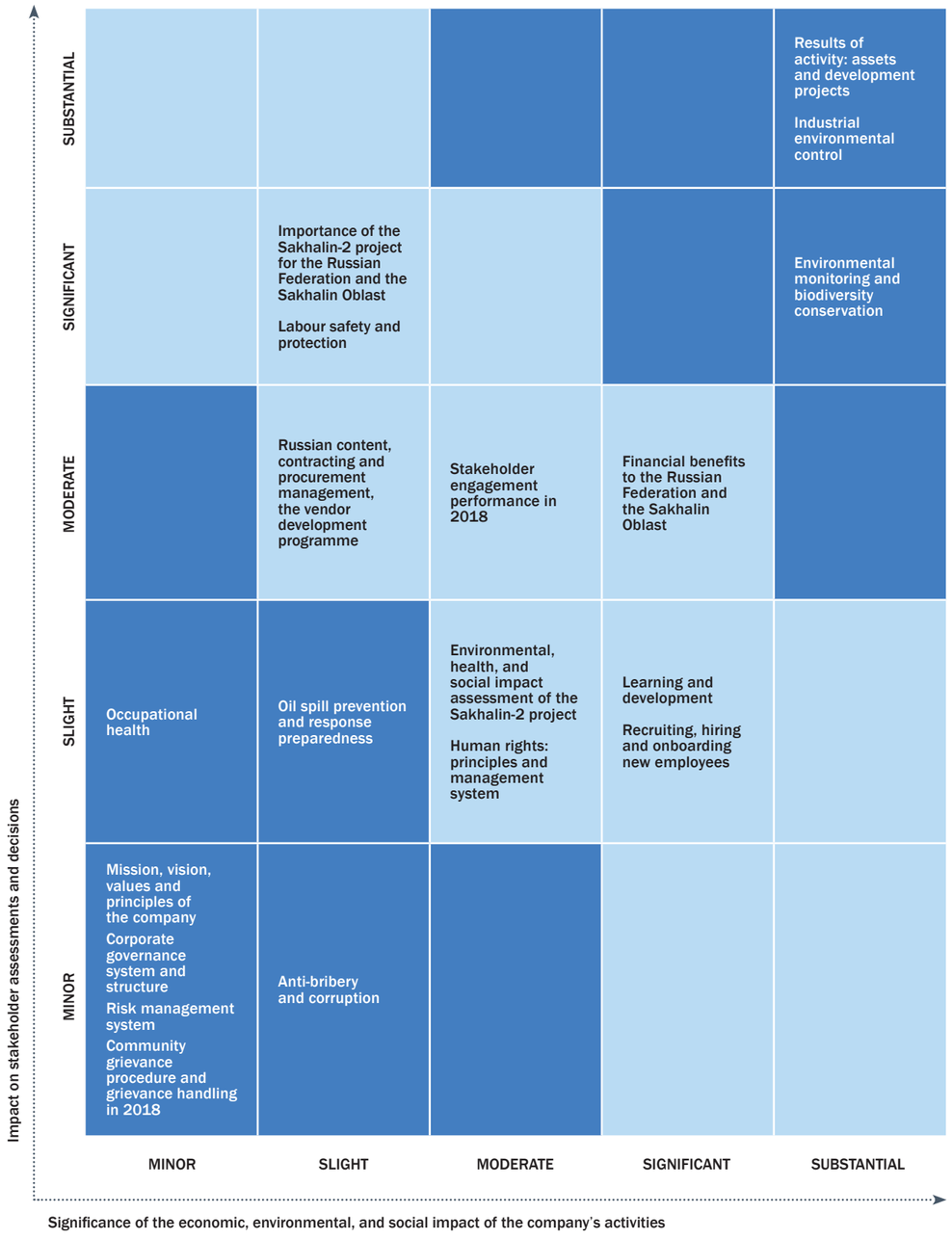
The results of the evaluation process are presented in the matrix below.

Most Priority Topics to Be Included in the 2018 Report Based on Stakeholders' Opinions

Topics	Number of answers	Included in the Report (sections of the Report)
Results of activity: assets and development projects	173	4.2
Environmental, health, and social impact assessment of the Sakhalin-2 project	155	3.5.2
Importance of the Sakhalin-2 project for the Russian Federation and the Sakhalin Oblast	144	7.1
Financial benefits to the Russian Federation and the Sakhalin Oblast	139	7.2
General information about Sakhalin Energy and the Sakhalin-2 project	135	4
Stakeholder engagement performance in 2018	129	6
Health, safety, environmental and social performance management system	128	3.5.1
Waste management	126	8.2.4
Mission, vision, values and principles of the company	124	5.1
Learning and development	121	9.1.7
Russian content, contracting and procurement management, the vendor development programme	114	7.3 and 7.5
Risk management system	110	5.4
Impact on water bodies	107	8.2.3
Biodiversity conservation	107	8.3
Sakhalin Energy's CSR system, Sustainable Development Policy, and performance standards	105	3.2–3.4
Impact on the atmospheric air	104	8.2.2
Approaches to HR management and HR Policy, general information (statistics)	103	9.1.1–9.1.2
Engagement strategy, principles, and mechanisms	101	6.1
Corporate governance system and structure	99	5.2
Anti-bribery and corruption	96	5.7
Corporate culture and Code of Conduct	95	5.5–5.6
Environmental protection costs and payments for the negative impact	95	8.2.8
Recruiting, hiring and onboarding new employees	95	9.1.3

Comments and suggestions of the stakeholders concerning specific aspects, indicators, and/or programmes of the company to be included in the 2018 Report as well as corresponding response and commitments of Sakhalin Energy are listed in Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and Company Response and Commitments.

Topic Materiality Evaluation Matrix



Substantiation for Material Topics

Topics	Substantiation	Stakeholders for whom the topic is the most priority	Reference to the relevant section of the Report
Results of activity: assets and development projects	Sakhalin Energy aims to be the primer energy source and conducts its business on the basis of efficient, reliable, and safe production, as well as a responsible attitude toward social and environmental issues	Shareholders, authorities, buyers, personnel, contractors, community	4.2
Mission, vision, values and principles of the company	Sakhalin Energy is guided by general business principles, with underlying core values of honesty and integrity, respect and care for people, individual accountability supported by teamwork, professionalism, and continuous improvement. These principles are based on values such as integrity, conscientiousness, respect and care for people, individual responsibility and professionalism, constant optimisation of operations and teamwork, and are characterised by responsibility to the shareholders, the Russian party, buyers, employees of the company, business partners, that is, all those with whom the company maintains business relations, as well as to the community as a whole	Shareholders, authorities, buyers, personnel, contractors	5.1
Corporate governance system and structure	Corporate governance is the process that ensures proper organisation, management, and control at Sakhalin Energy. Governance is carried out through cooperation between Sakhalin Energy's senior management, shareholders, and the Russian party. They define the areas of activity, establish responsibilities, and evaluate the results achieved	Shareholders, authorities, buyers, personnel	5.2
Risk management system	Sakhalin Energy believes that effective risk management is of paramount importance for achieving the company's goals. The risk management system of the company is aimed at maximising opportunities or minimising negative effects of identified risks, including risks of failure to reach the goals, risks of losses, and negative factors affecting such areas as operational excellence, respect for human rights, labour relations, health, safety and environment, anti-bribery and anti-corruption, and others	Shareholders, authorities, buyers, personnel, community	5.4
Anti-bribery and corruption	Sakhalin Energy assists its employees, business partners, contractors, and suppliers in fulfilling requirements for counteracting bribery and corruption	Shareholders, authorities, buyers, personnel, community	5.7
Impact assessment of the company's activities	The company is committed to making an impact assessment before beginning any new activities or introducing significant changes to existing projects. This is in line with the due diligence approach, which is the basis for all risk management processes. Sakhalin Energy seeks to avoid or reduce the impact to the lowest possible level or to compensate for it by taking appropriate measures	Shareholders, authorities, buyers, personnel, contractors, community	3.5.2
HSE and Social Performance management system	The company uses a systemic approach to handling HSE and social performance issues, which enables continuous improvement in this area. The comprehensive HSE&SP Management System defines the controls used by Sakhalin Energy to handle hazardous situations and risks	Shareholders, authorities, buyers, personnel	3.5

Substantiation for Material Topics

Topics	Substantiation	Stakeholders for whom the topic is the most priority	Reference to the relevant section of the Report
Russian content, contracting and procurement management, the vendor development programme	The Sakhalin-2 project is one of the most complex projects undertaken in recent decades in the global oil and gas industry. Effective management of contracting and procurement is key for the project to be asuccess	Shareholders, buyers, personnel, contractors	7.3 and 7.4
Stakeholder engagement performance in 2018	The company considers regular and meaningful engagement with stakeholders to be an important component of its successful business operations	Shareholders, authorities, buyers, personnel, contractors	6
Importance of the Sakhalin-2 project for the Russian Federation and the Sakhalin Oblast Financial benefits to the Russian Federation and the Sakhalin Oblast	The Russian Federation and the Sakhalin Oblast receive numerous benefits from the Sakhalin-2 project implementation, including financial and tax revenues to the budgets of the Russian Federation and the Sakhalin Oblast, new opportunities for developing advanced technologies, experience in managing complex high-tech projects, contracts with Russian companies, promotion of employment, etc.	Shareholders, authorities, buyers, personnel, contractors, community	7.1 and 7.2
Industrial environmental control Environmental monitoring and biodiversity conservation	Due to its scope and complexity, the project can potentially cause environmental and social impacts, and Sakhalin Energy is committed to dealing systematically with these impacts so as to mitigate risks and prevent negative consequences. Arranging and implementing industrial environmental control and monitoring, as well as conserving biodiversity, are essential components of the environmental impact management system	Shareholders, authorities, buyers, personnel, contractors, community	8.2 and 8.3
Oil spill prevention and response preparedness	Oil spill prevention and oil spill response (OSR) preparedness are the top priorities for Sakhalin Energy. The company uses the comprehensive approach to handle this important task	Shareholders, authorities, buyers, personnel	8.5
Learning and development. Recruiting, hiring and onboarding new employees Labour safety and protection Occupational health Human rights: principles and management system Community grievance procedure and grievance handling in 2018	The company and its stakeholders attach special importance to social impact management, such as HR management and development, respect for and promotion of human rights, occupational safety and health, social investments, and contribution to the sustainable development of the host region	Shareholders, authorities, buyers, personnel	9.1.3, 9.1.7, 9.2, 9.3, 9.4

2.4. Definition of the Report Scope

The Report contains information on the activities of all structural units and assets of the company in all areas related to sustainable development, including economic, environmental, and social impacts that occur both within (internal boundaries) and outside (external boundaries) the company.

2.5. Public Endorsement of the Report

The RUIE Non-Financial Reporting Council was engaged to provide external public endorsement of Sakhalin Energy's non-financial report. This Council issues independent expert evaluations at the highest professional level in the Russian Federation. The result was the Public Endorsement Certificate and Conclusion of the RUIE Non-Financial Reporting Council on the Review of the Sakhalin Energy Investment Company Ltd. 2018 Sustainable Development Report for the Purpose of Public Endorsement (See Appendix 7. Certificate of Public Endorsement and Appendix 8. Conclusion on the Review of Sakhalin Energy 2018 Sustainable Development Report by the RUIE Non-Financial Reporting Council for the Purpose of Public Endorsement).

The primary focus of public endorsement is the materiality and completeness of the information on the company's performance disclosed in the non-financial report according to the best practices of conducting business.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

3

3.1. Introduction

Sakhalin Energy's activities in the area of corporate social responsibility (CSR) are aimed at the implementation of the corporate strategy to improve the company's image and role in society, and to carry out its business activities in compliance with the standards of sustainable development and good business ethics. It is an integral part of Sakhalin Energy's production and business activities and strategic development plans.

At Sakhalin Energy, corporate governance has gradually transformed into management of the company as an open system, due to a high degree of transparency and active stakeholder engagement (see Section 5. Corporate Governance and Section 6. Stakeholder Engagement Management). Sakhalin Energy has developed a system for accounting and controlling internal and external factors of production, financial, technological, social, and environmental impacts, which allows the company to mitigate all types of risks in order to enhance its corporate sustainability (see Section 5.4. Risk Management).

GRAND PRIX OF THE RUIE ALL-RUSSIA SUSTAINABLE DEVELOPMENT COMPETITION

In 2018, Sakhalin Energy won the Grand Prix for Effective Sustainable Development Practices in the Leaders of Russian Business: Dynamics and Responsibility 2017 contest.

The company won the main award of the contest by taking the leading position in four categories: For Contribution to the Solution of Social Problems of Territories, For High Quality of Reporting on Sustainable Development, For Achievements in the Field of Occupational Safety and Health of Employees, and Progress in Human Resources Development.

LEADER OF THE SUSTAINABLE DEVELOPMENT VECTOR INDEX AND THE RESPONSIBILITY AND TRANSPARENCY INDEX

In 2018, for the third year in a row, Sakhalin Energy was among the leaders of the Sustainable Development Vector Index and the Responsibility and Transparency Index, compiled by the RUIE since 2014 with the purpose of making an independent assessment of companies in terms of sustainable development, corporate responsibility and reporting.

When compiling the Responsibility and Transparency Index, the RUIE evaluates the disclosure of information in key areas of activity, analyses 70 indicators characterising responsible business practices, including economic, environmental, and social performance indicators, as well as governance aspects. The Sustainable Development Vector Index shows performance dynamics and therefore makes it possible to identify leaders among the largest companies with the highest degree of transparency and, at the same time, demonstrating a generally positive dynamics in the area of sustainable development.

LEADER OF THE SOCIAL EFFICIENCY OF THE LARGEST RUSSIAN COMPANIES RANKING

In 2018, Sakhalin Energy entered the Top 10 of the Social Efficiency of the Largest Russian Companies ranking, which is compiled by AK&M Information Agency. In addition, the company was also recognised as "the most socially efficient" in the category of oil and gas industry (according to the Companies with the Highest Contribution to Social Development per Unit of Environmental Load rating).

The Social Efficiency of the Largest Russian Companies ranking evaluates major Russian companies in terms of social performance in order to identify the best. Thus, the ranking determines the flagships of the Russian economy that not only set economic performance goals, but also take an active and open position in the field of sustainable development.

3.2. Sakhalin Energy's CSR System

Corporate social responsibility applies to all activities of Sakhalin Energy. This approach is supported by its mission, vision, and values. The practical aspects are addressed and approved in a number of corporate documents (see Section 5. Corporate Governance), such as:

- Code of Conduct, including the Statement of General Business Principles;
- Sustainable Development Policy;
- Human Rights Policy;
- Commitment and Policy on Health, Safety, Environment and Social Performance.

Sakhalin Energy extends an essential part of the requirements and business principles set out in these documents to its contractors. This is in line with the GRI standards that took effect in July 2018. In addition to special contractual provisions and specific requirements, including the results of environmental, health, and social impact assessments (see Section 3.5.2. Impact Assessment), the company arranges training sessions and workshops to ensure that business ethics, social and environmental principles are effectively integrated into the work of its contractors, and to oversee their compliance (see Section 7.4. Supply Chain Management).

At Sakhalin Energy, CSR areas and indicators are regularly evaluated by authorised personnel and senior management within the company's system of internal control and audit, as well as by lenders, their consultants, and external certifying authorities by means of external professional evaluations. Assessments are also carried out through stakeholder engagements:

- public consultations;
- workshops and focus meetings;
- opinion surveys;
- consultations in the information centres established by the company in the communities located along the trans-Sakhalin pipeline and in close proximity to other facilities of Sakhalin Energy;
- addressing grievances and appeals, etc.

For detailed information on the mechanisms for interaction with different stakeholders, see Section 6. Stakeholder Engagement Management.

CSR Management System

3.3. Performance Standards

Russian companies refer to the area of CSR their business, social, and environmental activities defined by legislation, as well as a range of additional programmes and responsibilities with regard to employees and society. The results are reflected in various non-financial reports on activities. A number of companies take on additional responsibilities beyond the minimum set by legislation based on their strategic and regional priorities and their level of corporate culture. Sakhalin Energy is one of such companies. It operates in accordance with the international standards established with regard to CSR.

Many initiatives and standards have been established worldwide in the area of environmental and social responsibility. The leading standards are the United Nations Global Compact, the Global Reporting Initiative (GRI), the European Council Directive on disclosure of non-financial information, the International Finance Corporation Performance Standards, ISO standards and others.

In 2009, Sakhalin Energy joined the UN Global Compact (UNGC) and pledged its commitment to consistently follow the UNGC principles concerning human rights, labour, environment, and anti-corruption.

SAKHALIN ENERGY IN THE UN GLOBAL COMPACT LEAD

In 2011, Sakhalin Energy became the first (and the only, as of late 2018) Russian company participating in Sustainable Corporate Leadership platform — Global Compact LEAD — established in the framework of the UN Global Compact. LEAD companies are obliged to carry out certain activities in the areas of environmental protection, social performance, and corporate governance, as well as to develop new CSR standards.

Beginning with 2018, the UN Global Compact is implementing the LEAD programme using new criteria, with regard to which Sakhalin Energy continued to participate in the UNGC, including in the Reporting on the SDGs and Decent Work in Global Supply Chains Action Platforms (see Sections 3.4.2. UN Sustainable Development Goals and 9.4.1 Human Rights: Principles and Management System). The company submits an annual Communication on Progress (annual reporting by a member of the UN Global Compact) at an advanced level.

At the UN Global Compact Leaders Summit 2018 in September 2018, held at the UN headquarters in New York, companies were announced which had been recognised by the Global Compact LEAD as showing their continued commitment to the UN Global Compact and its ten principles of responsible business. Global Compact LEAD companies (a total of 34 organisations in the world) are the most active participants in the UN Global Compact—the world's largest corporate sustainable development initiative.

Global Compact LEAD PARTICIPANT

The main international standards that Sakhalin Energy applies are as follows:

- ISO standards (environmental management, quality control, health and safety, and social responsibility);
- European Union and United Nations standards and directives (environment, human rights, indigenous peoples, etc.);
- World Bank and International Finance Corporation standards (governance systems, risk and impact assessment, biodiversity, health, cultural heritage, indigenous peoples, involuntary resettlement, stakeholder engagement, grievance mechanisms, etc.);
- GRI standards (non-financial reporting, stakeholder engagement).

3.4. Sustainable Development Policy

3.4.1. Key Provisions of the Sustainable Development Policy

Since its foundation, Sakhalin Energy has pursued the Sustainable Development Policy by incorporating SD principles into the company's business strategies, plans, and processes.

According to the UN definition, sustainable development is about ensuring that 'the needs of the present generation are met without compromising the ability of future generations to meet their own needs. In its practice, Sakhalin Energy relies upon this definition. This approach presumes and ensures economic effectiveness, environmental safety, social justice, and ethical behaviour of the corporation and its employees, combined with an overall reduction of human impact on the ecosphere. This is implemented via strong, transparent, constructive, and systematic cooperation and two-way communication with all the stakeholders.

In 2018, Sakhalin Energy consistently implemented the provisions of the Sustainable Development Policy — a public policy document approved by the Committee of Executive Directors in 2003 (the latest 2016 revision of the document includes the company's commitment to the United Nations Sustainable Development Goals, see Section 3.4.2. UN Sustainable Development Goals). This Policy describes the company's SD principles, development areas and commitments.

The main provisions of the company's Sustainable Development Policy are as follows:

- Sakhalin Energy will carry out its business activities with utmost responsibility and efficiency to maximise benefits for the Russian Federation, the Sakhalin Oblast, and the shareholders;
- Sakhalin Energy will contribute to the present and future needs of the society on Sakhalin Island, keeping a balance between economic development, environmental protection, and social responsibility, and with due regard for cultural diversity;
- Sakhalin Energy will work with all stakeholders to identify ways to contribute to the wider, long-term economic, environmental, and social benefits in the Sakhalin Oblast.

To comply with these principles, Sakhalin Energy makes the following commitments to sustainable development:

- incorporate SD principles into business plans, procedures, and processes;
- ensure compliance with the corporate Commitments and Policy on HSE and Social Performance, as well as standards specified in the Health, Safety, Environmental and Social management systems and Action Plan;
- provide detailed information to stakeholders and engage them in evaluating company's SD performance and sharing feedback;
- develop and implement social investment and sustainable development programmes and projects that are linked to the company's strategy and priorities, and have clear procedures and controls;
- pay special attention to developing strategic partnerships with external stakeholders;
- provide annual non-financial reporting in accordance with the Global Reporting Initiative (GRI) standards and principles, as well as the corporate Sustainable Development Report Preparation Procedure;
- participate in the UN Global Compact (UNGC), complying with and promoting its ten principles;
- be a member of UNGC LEAD initiative demonstrating sustainability leadership.

3.4.2. UN Sustainable Development Goals

At the 70th session of the UN General Assembly in September 2015, a new global agenda was adopted — Transforming Our World: the 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals (SDGs), which replaced the Millennium Development Goals. One of the specific features of the new Goals is the chosen approach to achieve them: the SDGs are addressed not only to governments, but also to other participants in the sustainable development process, in particular — to businesses, civil society, and all individuals. The universal character of the SDGs allows companies to adopt a set of goals that best corresponds to their activities and existing CSR programmes.

In its work towards the achievement of the SDGs, the company primarily focuses on the following international documents:

- *the SDG Compass for business, developed by the United Nations Global Compact, the Global Reporting Initiative (GRI) and the World Business Council for Sustainable Development (WBCSD);*
- *Mapping the Oil and Gas Industry to the Sustainable Development Goals: An Atlas, developed by the International Petroleum Industry Environmental Conservation Association (IPIECA) in partnership with the International Finance Corporation (IFC) and the United Nations Development Programme (UNDP);*
- *the SDG Industry Matrix, developed by the UN Global Compact and KPMG.*

At the end of 2015, Sakhalin Energy initiated work to study the SDGs and to define the company's contribution to their achievement, including:

- Making a preliminary review of the SDGs to consider their targets and indicators against the company's priorities, objectives, activity areas, programmes and projects (2015–2016).

- Making a commitment with respect to the SDGs. The company's commitment to contribute to the achievement of the SDGs is included in the corporate Sustainable Development Policy: Sakhalin Energy endeavours to take the lead in sustainable development taking into account the Sustainable Development Goals of the 2030 Agenda for Sustainable Development (2016 revision).

- Defining priorities and goals — analysing the company's priorities and goals and selecting the most significant SDGs in terms of their importance to the company's activities and contribution to their achievement (annually since 2016). When defining the company's priorities and objectives in respect of the SDGs, a significant prerequisite of success is the involvement of stakeholders in the exchange of ideas about possible ways to achieve the SDGs by the company. Since 2016, relevant questions have been put on the agenda of dialogues with the external stakeholders in the preparation of the Sustainable Development Report and discussions with the company's personnel. In 2017, questions regarding these issues were added to questionnaires for the stakeholders to determine the content of the Sustainable Development Report. As a result, in 2018, as in the previous year, the company's stakeholders named SDGs 3, 4, 7, 8, 12, 14 and 15 to be the most significant for Sakhalin Energy (see Section 2.1. General Information).

- Integrating commitments and goals with the processes and practices of the company. An analysis indicated that the company's existing processes, programmes, and practices in the field of sustainable development contribute to the achievement of most of the SDGs and the targets they set (since 2016). In 2017, an analysis was made of each SDG target (in total, 169 targets) to determine specific processes and practices of the company that correspond to each of them. The analysis showed that not all SDG targets were applicable or relevant to the company's activities. In 2018, the company analysed the global indicators (in total, 232 indicators) to identify and systematise corporate indicators that correspond to each target and global indicator. These corporate indicators should demonstrate the efforts that the company makes to achieve the global indicators of relevant SDG targets. The summary of the analysis results are presented in the table below, namely: the goals and objectives of the company with examples of areas of activity, projects, programmes or actions that correspond to specific SDGs and their targets, as well as key corporate indicators. In addition, Appendix 1. GRI Standards Compliance Table contains SDGs that correspond to specific topics / targets of GRI standards.

- Public reporting. The company made a decision to include information on its contribution to the SDGs achievement in annual Sakhalin Energy Sustainable Development Reports (starting with the 2016 Report and at least until 2030), as well as in its annual reporting as a participant of the UN Global Compact (Communication on Progress).

All structural units of Sakhalin Energy are involved in the above-described work with respect to the SDGs.

One of the conditions for achieving the SDGs, which is also highlighted as a separate Goal 17, is to join efforts in global, regional or local partnerships, uniting governments, business and civil society. Sakhalin Energy attaches great importance to the creation and implementation of strategic long-term partnerships engaging external stakeholders. This applies to environmental projects, personnel development programmes, social investments, etc. (see Sections 8.3. Environmental Monitoring and Biodiversity Conservation, 9.1. Personnel: Management and Development, and 9.5. Social Investment and Contribution to Sustainable Development of the Host Region).

In 2018, the company joined the Reporting on the SDGs Action Platform, which was initiated by the UN Global Compact and the Global Reporting Initiative (GRI) in partnership with the Principles for Responsible Investment (PRI) initiative in order to unite the efforts of all stakeholders in developing the framework, principles, and recommendations for corporate reporting on the SDGs. The initiators of the project are guided primarily by the GRI Standards and the UN Global Compact requirements. As a result, companies will be able to integrate reporting on the SDGs with existing reporting formats.

Sakhalin Energy's goals and objectives, examples of activities, projects, programmes, or measures related to SDGs, and key corporate indicators

SDGs and their targets	Goals and objectives of the company	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
1 NO POVERTY 1.1 1.2 1.4 1.5 2 ZERO HUNGER 2.3 2.4 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 9.1 9.4 11 SUSTAINABLE CITIES AND COMMUNITIES 11.1 11.2 11.4 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 12.7 12.8	Provision of an attractive, competitive remuneration and benefits package. Achievement of Russian content at the level of 70% for the entire duration of the project (as per the PSA). Contribution to sustainable development of host region (Sakhalin Oblast). Effective management of grievances from stakeholders, paying special attention to vulnerable groups. Timely and efficient environmental, social, and health impact assessment.	Remuneration and bonus system. Social guarantees, benefits and compensations system. Supply chain management. Vendor Development Programme. Local business contracts. Financial benefits to the Russian Federation and the Sakhalin Oblast. Sakhalin Island infrastructure upgrade programme. Grievance mechanisms. Social and environmental impact management. Resettlement Action Plan. Sakhalin Indigenous Minorities engagement practices (in accordance with the Human Rights Policy, indigenous peoples are a vulnerable group) Social investment programmes and projects. Cultural heritage protection plans. Projects to preserve indigenous languages. Measures to ensure road safety	Ratio of standard entry level wage compared to local minimum wage. Russian content level. Significant indirect economic impacts. Grievance resolution indicators. Operations with significant actual or potential negative impacts on local communities. Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process. Total number of incidents of violations involving rights of indigenous peoples and actions taken. Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place. The number and description of significant disputes with local communities and indigenous peoples. Number of people injured in road traffic accidents	6, 7, 9.1, 9.2, 9.4, 9.5; for references, see Appendix 4: – Sakhalin Oblast infrastructure upgrade; – Resettlement: Experience of Sakhalin Energy brochure; – websites of social investment programmes and projects; – Public Consultations and Disclosure Plan; – Archaeological Heritage of Sakhalin Island

Note: since SDGs are complex and indivisible, the goals and objectives of the company, with examples listed, are presented for several SDGs simultaneously.

SDGs and their targets	Goals and objectives of the company	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
3.3 3.5 3.6 3.8 3.9	Goal Zero: No harm, No leaks. Occupational health assurance	Labour safety and protection (measures to ensure industrial safety, road safety, etc.). Occupational health (health risk assessment, occupational hygiene, organisation of medical examinations, medical emergency response, voluntary health insurance and disease prevention programmes, etc.). Industrial environmental control	Rates of injury. Occupational disease rate. Total number of work-related fatalities. Coverage of employees carrying out activities in hazardous, dangerous and difficult working conditions by mandatory periodic medical examinations. Coverage of employees by dispensary medical examinations. Emissions of greenhouse gas (GHG). Emissions of ozone-depleting substances (ODS). Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air pollutant emissions. Total water discharge by quality and destination. Total weight of waste by type and disposal method. Total number and volume of significant spills. Volume of flared and vented hydrocarbon. Number of people injured in road traffic accidentst	9.2, 9.3, 8.2 , 8.5
4.3 4.4 4.5 4.7 8.1 8.2 8.3 8.5 8.6 8.8	Meeting the company's needs for highly qualified personnel to achieve current and strategic objectives. Achievement of Russian content at the level of 70% for the entire duration of the project (as per the PSA). Contribution to the sustainable development of host region (Sakhalin Oblast)	Personnel development and training programmes. Supply chain management, Vendor Development Programme. Local business contracts. Financial benefits to the Russian Federation and the Sakhalin Oblast. Sakhalin Island. Remuneration and bonus system. Social guarantees, benefits and compensations system. Measures to ensure occupational safety and health of personnel	Average hours of training per year per employee by gender and by employee category. Percentage of trained personnel by gender and employee category. Expenses for staff training. Indicators of skills development and education programmes, including for graduates, trainees, and so on. Percentage of employees receiving regular performance and career development reviews, by gender and by employee category. Russian content level. Ratio of standard entry level wage compared to local minimum wage. Percentage of employees who returned to work after parental leave and retention rates after parental leave, by gender. Rates of injury. Occupational disease rate. Total number of work-related fatalities. Number of people injured in road traffic accidents	7, 9.1, 9.2, 9.3

SDGs and their targets	Goals and objectives of the company	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
5.1 5.2 5.4 5.5 10.3	Compliance with Russian legislation and international standards for the observance, protection and promotion of human rights	Assurance of gender equality and non-discrimination in all aspects of labour relations, including recruitment, selection, hiring, assessment, promotion, training of employees, maintaining discipline, training and development, remuneration, and termination of employment contracts	Total number of incidents of discrimination and corrective actions taken. Ratio of the basic salary of men and women. Composition of governance bodies and main employee categories by gender and age group. Percentage of employees receiving regular performance reviews, by gender and by employee category. Average hours of training per year per employee by gender and by employee category. Percentage of trained personnel by gender and employee category. Percentage of employees who returned to work after parental leave and retention rates after parental leave, by gender. Total number of new employee hires and employee turnover by age group and gender. Ratio of standard entry level wage compared to local minimum wage	9.1

SDGs and their targets	Goals and objectives of the company	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
6.3 6.4 6.6 7.3 8.4 9.5 12.2 12.4 12.5 12.6 13.1	Implementation of efficient and lean production methods. Introduction of innovative solutions and digitisation of all processes. Compliance with legislation on environmental protection, observance of established environmental standards, assurance of the sustainable use of natural resources, and fulfilment of plans for minimising the environmental impact	Using gas turbines equipped with devices to reduce emissions of nitrogen oxides. Using a gas turbulence increasing system, which facilitates gas flaring in a soot-free mode. Drilling waste disposal via dedicated re-injection wells into deep subsurface horizons with the necessary insulating layers. Activities to improve operational reliability and to ensure trouble-free operation of equipment. Industrial environmental control of the impact on atmospheric air and water bodies; waste management. Energy saving and energy efficiency activities. Stakeholder engagement practices. Public reporting on sustainable development	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal. Volume and disposal of formation or produced water. Volume of flared and vented hydrocarbon. Total weight of waste by type and disposal method. Total water discharge by quality and destination. Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air pollutant emissions. Specific emissions of pollutants into the atmosphere. Emissions of ozone-depleting substances (ODS). Energy indirect greenhouse gas (GHG) emissions. Direct greenhouse gas (GHG) emissions. Specific greenhouse gas (GHG) emissions. Energy intensity. Energy consumption within the organisation. Specific energy consumption. Total water withdrawal by source. Water sources significantly affected by withdrawal of water. Specific water use indicators. Total number and volume of significant spills. Operational sites located on, or adjacent to protected areas and areas of high biodiversity value outside protected areas. Impacts of activities on biodiversity in protected areas and areas of high biodiversity value. Total number of IUCN red list species and national conservation list species. New suppliers that passed the environmental assessment. Environmental costs and payments for the adverse impact, including breakdown of details	2, 4, 6, 8.2, 8.5, references in Appendix 4: – Public Consultations and Disclosure Plan

SDGs and their targets	Goals and objectives of the company	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
14.1 14.2 14.3 14.a 15.1 15.2 15.5 15.9	Goal Zero: No harm, No leaks. Assessment of the state and rehabilitation of the environment in the areas of production facilities, identification of signs of current impact and development of mitigation actions, if necessary. Effective and timely environmental, social and health impact assessment. Impact mitigation, development and implementation of actions aimed at the preservation of rare and endangered species, as well as environmentally significant and vulnerable biotopes	Implementation of agreed biodiversity conservation and local monitoring programmes. Environmental risk and impact assessment. Implementation of an effective and sustainable waste management strategy. Implementation of the action plan to achieve the established environmental standards. Maintenance and improvement of emergency and oil spill response mechanisms	Volume of flared and vented hydrocarbon. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air pollutant emissions. Energy indirect greenhouse gas (GHG) emissions. Direct greenhouse gas (GHG) emissions. Total number and volume of significant spills. Operational sites located on, or adjacent to protected areas and areas of high biodiversity value outside protected areas. Impacts of activities on biodiversity in protected areas and areas of high biodiversity value. Recovery of wetlands in disturbed areas of the ROW. Changes in the status of nesting populations, protected plant species and habitats. Changes in aquatic ecosystems. Overgrowing of the ROW. Total number of IUCN red list species and national conservation list species	8, references in Appendix 4: – Biodiversity Action Plan; – Oil spill prevention and response plans

SDGs and their targets	Goals and objectives of the company	Areas, programmes, projects (examples)	Key indicators	Report section(s) and/or other references
16.1 16.2 16.3 16.5 16.6 16.7 16.10	Compliance with all applicable laws and regulations of the countries in which the company operates. Effective corporate governance. Corporate culture development. Anti-bribery and corruption. Provision of safe and confidential ways for all stakeholders to express concerns and grievances, or report non-compliances	Availability of the General Business Principles, values, norms and standards of the Code of Conduct. Anti-bribery and corruption actions. Grievance mechanisms. Assurance of safety with respect for human rights. Conflict of Interest policy. Stakeholder engagement practices, including open public consultations and public sustainable development reporting	Total value of political contributions by country and by recipient/beneficiary Total number of incidents of non-compliance with regulations or voluntary codes concerning product and service information and labelling. Total number of incidents of discrimination and corrective actions taken. Confirmed incidents of corruption and actions taken. Communication and training on anti-corruption policies and procedures. Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations. Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour. Stakeholder engagement indicators. Grievance resolution indicators	2, 5, 6, 9.4; for references, see Appendix 4: – Code of Conduct; – Human Rights: Experience of Sakhalin Energy brochure

UN Sustainable Development Goals: Sakhalin Energy's Measures

Sakhalin Energy continued making efforts to promote the SDGs in the business community. In particular, in 2018:

- Sakhalin Energy became the only Russian company whose experience was included in UN Global Compact International Yearbook. In total, the edition contains 39 international examples that demonstrate various approaches to the implementation of the SDGs.
- Sakhalin Energy made a presentation on the Business and Sustainable Development Goals: Disclosure in Non-Financial Reporting at the Towards the Sustainable Development Goals: Promotion of Sustainable Development and Decent Work International Conference in Baku.
- The company supported the publication of the Russian Business and Sustainable Development Goals, a new compendium of corporate practices, prepared by the Russian Union of Industrialists and Entrepreneurs with the support of the International Labour Organisation (ILO). The compilation presents the practical experience of 25 companies (including Sakhalin Energy) from various sectors of the economy, describing the companies' sustainable development goals and targets in correlation with the SDGs. The examples included in the compendium demonstrate that Russian business is actively involved in working towards the SDGs.

3.5. HSE and Social Performance Management

3.5.1. HSE and Social Performance Management System

The company is committed to preventing potential damage to the community and environment as a result of its operations and contributes to sustainable development to benefit the residents of Sakhalin and other primary stakeholders. Since the beginning of the Sakhalin-2 project implementation, the Russian Federation and the Sakhalin Oblast have received numerous benefits from it, including multi-billion investments, employment growth, contracts with Russian companies, etc. (see Section 7.1. Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast). Understanding that the scope and complexity of the project can have an impact on the environment and social performance, Sakhalin Energy made a commitment to consistently prevent associated potential problems and adverse impacts, and to reduce risks. In its operations, the company adheres to the principle of eliminating hazards and threats, paying special attention to preventive risk management and impact assessment (see Section 5.4. Risk Management).

Health, safety, environment, social performance, and industrial safety management is an integral element of the corporate management system and is regulated by a number of fundamental documents that include:

- Sustainable Development Policy;
- Commitment and Policy on Health, Safety, Environment and Social Performance;
- HSE and SP Management System Manual;
- Health, Safety, Environment and Social Action Plan;
- Flaring Commitment;
- Statement of Industrial Safety Policy;

The commitments adopted by the company following the results of assessing the impact on the environment, health, and social performance, conducted before the start of the Phase 2 construction work, are included in the Health, Safety, Environment and Social Action Plan (hereinafter — the Plan). The development of the Plan was a mandatory condition for obtaining a loan for Sakhalin-2 Phase 2 implementation.

The Plan was developed in compliance with Russian laws and international standards, including the World Bank's Policies and Directives, the standards of the International Finance Corporation, and others. The Plan describes the HSE and SP management system, provides detailed information on measures to minimise the adverse environmental impact, monitoring, activities in environmental and social areas, as well as all internal and external standards regulating the company's HSE and SP activities. The Plan is approved by the project lenders. The fourth edition was approved in 2014 and published in 2015.

The Plan was posted on the company's website (in Russian and English), as well as in the company's information centres and libraries of the communities located in the vicinity of the company's assets. A few materials are available in Japanese for stakeholders in Japan. The implementation of the Plan is regularly monitored by the company, lenders and their consultants; inspection results are published on the company's website (www.sakhalinenergy.com).

HSE and Social Performance Management System

- Safety Management System Manual;
- Regulation on Industrial Environmental Control;
- Business Continuity Policy;
- Guidance on the Business Continuity Management System.

The above documents were approved by the Committee of Executive Directors, signed by the Sakhalin Energy Chief Executive Officer, and communicated to the personnel and contractors.

The company applies a systemic approach to handling HSE and social performance issues, which ensures continuous improvement in this area. The comprehensive HSE and SP management system includes controls used by Sakhalin Energy to handle hazardous situations and risks. The system is applied to all Sakhalin Energy assets, projects, and operations, including those conducted by contractors. Sakhalin Energy considers control of risks as a critically important prerequisite for successful performance; therefore, the risk management system is subject to continuous updating, improvement, and optimisation.

The system is based on the Plan-Do-Check-Act methodology of ISO 14001 and OHSAS 18001 standards.

The Plan-Do-Check-Act Methodology is applied in order to:

- identify goals and establish procedures necessary to achieve performance indicators in compliance with the Commitment and Policy on Health, Safety, Environment and Social Performance. This includes identifying legal and other requirements, determining problems and risks, assessing impacts, identifying management elements, as well as developing annual performance improvement plans;
- implement procedures for training and advanced training, contractor performance management, engagement and interaction, change management, emergency response, as well as operational control over hygiene, personal safety, integrity of assets, and industrial safety. The procedures cover the issues of transportation, health, safety, environment, and social performance, including those associated with public activities, cultural heritage, land acquisition, relocation and provision of additional assistance, conducting scheduled consultations and sharing information with the community, grievance consideration; with social investments;
- monitor and assess performance in accordance with the set objectives, legal and other requirements; provide reports on findings, incidents, and non-compliances; take corrective and preventive measures; conduct audits of the HSE and social performance management system at the company's assets and in functions;
- regularly perform a review of the management system and promote continuous optimisation of HSE and SP performance

The Sakhalin Energy HSE and SP management structure consists of the HSES Management Committee, which exercises comprehensive control over the area. The Committee is chaired by the company's Chief Executive Officer. The HSE General Manager reports to the CEO and oversees the development, introduction, operation, and monitoring of the management system. To ensure the fulfilment of the industrial safety and HSE standards, HSE services were formed in the company's structural and functional units.

In 2018, the company was certified to the new version of ISO 14001:2015, which provides for an improved systemic approach to environmental management. The new version of the Standard introduces the requirement for a company to integrate environmental management system requirements into the organisation's business processes. This new version also takes HSE leadership to the next level: company executives take a more active role in environmental management by acting as guarantors of the corporate environmental management performance.

Although these principles have just been made part of the standard, Sakhalin Energy has implemented them for quite a while and they have proved efficient.

With the positive results of the re-certification audit obtained this year, Sakhalin Energy has once again guaranteed to external stakeholders that its environmental impacts are under control and its environmental management approaches continue to be improved.

3.5.2. Impact Assessment

The company is committed to making an impact assessment prior to any new activities or significant changes in existing projects. This is the basis of the due diligence approach and all risk management processes.

Impact management is a process of predicting and managing the future project activities by improving project solutions, taking measures targeted at minimising potential adverse impacts and increasing benefits from the company's activities.

Sakhalin Energy seeks to avoid or reduce the impact to the lowest possible level or to compensate for it by taking appropriate measures.

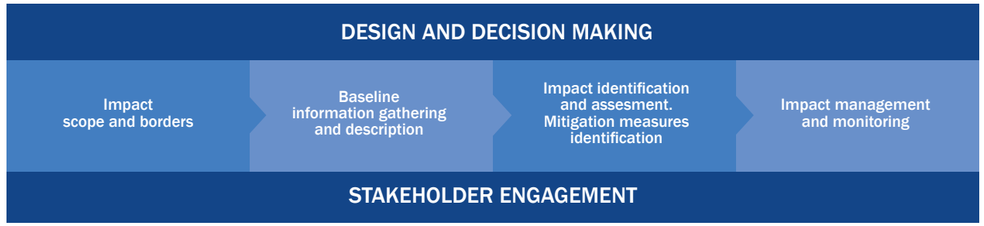
When any potential adverse impact is identified, the following actions are consistently developed and taken:

- avoid;
- prevent;
- mitigate;
- compensate;
- use experience to reduce the probability of occurrence.

An integral part of any impact assessment carried out by the company are consultations with the stakeholders to inform them about the planned activities, identify concerns, take into account their opinions, and discuss possible measures to manage the impact.

In 2018, the company together with a specialised contractor developed a design package for the Piltun-Astokhskoye and Lunskoye 4D Seismic Project, which included integrated impact assessment according to international and Russian requirements. The company conducted public hearings within the required timeline and obtained a positive State Environmental Expert Review conclusion. The geophysical survey was conducted according to the established schedule with zero incidents. For details of the HSE and ESHIA information, please refer to the Sakhalin Energy's website (www.sakhalinenergy.com).

Stages of Impact Assessment



The results of previous environmental and social impact assessments (including the results of comprehensive and strategic environmental assessments as well as the required additional and special studies) are taken into account in the company's standards, while its ongoing activities are based on relevant plans and programmes. The results of impact assessments are published on the company's website. The validity and completeness of the assessments are monitored by government authorities and project lenders.

3.5.3 Inspection and Audit

Since 2005, external and internal inspections and audits have been conducted to ensure control over all the elements of the integrated HSE and SP management system in compliance with approved annual plans. External audits are conducted by representatives of the company's shareholders and lenders, external certifying authorities, etc. For internal audits, the company engages specially trained auditors — qualified employees of the company and shareholder specialists. In 2018, seven HSE and SP management system audits were conducted, six of which were external and one internal (see the Inspections and Audits of the HSE and SP Management System in 2018 table).

Inspections and Audits of the HSE and SP Management System in 2018

Audit level	Number of audits	Content
External	6	Control over the compliance with HSE and SP standards issued by the representative of lenders — by the independent environmental consultant*
		Audit for compliance with ISO 14001 and OHSAS 18001 standards
		SMBR: Shell Maritime Business Review
		Road Safety Peer Review
		Hazardous works audit: Lifting and Hoisting audit
		Monitoring of Sakhalin Indigenous Minorities Development Plan (SIMDP) implementation — by independent expert in the frameworks of external SIMDP monitoring*
Internal	1	FMD HSE Audit

*The reports are available on the company's official website (www.sakhalinenergy.com).

4

ABOUT
THE COMPANY

4.1. Sakhalin Energy

Sakhalin Energy Investment Company Ltd. (Sakhalin Energy or „the company") was founded in 1994 to develop the Piltun-Astokhskoye and Lunskoye oil and gas fields in the Sea of Okhotsk offshore Sakhalin Island.

Sakhalin Energy operates under the Sakhalin-2 Production Sharing Agreement (PSA) that was signed by the company and the Russian Federation represented by the Government of the Russian Federation and the Sakhalin Oblast Administration (currently, the Sakhalin Oblast Government).

The following companies hold shares in Sakhalin Energy through their subsidiaries: Gazprom (50% plus one share); Shell (27.5% minus one share), a British-Dutch company; Mitsui (12.5%) and Mitsubishi (10%), Japanese corporate groups.

To develop these two fields, the company constructed a large-scale infrastructure for extracting, transporting, processing, and then marketing hydrocarbons. The infrastructure includes three fixed offshore platforms, offshore and onshore pipeline systems, an onshore processing facility, two booster stations, an oil export terminal with a tanker loading unit, a liquefied natural gas (LNG) plant with an LNG jetty, and gas transfer terminals. This has been one of the most technically complex projects carried out in the global oil and gas industry over the last few decades.

In 2018, for the second time the company won the first place in the All-Russian Labour Productivity: Leaders of Russian Industry competition with labour productivity rate of 139.44 mln roubles per person per annum. Based on the result of the competition, Sakhalin Energy is the leader in labour productivity in the Sakhalin Oblast, leader of Russian oil and gas industry, and ranks among the top three winners of the competition for the fourth consecutive year.

4.2. Main Production Results in 2018

In July 2018, Sakhalin Energy shipped the 600th standard oil cargo since the beginning of year-round deliveries.

In August 2018, Sakhalin Energy produced and shipped the 1,500th standard LNG cargo since the start-up of the first Russian LNG plant.

Every year, Shell selects the best of the best in the Group's drilling rigs league. In 2018, three Sakhalin Energy`s rigs competed for this award among 84 Shell rigs from around the world. The rating is based on the HSE performance, operational delivery against plan, and people performance. All three company's rigs have landed in the top 5 among participants of the rating.

The Piltun-Astokhskoye-B (PA-B) platform and its team won the Drilling Rig of the Year for the second year in a row.

Based on HSE performance, three Sakhalin Energy`s rigs swept the podium among Shell offshore drilling rigs, with the Molikpaq (PA-A) platform earning the top spot, followed by the Lunskoye-A (LUN-A) and Piltun-Astokhskoye-B (PA-B) platforms.

4.2.1. Assets

February 2018 marked nine years since the first LNG plant in Russia was officially launched. Russia has become one of the key players in the promising Asia Pacific market through the efforts of Sakhalin Energy. About 4% of the global supply of liquid natural gas comes from the company's LNG plant.

On 17 October 2018, all offshore platforms celebrated an important milestone: two years without recordable injuries (This includes lost workday cases, restricted work cases and medical treatment cases). This is a remarkable achievement, especially considering high complexity and hazardous nature of operations.

THE ROLE OF DIGITALISATION IN THE ACQUISITION OF REAL-TIME PRODUCTION DATA

In 2018, the company performed a large-scale upgrade of the MobilePi system initially introduced in the Sakhalin-2 project in 2016. This system provides real-time access to production parameters of each asset, as well as up-to-date information on production in general. The comprehensive data on wells condition and process flow elements prevents the distortion of information and enables specialists to take prompt and well-informed decisions in case of failures.

4.2.1.1. Molikpaq (PA-A) Platform

In July 2018, it was 19 years since the Molikpaq platform first started producing oil.

Over the first nine years, starting from 1999, Molikpaq operated only during the ice-free season. In 2008, year-round production of hydrocarbons commenced.

As of the end of 2018, the operating well stock of the Molikpaq platform included 16 production wells, seven water injection wells, and one cutting re-injection well. The average daily production rate in 2018 was 6.50 thousand t (47.88 thousand bbl) of oil and 0.78 mln m^3 of associated gas.

Since the commencement of field development at PA-A platform, more than 38 mln t (over 281 mln bbl) of oil have been produced.

In 2018, in the Astokh area of the Piltun-Astokhskoye field, a side track in the water injection well and an additional water injection well were drilled to enhance the efficiency of the reservoir pressure maintenance system.

In 2018, the company continued to convert wells to gas lift operation* to increase oil recovery. Also the company delivered new wells, controlled field development and wells operation, quality of injected fluid for pressure maintenance and cuttings re-injection system performance (* When a well stops flowing due to low formation pressure, production switches to artificial lift operation, associated with the introduction of additional pressure from outside (surface). One of such techniques, whereby the pressure is injected in the form of the compressed gas, is gas lift. Gas lift is a system consisting of a production casing and an inside tubing, where the fluid is forced up by the compressed gas (air). This well operation technique is called gas lift).

The company performs continuous monitoring of the composition and water cutting of well production, carrying out of solids/mechanical impurities, and wells integrity at the asset.

The company is committed to introducing continuous improvement initiatives to all production processes. Being guided by the principles of sustainable use and management of the subsurface, Sakhalin Energy develops the Piltun-Astokhskoye field using enhanced oil recovery techniques. Relevant enhanced oil recovery programmes are introduced as part of the field development design documentation updates, taking into consideration the learned lessons and best international practices. The main enhanced oil recovery techniques applied at the Piltun-Astokhskoye field are in-fill drilling by means of side tracking (ST) and the use of physical and chemical methods of bottom-hole treatment (BHT) with salt inhibitors to remove scaling.

The qualitative programme performance indicators by year are presented in the 2015–2018 Enhanced Oil Recovery Programme Results table.

In 2018, re-estimation of hydrocarbons reserves in the Astokh area of the Piltun-Astokhskoye oil and gas condensate field was performed, and Addendum to Reservoir Management Plan for the Astokh Area of the Piltun-Astokhskoye Oil and Gas Condensate Field was developed and duly approved (Protocol of CDC Rosnedra No. 7231 dated 13 July 2018).

Sakhalin Energy successfully completed a unique operation at the Molikpaq oil and gas platform. For the first time ever in the Russian oil and gas industry, a stationary crane replacement was carried out on an operating offshore platform with the help of a temporary construction crane.

2015–2018 Enhanced Oil Recovery Programme Results

Indicators	Years			
	2015	2016	2017	2018
Total ST since the start of development, ea.	6	7	8	8
Cumulative oil production from ST, thousand t	1,053	2,136	3,211	4,374
Total BHT since the start of development, ea.	0	2	4	9
Cumulative oil production from BHT, thousand t	0	50	91	162

4.2.1.2. Piltun-Astokhskoye-B (PA-B) Platform

As of the end of 2018, PA-B platform had 16 production wells, eight water injection wells, and two cutting re-injection wells.

The platform's average daily production rate in 2018 was 4.39 thousand t (32.37 thousand bbl) of oil and 1.33 mln m^3 of gas. Since the commencement of oil field development at PA-B platform, more than 16 mln t (over 121 mln bbl) of oil have been produced.

In May, PA-B platform achieved a very significant milestone: eight years without lost time injury (LTI).

In 2018, one water injection well and one production well were drilled in the Piltun area.

The water injection well in the west flank of the Piltun area was completed as a "smart" well (dual completion/injection with selective control of water injection, taking into consideration the variable formation properties to enhance injectivity).

The production well was completed using state-of-the art Frac and Pack technology to achieve the maximum production rate, ensure safe and long-term well operation.

In addition to new wells delivery, the company controlled field development and wells operation, quality of injected fluid for pressure maintenance and cuttings re-injection system performance. The company performs continuous monitoring of the composition and water cutting of well production, carrying out of solids/mechanical impurities, and wells integrity at the asset.

In summer 2018, 4D seismic monitoring was performed in the Piltun-Astokhskoye field. Specific features of the 2018 scope of work included the use of seabed receiving stations that enabled the coverage of areas directly adjacent to the production platforms. The acquisition of data from these areas through a seismic survey with the use of floating receiving stations (streamers) is technically infeasible. Therefore, the company will obtain additional data for the analysis

of reservoir development. The company achieved another important milestone: for the first time in the history of the Russian oil and gas industry, a Russian company (Sovcomflot) conducted a 4D seismic survey, using towed streamers from a Russian research vessel „Vyacheslav Tikhonov". The acquired data was also processed by a Russian company (PetroTrace Services).

The outcomes of the 4D seismic monitoring will be used to develop recommendations for further optimisation of all fields development, in particular new drilling targets may be revised. Finally, based on the analysis of the acquired data the company will decide on the practicality of similar works in future.

4.2.1.3. Lunskoye-A (LUN-A) Platform

In 2018, LUN-A platform continued to operate in a stable manner, producing an uninterrupted flow of gas from the existing wells. The platform's average daily gas production rate was 47.68 mln m^3. Since the commencement of this field development gas production achieved 153 bln m^3.

Pursuant to the strategy to maintain hydrocarbons production and to expand the scope of reservoir development, the company is increasing its capabilities of ultra-extended reach drilling (ERD).

As part of this strategy, in 2018 the longest gas producing well in the company's history with the length of 8.4 km was drilled at the Lunskoye field.

In 2018, in the course of the drilling, a number of records — not only for the company but among all Shell Group ventures — were set:

- the measured depth (MD) of the well is 4 times longer than the true vertical depth (TVD);
- the world longest wireline tractor logging path during Cement Boundary Logging (CBL) of 13 3/8'' casing, as well as the longest total wireline tractor logging path in Shell;
- the longest section of floating liner.

The well was completed with gravel pack technology. The gravel pack operation was performed from a designated Frac and Pack vessel.

In addition to drilling and workover operations the company performed logging operations in the open hole, continuous reservoir pressure monitoring, drilling waste and formation water re-injection, core examination and formation water sampling.

In summer 2018, additional 4D seismic monitoring was performed at the Lunskoye field. Specific features of the 2018 scope of work included the use of seabed receiving stations that enabled the coverage of areas directly adjacent to the production platforms. The company will obtain additional information to study both the efficiency of reserves recoverability and the geological structure of the central part of the field.

The outcomes of the 4D seismic monitoring will be used to develop recommendations for further optimisation of the Lunskoye field development, as well as to decide on the practicability of seismic acquisition works in the following years.

Based on the additional exploration of the VI fault block, re-estimation of hydrocarbons reserves and Addendum to Reservoir Management Plan for the Lunskoye Oil and Gas Condensate Field were duly developed and duly approved (by Protocol of CDC Rosnedra on HCS No. 7230 dated 13 July 2018).

4.2.1.4. Onshore Processing Facility (OPF)

The onshore processing facility (OPF) handles the initial processing of 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 the Piltun-Astokhskoye field are also processed at the OPF.

In 2018, OPF daily average capacity was 48 mln m^3 of gas and 15 thousand t (114 thousand bbl) of oil and condensate.

In November 2018, the Sakhalin Energy`s onshore processing facility (OPF) achieved MIE "Proactive" status in Operational Excellence Blade 10 — Work Preparation, Scheduling, and Execution (WPSE), with an assessment score of 86%. At the same time, it was assessed "Calculative" in Operational Excellence Blade 12 — SCEs and Performance Standards (IA), with an assessment score of 73%. Thus, OPF has sustained and improved its MIE performance since September 2014 ("Proactive" status in Operational Excellence Blade 10 with an assessment score of 80% and "Calculative" in Operational Excellence Blade 12 with an assessment score of 65%), continuing to be "Proactive" and "Calculative", respectively.

4.2.1.5. TransSakhalin Pipeline, Booster Stations, and Gas Transfer Terminals

The TransSakhalin pipeline comprises about 280 km of offshore pipelines, around 1,600 km of onshore multiphase pipelines and oil and gas pipelines, as well as 104 block valve stations, five pipeline maintenance depots, booster station (BS-2), and two gas transfer terminals (northern and southern).

Sakhalin Energy and Gazprom transgaz Tomsk (contracted by Sakhalin Energy to maintain the TransSakhalin pipeline) are tasked with providing uninterrupted and safe hydrocarbons transportation to the Prigorodnoye production complex.

An HSE case is implemented in Sakhalin Energy for its pipeline system that identifies all potential hazards to the integrity of the assets. These hazards include internal and external surface corrosion, excessive pipe pressure, earthquakes, landslides, soil erosion, seabed gouging, shore scouring, ship traffic, illegal hot taps, and inadvertent or willful damage.

The following measures have been taken to prevent or eliminate these potential hazards:

- to deal with external surface corrosion, the pipeline has a cathodic protection system;
- to monitor internal surface corrosion, Sakhalin Energy internally pigs the pipelines using Intelligent Pigs that can detect internal corrosion;
- the offshore and onshore oil pipelines are pigged on a regular basis to remove water and sediments;
- to ensure a timely response in case of an earthquake, Sakhalin Energy uses its own seismic monitoring system with detectors located along the entire pipeline and the USGS (United States Geological Services) system;
- seismic faults are monitored every year to assess movements and displacements;
- prior to seasonal drops in ambient air temperature, the pipeline is checked for water in the pipeline fault crossing trenches so as to avoid freezing and limited pipe movement;
- the pipeline right-of-way is monitored regularly with helicopter overflights and physical checks of all pipeline features including rivers, fault crossings, swamps, liquefaction areas, road crossings, rail crossings, etc. Also, the entire pipeline right-of-way is walked every twelve months;
- space technologies are also used to monitor the vegetation growing on the right-of-way.

DIGITAL TECHNOLOGIES INTRODUCED BY THE COMPANY HELP TO MITIGATE NEGATIVE IMPACT ON THE ENVIRONMENT AND IMPROVE PRODUCTION SAFETY

In 2018, the company actively used unmanned aerial vehicles to monitor its pipelines and assets. High resolution cameras enable operation in remote hard-to-reach areas and allow the company to identify landslides or unauthorised intrusions within the pipeline right-of-way, determine the condition of buildings and structures. All this helps to minimise general production impact on the environment. The use of unmanned aerial vehicles results not only in time and cost savings, but also helps workers avoid risks associated with working at height or in remote areas. In 2020, the company plans to test LIDARs (data processing technology using active optical systems) that may detect hydrocarbons spills.

According to statistics, more than 70% of pipeline incidents in the world are caused by unintentional damage from human activity. Sakhalin Energy has been proactively educating the community about the appropriate actions in the pipeline areas. Local authorities, contractors, and land users are regularly informed about land use limitations within the right-of-way and are provided with the contact information and telephone numbers of the company. Additionally, special notice boards are located along the right-of-way with free telephone numbers in case of questions or concerns.

Sakhalin Energy continues to route gas condensate from the Sakhalin-3 project gas treatment plant (Kirinskoye field) into the Sakhalin Energy's oil pipeline system as per the agreement between Gazprom Export and Sakhalin Energy. This gas condensate is transported to the oil export terminal (OET) along with Sakhalin Energy's oil.

As part of the Sakhalin-2 project, 100% of pipelines operate less than 11 years (as of the end of 2018) and do not exceed the design standard operation life. To verify pipeline system standard operation life the company carries out regular pigging with a subsequent analysis of results and develops preventive maintenance plans. In addition, the entire length of the onshore pipelines is equipped with cathodic protection (CP) system to deal with external corrosion. The company performs regular maintenance and monitors the CP system performance.

4.2.1.6. Prigorodnoye Production Complex

The Prigorodnoye production complex is situated in the south of Sakhalin on the shore of Aniva Bay, which stays ice-free nearly year-round. It incorporates the LNG plant with the LNG jetty and the oil export terminal (OET) with the tanker loading unit (TLU) installed 5 km away from the shore. The plant covers about 236 ha and has two trains, each with a design capacity of 4.8 mln t of LNG per year. Over the years, efficiency and reliability enhancement programmes have significantly increased the plant's capacity.

In 2018, the Prigorodnoye production complex operated safely throughout the year with zero recordable injury (TRC) and zero API Tier 1 and 2 process safety incidents. The Goal Zero programme, which was formally introduced in 2017, kicked off a culture and behaviour change, and received positive traction from staff and contractors. The LNG plant subsequently elevated the Goal Zero programme to the next level in 2018 by introducing a Culture of Care (CoC) programme to further embed the much-needed changes in safe working behaviour and culture which delivered a strong personal safety performance.

With respect to process safety, the LNG plant embarked on a Loss of Primary Containment (LOPC) improvement programme that utilises data from near miss and potential incidents, to identify bad actors and apply causal learning methodology to reduce leak incidents. The

Since the start of operation in 2009, LNG plant produced over 229 mln m³ (103 mln t) of liquefied natural gas.

Prigorodnoye production complex also successfully maintains ISO 9001, 14001 and OHSAS 18001 for its overall Quality, Environmental and Occupational Safety Management Systems.

In addition to high safety performance, the overall performance of the LNG plant was outstanding in 2018. The results of recent external benchmarking annual exercise by PTAI (Phillip Townsend Associates) showed that the asset continued to operate in top quartile performance areas that include environmental, reliability and overall unit operating costs.

The reliability performance of the LNG plant is maintained at the highest level. In 2018, Train 2 achieved the outstanding value of 99.1%, while LNG train 1 reliability performance was at 93.7% impacted by the unplanned corrective shutdown of K-1420 axial compressor in August 2018. Though the outage had an impact on the overall reliability performance of the LNG Train 1, on the other hand it displayed the excellent preparedness of the asset to handle unplanned events. The 21 days of safe implementation of the recovery work for the compressor, and a flawless and leak-free start-up, currently stands as one of the best recovery efforts in the LNG industry.

A planned Maintenance Turnaround (TA) shutdown event was successfully carried out at the LNG plant in June 2018, in conjunction with the planned shutdown activities of the Sakhalin-2 integrated gas chain system. The major TA event was completed safely with zero injury and no significant incidents. The event was implemented within the allocated budget and as per the schedule. One of the key scopes delivered during this major event was the upgrading of the Instruments Protective System (ProSafe) as part of the asset obsolescence programme.

As part of the Continuous Improvement Programme, the actions were implemented in 2018 to achieve incremental capacity increase in LNG production. In consequence of these low capital and high investment returns actions an estimated increase of 0.6 cargoes for the operating year was achieved.

For performance improvements and sustainability, the asset embarked on various improvement initiatives. The Continuous Improvement (CI) Programme launched in 2017 is seeing good traction, and in 2018, the asset delivered more than 5% of value improvements against the annual OPEX budget, via CI tools and tactics from various departments. The key driving factor of the CI programme in the asset is the engagement of the entire staff — anyone can come up with a potential solution, and the leadership will undoubtedly consider it.

To reach the next level in CI programme implementation, the company has determined critically important tasks for the asset, key measures and priorities in business targets and indicators. The critically important tasks were carried out through various processes such as external benchmarking and assurance exercises (e.g. audit, economic and technical project feasibility analysis) and enabled to identify gaps and opportunities for improvements. The critically important tasks are part of the asset's overall annual business improvement process, designed to sustain top-quartile performance.

In recognition for the outstanding performance in 2018, the LNG asset received an award from Shell as the Best Integrated Asset of the Year.

4.2.2. Development Projects

4.2.2.1. OPF Compression Project

The OPF compression facility is designated to support the planned production levels in case of the wellhead pressure drop in the Lunskoye wells.

Petrofac Facilities Management Limited is the EPC Contractor for the OPFC project.

In 2018, ZapolyarPromGrazhdanStroy completed activities for preparation of OPF compression site.

Manufacturing of equipment, including three gas compressor units and vessels was completed in 2018 by Russian and foreign companies. Equipment delivery to construction site is planned for 2019 via a temporary loading facility.

In 2018, main construction works were started on the site by StroyGasConsulting. Construction works are scheduled to be completed by the end of 2021.

4.2.2.2. South Piltun Area Development Project

Taking into consideration the recent data on geological structure and reservoir parameters of the Piltun-Astokhskoye field, acquired as a result of additional exploration and reservoir development, in 2018 Sakhalin Energy developed the Piltun-Astokhskoye Field Reservoir Update and Integrated Reservoir Management Plan, incorporating design solutions to put into operation currently undeveloped formations, including the reserves of the South-Piltun area. The results of these works will be submitted to the CDC Rosnedra for review at the end of 2018. The expert review and the defence of the documents are scheduled for Q3 2019.

4.2.2.3. LNG Train 3 Project

In 2017, Sakhalin Energy developed the design documentation for the Sakhalin-2 LNG Train 3 project.

Shell Global Solutions International and Giprogaztsentr, a Russian design institute, carried out the development of the design documentation, in cooperation with other companies, including local Sakhalin ones. In addition, several Sakhalin companies performed engineering and environmental baseline surveys.

The design documentation was submitted to state expert review by Glavgosexpertisa and received positive conclusion in 2018. The Sakhalin-2 LNG expansion project is the optimum and economically sound way to strengthen Russia's presence on the world LNG market.

4.2.3. Hydrocarbon Production and Export

4.2.3.1. LNG

Liquefied natural gas (LNG) is a colourless and odourless liquid with a density half that of water. It consists mainly (up to 90%) of methane (CH_4), 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, becoming suitable for collection, storage, and shipment by special-purpose transport.

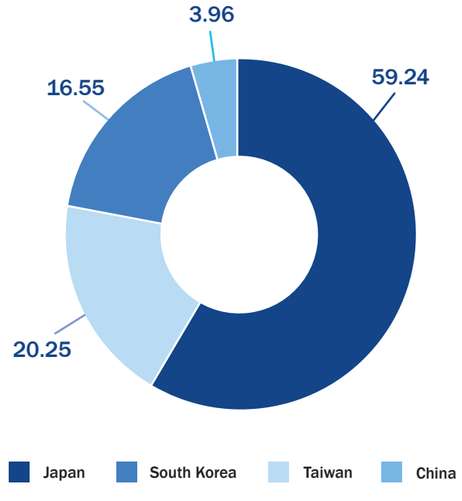
Due to regular debottlenecking and equipment adjustment, the LNG plant exceeds its design output of 9.6 mln t per year. In 2018, Sakhalin Energy produced 11.41 mln t of liquefied natural gas.

In 2018, Sakhalin LNG was transported in spherical-hold customer vessels and in Grand series LNG tankers (Grand Elena, Grand Aniva, and Grand Mereya) that were constructed specifically for this project and provided to the company under long-term charters by two Russian-Japanese consortiums. LNG is also transported by the Amur River and Ob River vessels chartered on a short-term basis. Thus, the company's fleet consisted of five LNG tankers at the end of 2018. In addition, the infrastructure of Prigorodnoye port makes it possible to serve customers' LNG tankers and to ship LNG on "free on board" (FOB) terms.

The implementation of the project to increase the maximum allowable fill level of cargo tanks of the Grand Series LNG Tankers in 2018 brought excellent results: an increase of company revenue from each LNG cargo sold, reduction in transportation costs per unit of production, and additional flexibility in the LNG supply schedule. The increase from 98.5% to 99% was possible due to the technical and managerial solutions. As a result, the maximum loading capacity of each tanker per voyage increased, on average, by 740 m^3 of LNG.

Year-round LNG shipments to customers began in March 2009. The company has a solid reputation due to the stability of deliveries,

Sakhalin LNG Sales Market Structure in 2018, %



product quality, high safety standards, and highly qualified staff. In addition, Sakhalin Energy has a number of competitive advantages in the LNG markets in Asia (Japan, South Korea, Taiwan), in particular:

- well-established relationships with potential customers in these countries;
- long-term sales and purchase contracts with all major LNG customers in Japan and South Korea, as well as a framework sales agreement and a medium-term contract with CPC Corporation (Taiwan);
- geographical proximity to the sales markets. The company is the closest source of LNG (the duration of an LNG tanker voyage to Japan is 3–6 days, to South Korea — 4 days, to Taiwan — 5 days).

In 2018, Sakhalin Energy continued to ship LNG cargoes to Japan, South Korea, Taiwan, and China. The list of LNG buyers also includes gas distributing, power generating, and trading affiliates with various volumes of demand. The company worked towards an increas of the number of potential customers in the Asia-Pacific region. In particular, negotiations were first initiated on the conclusion of direct framework agreements for the sale of LNG with Chinese companies. Thus, a direct framework agreement with PetroChina — one of the largest LNG customers in China — was concluded in 2018.

Sakhalin LNG accounted for 4.8% of total LNG demand in the Asia Pacific and about 3.6% of global LNG demand.

4.2.3.2. Oil

Sakhalin Blend is a special oil grade introduced by Sakhalin Energy to the Asia-Pacific region. It is a light, low-sulphur oil blend, consisting of three components produced offshore Sakhalin:

- crude oil from the Piltun-Astokhskoye field;
- condensate from the Lunskoye field;
- condensate produced in the Kirinskoye field as part of the Sakhalin-3 project and purchased from Gazprom Export.

The company has been producing and then shipping a mixture of oil and condensate from the tanker loading unit (TLU) of the oil export terminal (OET) at the Prigorodnoye production complex since 2009.

In 2014, the company began to use condensate produced in the Kirinskoye field as part of the Sakhalin-3 project (Gazprom).

The condensate produced by the company and the condensate produced under the Sakhalin-3 project are mixed with oil to produce a unique grade of light low-sulphur oil with a density of about 42–45° and a sulphur content of about 0.16%. Sakhalin Blend is well known in the Asia-Pacific region. It competes successfully with similar light low-sulphur grades of oil produced in the Middle East, condensates, and heavier Far Eastern blends such as Sokol and ESPO.

In 2018, Sakhalin Energy produced 3.98 mln t (29.29 mln bbl) of oil and 1.58 mln t (13.93 mln bbl) of condensate, and received 0.10 mln t (0.87 mln bbl) of condensate produced under the Sakhalin-3 project.

The convenient geographical location of Prigorodnoye port and the availability of the company's own oil tank fleet (three specialised ice-class tankers*) enable deliveries to the Asia-Pacific region in winter time or vessel-to-vessel (VTV) transshipment in the ports of South Korea, Japan and China for further transportation to other buyers in the remote markets. (*The company's export facilities are located in Aniva Bay, the ice conditions of which require vessels to meet certain technical parameters).

Vessel-to-vessel transshipment (to the so-called 'daughter' tankers) is widely used in the industry. Sakhalin Energy has arranged for the possibility to apply this method to support production continuity and shipment schedule flexibility.

The company successfully completed a number of VTV operations in the past, and now there are four approved sites where VTV operations are carried out on a regular basis: Yeosu (South Korea), Tsushima and Nagasaki (Japan), Qinzhou (China).

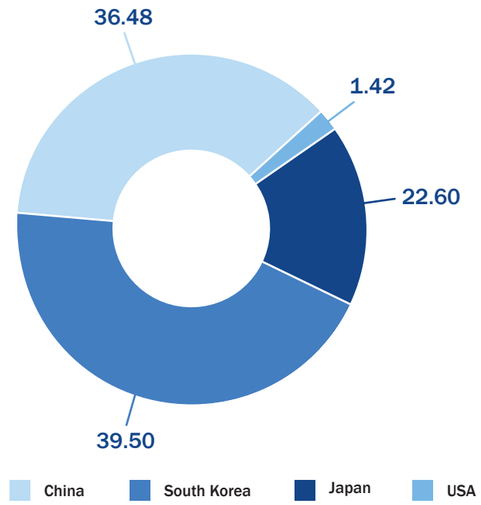
In total, 11 companies from four countries purchased Sakhalin Blend in 2018. The blend was delivered through 21 transit and destination ports in Japan, China, South Korea, and the USA.

Historically, the main markets for Sakhalin Blend are Japan, South Korea, and China. In 2018, the shares of these three countries remained high and accounted for approximately 98.6% of the total supply for the year. Several cargoes were delivered to the USA by means of vessel-to-vessel transshipment.

The proximity to the developed oil refining regions in the Asia-Pacific region, relatively low transportation costs per barrel, the possibility of unloading in several ports, in addition to well-established business relations and experience of cooperation with most major customers in the region contribute to successful sales of Sakhalin Blend oil.

The share of oil blend exported by Sakhalin Energy to the Asia-Pacific region accounted for 0.34% of the total volume of oil consumed in the region.

Structure of the Oil Blend Sales Market in 2018, %



4.2.3.3. Natural Gas

Since 2011, Sakhalin Energy has been supplying natural gas to the gas main line system of Gazprom to pay royalties payable in kind to the Russian party. The gas is transferred via two terminals in the northern and southern parts of Sakhalin Island. Since the commencement of natural gas delivery, more than 8.66 bln m^3 of natural gas has been delivered to the Russian party, including more than 4.13 bln m^3 of natural gas transported via the Southern Gas Transfer Terminal to Yuzhno-Sakhalinsk Heat and Power Plant-1 and other Sakhalin infrastructure facilities (the figure includes 653 mln m^3 delivered in 2018). In 2018, over 430 mln m^3 of natural gas was delivered via the Northern Gas Transfer Terminal to the Sakhalin—Khabarovsk—Vladivostok gas pipeline for further use under the Far East and Primorye fuel and energy sector development programmes. In total, over 1.12 bln m^3 of Sakhalin gas was supplied to the Russian party in 2018.

4.3. Continuous Improvement Programme

The company's continuous improvement vision and strategy is to embed a continuous improvement mindset and create an environment where leaders and staff are engaged and empowered to continuously look for ways to run our business more effectively with greater value without compromising on safety and reliability.

In 2018, Sakhalin Energy achieved significant progress in terms of identification and implementation of continuous improvement initiatives in different areas of activity (in total about 300 initiatives), which resulted in considerable cost reduction, improved profitability and efficiency and enhanced production.

CORPORATE GOVERNANCE

5

5.1. Company's Mission, Vision, Values, and Principles

Sakhalin Energy is guided by general business principles, with underlying core values of honesty and integrity, respect and care for people, professionalism and individual accountability, continuous improvement and teamwork. These principles are exemplified by the company's responsibilities to its shareholders, the Russian party, customers, the company's employees, and business partners — i.e. all parties that have business relations with the company, as well as to the community.

The general business principles cover, among other areas, economic features, competition, business integrity, political activities, health, safety, security, environment, local communities, as well as communication and engagement with stakeholders. The full text of the company's General Business Principles is available on the Sakhalin Energy's website (www.sakhalinenergy.com).

VISION:

To be the premier energy source for Asia-Pacific.

MISSION:

Sakhalin Energy is committed to being a premier energy supplier, recognised for its safety, operational excellence, and reliability.

We conduct our business in an ethically, socially, and environmentally responsible manner.

5.2. Corporate Governance System and Structure

Corporate governance is a process ensuring due diligence in organisation, management, and oversight within Sakhalin Energy. Corporate governance is accomplished by engaging the Sakhalin Energy's senior management with its shareholders and the Russian party to determine the direction of the company's activities, establish areas of responsibility, and assess performance.

The Sakhalin Energy's Business Management System Manual describes the main principles and approach to managing the company.

Corporate Governance System

LEADERSHIP AND COMMITMENT

Sakhalin Energy's senior management is fully committed to the Business Management System. Compliance with senior management decisions is mandatory for all staff and contractors. The senior management plays a leading role in the continuous improvement of business processes through their decisions and actions.

POLICY AND STRATEGIC OBJECTIVES

The company's policies and standards comply with Russian laws and regulations as well as with the requirements of its shareholders and lenders. Sakhalin Energy's strategic objectives are inspiring and clear to everyone and are consistently incorporated into the policies, standards, processes, and plans adopted by the company.

RISK MANAGEMENT

When establishing objectives, the company identifies, assesses, and considers overall risks related to achieving these goals and identifies ways to manage risks, including decreasing, mitigating, or preventing them (see Section 5.4. Risk Management).

ORGANISATION, RESPONSIBILITIES, RESOURCES, AND COMPETENCY

The organisation and resources of the company are adequate to meet the strategic objectives. Responsibilities at all levels are clearly described, communicated, and understood. The employees are prepared and trained in accordance with training plans coordinated with structured competency assessment systems.

PROCESSES, ASSETS, AND STANDARDS

Processes and assets are defined with clearly assigned responsibilities. Process/Asset standards and procedures incorporating controls and means of risk management are in place and understood at the appropriate organisational levels. Process owners ensure the proper implementation of control procedures through regular assurance and compliance activities adopted by the company.

PLANNING

All plans approved are optimised and fully resourced. Performance targets are set that will ensure progression towards the long-term objectives. The five-year plans, that are assessed and adjusted annually, form the basis of planning. They are established through active and open discussions with representatives of all directorates at the special annual event named 100 Workshop (see Section 6.3. Engagement with Personnel).

Contingency and emergency response plans are implemented and regularly evaluated.

The Journey Book, which is published annually, is used to inform all company's employees about the company's goals, strategy, targets, and measures to achieve them.

IMPLEMENTATION

Performance indicators are established and monitored, and results are reported. Corrective measures are taken as necessary, and policies, organisational structure, risks, plans, and processes are updated. All incidents with significant potential or actual consequences are thoroughly investigated and reported. All lessons learned are disseminated throughout the company.

ASSURANCE

Assurance is in place to ensure the management system is reasonably effective. It includes independent audits of processes and assets. Audits are followed up in a timely manner. Management regularly reviews the suitability and effectiveness of the assurance framework.

COMMUNICATION

Transparent and open communication is essential to ensure the company's business objectives are met. Line managers engage with their staff, communicating business goals and priorities. The CED receives their feedback for information and possible follow-up. The CEO and other members of the CED reinforce this communication framework with regular staff engagement sessions (see Section 5.5. Corporate Culture and Section 6.3. Engagement with Personnel).

5.3. Corporate Governance Model

Strategic planning is carried out through engaging the Sakhalin Energy's senior management with the Russian party (representatives of the federal executive authorities and the Sakhalin Oblast Government) and company's shareholders that determine policy directions, establish areas of responsibility, and assess the results achieved, 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 holds 27.5% minus one share, Mitsui holds 12.5%, and Mitsubishi holds 10%. All the shareholders operate through their subsidiaries.

The Supervisory Board is the Sakhalin-2 project strategic management body established and operating in accordance with the Agreement on the Development of the Piltun-Astokhskoye and Lunskoye Oil and Gas Fields on the Basis of Production Sharing (PSA). The Supervisory Board supervises the fulfilment of the PSA terms and approves the company's long-term development plans and budgets, annual work programme and budget, 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 consists of 12 members: six representatives from the company and six representatives from the Russian party. Information on members of the Supervisory Board is available on the Sakhalin Energy's website (www.sakhalinenergy.com).

Sakhalin Energy uses a three-stage corporate governance system, in which:

- certain key decisions are made by shareholders;
- the Board of Directors is responsible for overall company's governance;
- daily management and operation of the company is the prerogative of the Committee of Executive Directors (CED).

Board of Directors (BoD) – appointed by the company's shareholders, it is responsible for the overall governance of the company and for key decisions regarding economic, environmental, and social activities as well as the strategy and business direction of the company.

The BoD members in 2018 included all the executive (7) and non-executive (8) directors of the company. Cederic Cremers, Shell Country Chair in Russia, served as the Chairman of the Board as of end of 2018.

The BoD is supported by several committees.

Commercial Committee — chaired by the company's Commercial Director and consisting of representatives from Sakhalin Energy and its shareholders who meet to discuss commercial issues and related proposals and strategies pertaining to PSA/shareholder issues, PSA amendments, Licence Security proposals, infrastructure sharing/cooperation issues, and business strategies on crude oil, LNG and natural gas, and other commercial issues.

Technical Committee — chaired by the company's Technical Director and consisting of representatives from the Sakhalin Energy's Technical and Production Directorates and its shareholder companies who meet to discuss technical issues such as value assurance reviews, development proposals, well drilling and completion, development work programmes and related budget proposals, operational activities, contracting plans and strategies, tender board policy, project development schedules, HSE management, and engineering, procurement and construction plans.

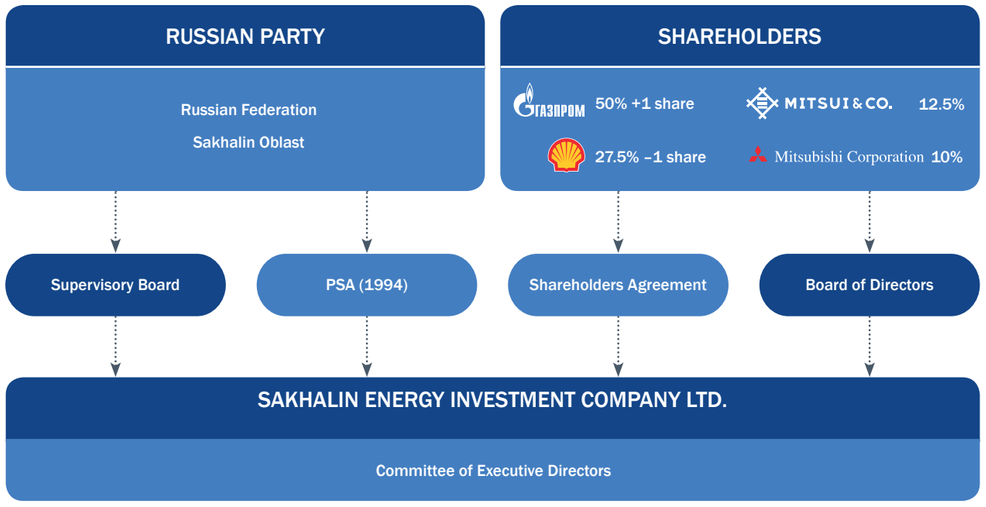
Finance Advisory Committee — chaired by the Finance Director and consisting of representatives from Sakhalin Energy and shareholder companies who meet to discuss financial issues. The standard agenda of a FAC meeting includes equity/project financing arrangements; assurance framework (including financial business); cost recovery issues; strategic risks, internal/external audits; work/service contracts, agreements and amendments; tax liabilities; insurance; treasury; accounting policy and supply chain management.

External Affairs Committee — an advisory committee to the BoD. The Committee is chaired by the Sakhalin Energy's Head of the Corporate Affairs Division and consists of representatives from the company and its shareholders who meet to discuss external affairs, such as formulating and coordinating the company's positions and communications with shareholders; monitoring and responding to press reports, releases, and inquiries; and coordinating issues associated with managing the company's reputation.

Board Assurance Committee — consists of two representatives from each of the company's shareholders, one of which is a non-executive director. The meetings are attended by the company's Chief Executive Officer, Finance Director, Legal Director, any other executive directors responsible for the agenda items of a Committee meeting, the Audit Manager, and other individuals invited by the Committee.

Board Remuneration Committee — an advisory committee to the BoD. This Committee reviews and makes recommendations with regard to annual performance of executive directors as well as overall HR policies. The Committee includes two representatives (one of which should be a non-executive director of the company) from each of the shareholders.

Corporate Governance Model



Committee of Executive Directors

ROMAN DASHKOV
Chairman of the Committee of Executive Directors, Chief Executive Officer

OLE MYKLESTAD
Deputy Chairman of the Committee of Executive Directors, Production Director

ANDREY OKHOTKIN
Commercial Director

RUSLAN OBLEKOV
Technical Director

ROGER HICKMAN
Finance Director

QAISER LONE
Legal Director

ALEXANDER SHEYKIN
HR Director

The Committee of Executive Directors (CED) is responsible for the day-to-day management of the company.

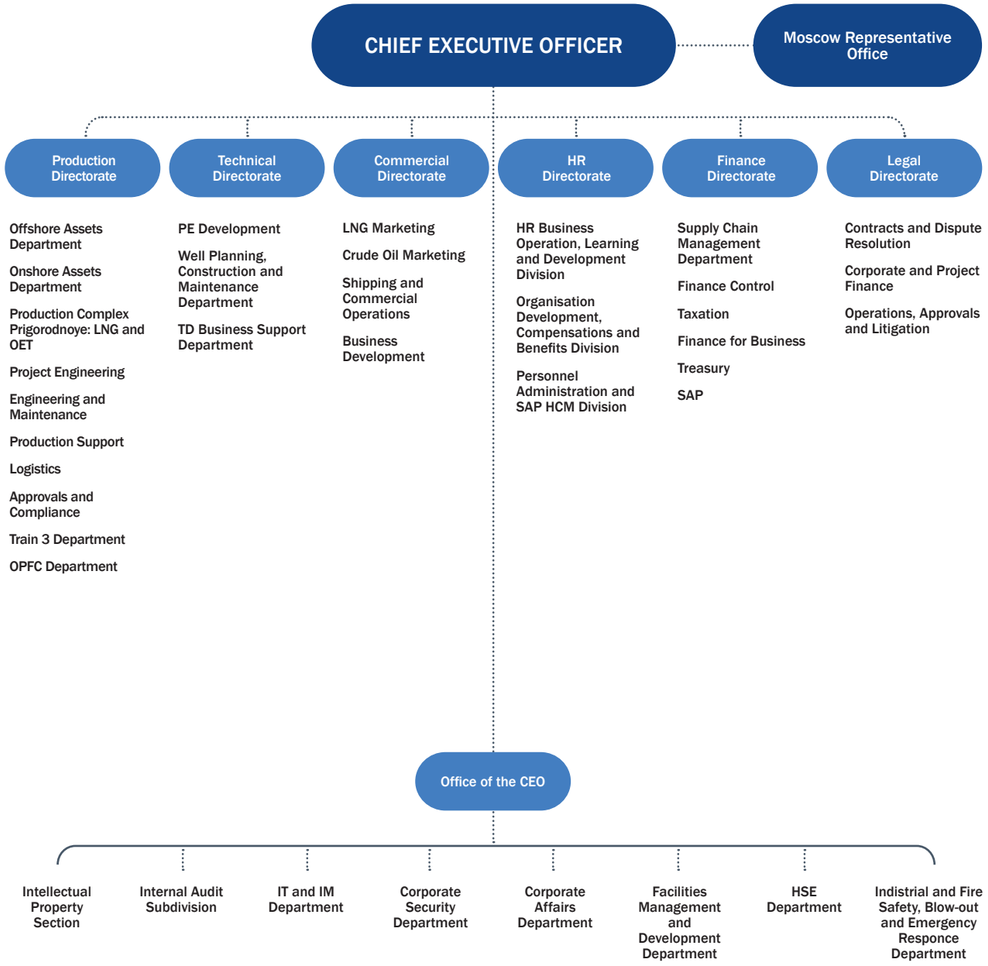
Committee of Executive Directors — headed by the company's CEO, it consists of all the executive directors of the company. CED designates, directs, and oversees the operations of Sakhalin Energy through business plans and strategies and by deciding how best to implement them. The CED members as of 31 December 2018 are shown below in the Committee of Executive Directors organisational chart.

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

- Management Development Committee;
- Decision Review Board;
- Business Integrity Committee;
- Business Assurance Committee;
- HSE Management Committee.

The company's organisational structure ensures that functional tasks related to both assets and processes are completed.

Company's Organisational Structure



5.4. Risk Management

Sakhalin Energy believes that effective risk management plays an important role in achieving the company's objectives.

The goal of risk management is to maximise 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, human rights, labour relations, occupational health and safety, counteracting bribery and corruption, compliance with applicable laws, etc.

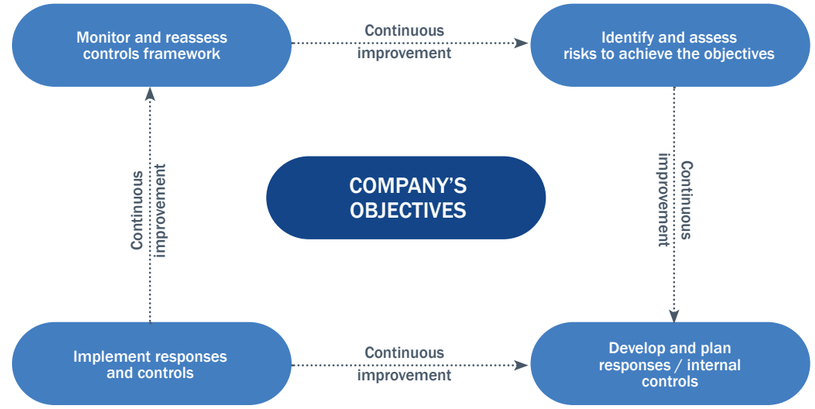
At Sakhalin Energy, a risk is understood to be a potential future situation that may impact the achievement of goals. All risks are therefore divided into threats and opportunities. Risks reflect the degree of uncertainty in a particular course of action. This uncertainty must be taken into account, monitored, controlled and managed.

The process for managing risks at Sakhalin Energy involves identifying and assessing risks, planning and implementing responses, monitoring performance, and reassessing risks on an ongoing basis to ensure that areas for improvement are captured and that such improvements are implemented (see the Risk Management Lifecycle chart). This process is regulated by the corporate Risk Management Procedure.

The risk assessment matrix is a vital tool for assessing risks, which 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 process to achieve goals.

One of the most important components of an efficient risk management process is impact assessment. This process must be carried out

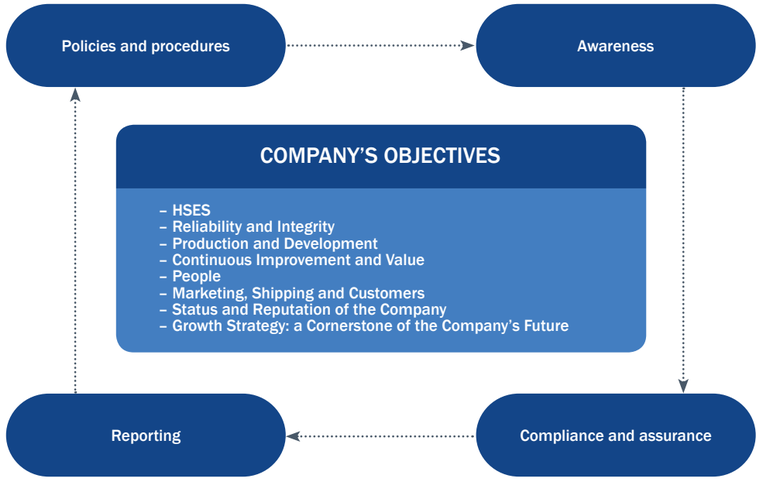
Risk Management Lifecycle



prior to commencement of any operation that may potentially affect various spheres of activity (see Section 3.5.2. Impact Assessment).

Risk management is the responsibility of those who are accountable for achieving the objectives associated with these risks. All executive directors of the company shall apply proactive risk management as an integral part of their management activities. Risk control is exercised by the person responsible for the risk (risk coordinator), the company's Business Assurance Committee, which includes the company's executive directors, and the Board Assurance Committee (see the Controls Framework chart).

Controls Framework



Risks that are Believed by the Company to be Significant as well as Ways to Control Them

Risks	Description/Controls	Reference
Continuous improvement (opportunity)	Many Sakhalin Energy's processes and activities 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. The company has developed a strategy to achieve maximum performance indicators, referred to as a continuous improvement initiative, which covers the range of value, cost and business process optimisation opportunities	See Section 4.3
Economic risks		
Risk of adverse effect from current and potential sanctions	The EU, US, and a number of other countries have imposed sanctions that may affect the company's business. A cross-discipline sanctions working group has been established to monitor this risk and has developed mitigation plans	
Social and reputational risks		
Employee turnover	It is important for the company to retain the necessary level of trained and qualified personnel. Losing professionals and specialists, especially those in technical fields, can lead to insufficient trained personnel in the skill pool to fill critical positions and can lower the general qualification level of technical experts. In order to mitigate the risk, the company strives to support the succession process, including at the level of managerial targets and goals. Programmes of managerial and leadership skills development are being implemented. The competitiveness of the employee value proposition is regularly assessed. The Traineeship Agreement is updated annually in cooperation with the shareholders. Russian Nationals Employment and Training Programme (PET) was renewed in 2018	See Section 9.1
Risk of occupational diseases	To reduce the risk of occupational diseases: personnel health risk assessment at the facilities, harmful factors production control, special workplace attestation, periodic medical and clinical examinations, control over compliance with work instructions during work, control over the use of PPE, and education on the prevention of occupational diseases	See Section 9.3

Risks that are Believed by the Company to be Significant as well as Ways to Control Them

Risks	Description/Controls	Reference
Environmental risks		
Risks with regards to negative impact on the environment	The company uses the following controls to reduce the risk of negative impacts on the environment and the risk of contamination in line with the requirements of environmental legislation and international standards: – identifying all environmental aspects and performing an environmental risk and impact assessment when planning business activities and implementing a project; – operating on the basis of permits and licenses obtained, within the limits for emissions and discharges and waste generation volumes specified by the standards; – developing and implementing comprehensive programmes for industrial environmental control, local environmental monitoring and biodiversity conservation in the areas of production assets; – analysing the results of monitoring, assessing the efficiency of controls and developing and implementing environmental protection plans. Risks are managed in accordance with the general requirements of the company's Risk Management Standard and the special Atmospheric Air Protection Standard, Water Use Standard, Waste Management Standard, Soil Use Standard, Marine Environment Protection Standard and Biodiversity Standard	See Section 8
Safety risks		
Process safety	Process Safety is the management of hazards that can cause major accidents that release potentially dangerous materials or energy such as a fire or explosion, or both. Potential sources of major accidents are: hydrocarbon releases from production installations or wells, onshore and offshore assets and pipelines which could result in a fire or explosion; loss of structural integrity of offshore installations; marine hazards such as a ship colliding with an installation or another vessel; aviation hazards such as a helicopter crash; major road traffic accidents; contamination of food or water affecting personnel at the assets; loss of power to remote locations during the winter; dropped objects; and transferring personnel between offshore installations and vessels. The Process Safety Control System consists of three elements: – Design Integrity — designing and building the company's assets so that risks are as low as reasonably practicable (ALARP); – Technical Integrity — applying technical control measures through effective maintenance, inspection, repair, and quality assurance; – Operating Integrity — applying technical control measures and managing critical work processes by using work permits, monitoring technical processes manually, overseeing changes in processes, etc. Senior management must take a leading role in ensuring process integrity in order for this system to be successful. Leaders should have the ability to pick up on weak signals and create an atmosphere in which people can halt unsafe work and speak up when they feel something is not right. The process safety risks have been assessed at each company's asset based on Russian Federation legislation and international practice	See Sections 4 and 9.2
Personnel safety risks	These risks mainly include personnel safety risks during lifting operations, risks of falling objects, risks of falling from height or as a result of slipping or tripping, and electrical safety risks. To reduce safety risks, relevant precautionary measures and controls are being implemented	See Section 9.2
Road traffic safety	Traffic decreased during the operations phase, but the risk levels remain high over the entire service life of the assets. Traffic volumes are still high, often in difficult weather and road conditions. The most common violation among contractor drivers is speeding. To manage risks and prevent violations of road traffic rules, the company monitors speed limit violations using IVMS and with the help from Traffic Safety Team inspectors, conducts training sessions and discussions with drivers, and performs strict journey management. Other precautionary measures and controls are also being implemented	See Section 9.2

5.5. Corporate Culture

"The Reputation of an honest business is a priceless asset for any organisation. Our success in no small measure is contingent on compliance with both legislative requirements and highest possible ethical standards."

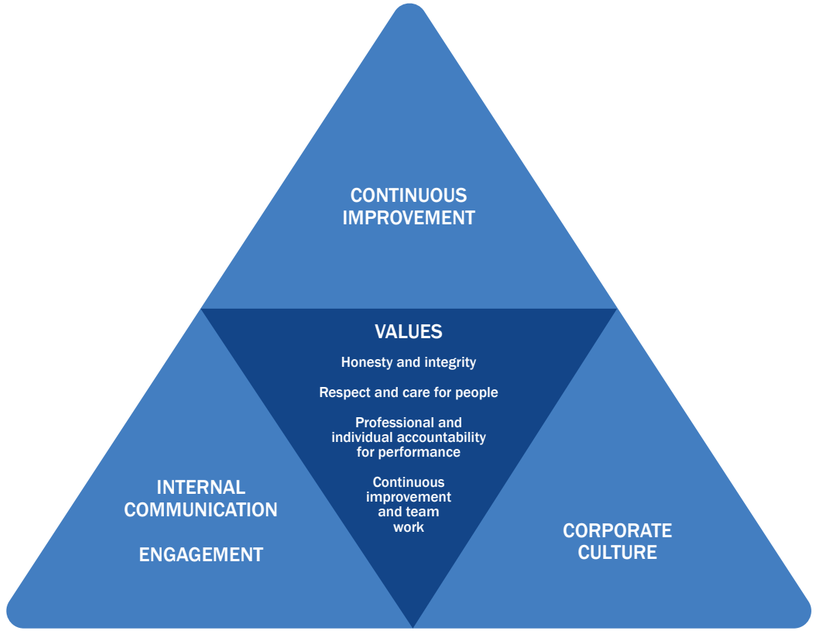
Roman Dashkov, Chief Executive Officer, Sakhalin Energy

Values, principles, rules, codes, traditions and practices add up to the company's corporate culture, making it unique and guiding it to the destination that has been set. Sakhalin Energy's corporate culture, which rests on trust and our permanent values — honesty, integrity, respect, professionalism, individual responsibility and team work — contributes to our reputation and business success.

Sakhalin Energy operates in strict compliance with the Russian Federation legislation and corporate General Business Principles, including the following:

- we promote the development and best use of the talents of our employees;
- we conduct business as a responsible corporate member of society, support fundamental human rights and give proper regard to health, safety, security and the environment;
- we contribute to sustainable development, integrating economic, environmental and social considerations into business decision-making (the principles of environmental and social responsibility);
- we do not tolerate corruption, corporate fraud, embezzlement, money laundering or any other abuse of the company's assets;
- we seek to work freely and fairly, in compliance with the business ethics standards;
- we seek to maintain mutually beneficial relationships with business partners, contractors and vendors.

Corporate Values



The company's top management is involved in the development of corporate culture based on mutual trust and respect: the company trusting its employees, the shareholders trusting the company, etc. This makes negligence and any malpractice unacceptable.

To strengthen and enhance the corporate culture that helps maintain Sakhalin Energy's values, reputation and high international status, the following documents have been developed:

- Ethics & Compliance (E&C) corporate website. The E&C website is used for uploading ethics & compliance information and updates (Stories, Facts and Events section) and offers information on the Ethics & Compliance Programme, encouraging employees to raise their concerns and ask questions to receive advice and recommendations (via Whistle Blowing and Contracts links).
- Ethics & Compliance Programme. This Programme has been developed based on Russian and applicable international legislation, as well as best international practices. The E&C Programme execution is coordinated by the Ethics & Compliance Manager.

The General Business Principles of the company are communicated to newcomers during the regular onboarding sessions.

All employees complete biannually online trainings dedicated to the Code of Conduct, Anti-Bribery and Corruption principles and Conflict of Interest Procedure.

In 2018, to strengthen the culture of zero tolerance to corruption and fraud, 800 line managers actively participated in face-to-face training sessions. This format served as a platform for discussing changes in the anti-corruption legislation and their impact on the business environment and the company.

In 2018, Sakhalin Energy was awarded a diploma in the Business Ethics and Internal Communications category under the RF Ministry of Energy-sponsored contest for excellence in corporate social responsibility.

5.6. Code of Conduct

The Code of Conduct is an integral part of Sakhalin Energy's corporate governance and culture, defining essential rules, standards and guides for corporate behaviour, including the rules of conduct for employees aimed at achieving Sakhalin Energy's goals in line with its stated values and principles.

Sakhalin Energy's Code of Conduct applies directly to each employee and covers various aspects, including respect for human rights, provision of equal opportunities for all, compliance with HSE requirements and conflict of interest management principles, as well as obtaining approvals for business gifts and provision of appropriate reporting.

Each process is described in detail in the respective procedure and policy of the company:

- Code of Conduct, including the Statement of General Business Principles;
- Sustainable Development Policy;
- Human Rights Policy;
- Whistle Blowing / Grievance Procedure;
- Conflict of Interest Procedure;
- Anti-Bribery and Corruption Procedure.

All corporate policies and procedures have been developed in line with the existing laws and regulations, as well as the General Business Principles of the company. The human rights principles control system requires the company's senior management to provide employees with a safe and confidential setting for raising any concerns and reporting non-compliance. Sakhalin Energy employees, in their turn, are expected to report to the company any incidents of non-compliance with the General Business Principles.

The company constantly works to reinforce engagement with staff and internal communications, using such methods as direct communication (all-staff communication sessions, internal meetings of all units, etc.), as well as various types of electronic and written communications and feedback (see Section 6.3. Engagement with Personnel).

The company has developed and applies the Conflict of Interest Procedure. Under the procedure, conflict of interest declaration must be completed by all the employees on an annual basis.

The Procedure allows the company to prevent and assess potential conflicts and take measures to protect both Sakhalin Energy and its personnel from the risk of actual conflict between the employees' private and professional interests.

5.7. Anti-bribery and Corruption

Effective development of Sakhalin Energy is based on zero tolerance to corruption and fraud, and one and the same mandatory code of conduct mandatory for all the company's employees, irrespective of their job grade or employment record.

- The company follows Russian and applicable international anti-corruption and anti-fraud regulations, corporate General Business Principles and Code of Conduct, as well as internal policies and procedures.
- Sakhalin Energy does not tolerate corporate fraud, bribery, corruption, embezzlement, money laundering or any other abuse of its assets.
- The company promotes its General Business Principles to business partners, contractors and vendors.

The company has succeeded in its efforts to prevent and combat corruption and keeps making these efforts more efficient. This includes development of appropriate policies and procedures and implementation of business assurance processes to prevent any unlawful activities.

The primary company's document dealing with bribery and corruption is the Anti-Bribery and Corruption Procedure (hereinafter referred to as the Procedure).

Risks associated with non-compliance with this Procedure come from the company failing to follow anti-bribery and corruption legal requirements or failing to comply with ethical business standards. These risks may lead to reputational damage, financial losses (through fines), and criminal liability associated with the company's employees as well as with the activities of its agents, contractors, and intermediaries. The Procedure includes a list of categories of employees who are considered to be high-risk for violating anti-bribery and corruption laws and must attend individual training on the requirements of this Procedure.

All newly hired staff must be briefed about the requirements set forth in the Procedure as part of their induction. The Finance Controller in collaboration with the Ethics and Compliance Manager is required to ensure that Sakhalin Energy employees are made aware of this Procedure (including through training sessions) and that all employees comply with the Anti-Bribery and Corruption Procedure.

Furthermore, the company's Legal Directorate consults employees on anti-bribery and corruption legal issues and the legal risks associated with non-compliance.

The Anti-Bribery and Corruption Procedure establishes an overall set of controls for compliance with the anti-bribery and corruption laws, including:

- meeting anti-bribery and corruption requirements;
- identifying violations;
- reporting to the Business Assurance Committee;
- utilising potential risk indicators, or the so-called "red flags" (e.g. risks associated with demands for payment for services not covered by a contract, lack of transparency in invoice supporting documents, etc.);
- utilising pre-contractual due diligence, mandatory contract provisions, etc.

The following is made in order to integrate anti-bribery and corruption requirements into the company's supply chain management processes and to implement further controls.

- The Legal Directorate shall monitor any changes in standard contract clauses that specify the company's anti-bribery and corruption requirements.
- Employees of the Ethics, Corporate Governance and Assurance Subdivision shall assess, as part of methodological support of the company's contracting and procurement process and with a view to observing the due diligence principle in relation to potential and existing contractors, the compliance of the proposed changes to the standard contract terms with the principles of business ethics, applicable anti-corruption legislation, company's requirements, and best international practices.
- The Supply Chain Manager shall ensure that standard company's contracts contain such clauses and that controls established by this Procedure are effectively integrated into the company's supply chain management processes.

The Business Assurance Committee shall review monitoring results for compliance with anti-bribery and corruption requirements.

The company informs both internal and external parties about channels for reporting violations of anti-bribery and corruption legislation.

For that, various mechanisms have been put in place including posting relevant information on the company's internal and external websites, in the company's offices and at production assets. For example, the company's website has a link to a digital template for reporting fraud, corruption or embezzlement.

6

STAKEHOLDER ENGAGEMENT MANAGEMENT

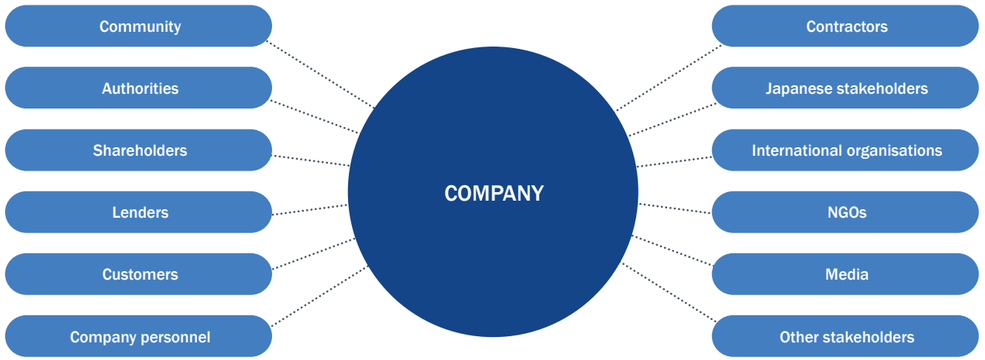
6.1. Strategy, Principles, Mechanisms and Engagement Tools

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

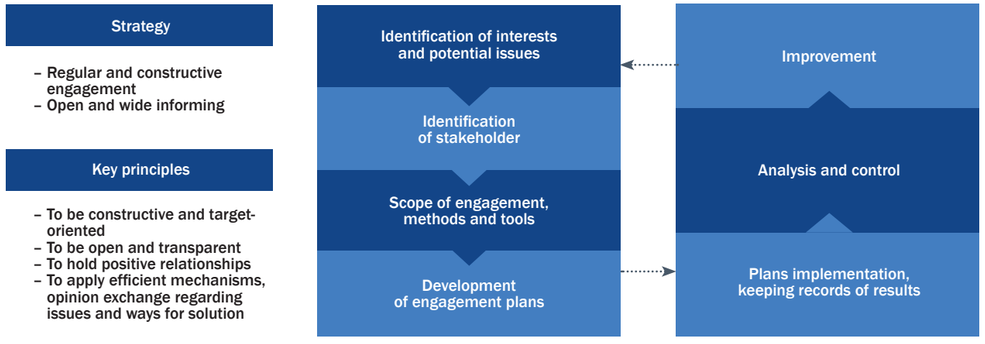
Stakeholders are organisations, companies, individuals, or groups that have a vested interest in the company or the project, i.e. individuals or entities that are influenced by the company or can potentially influence the company's operations.

The company interacts with a number of stakeholders including the following key groups: shareholders, personnel, lenders, government authorities, customers, suppliers and contractors, community, Japanese stakeholders, international organisations, public organisations and other non-governmental and non-profit organisations, mass media, etc.

Company's Stakeholders



Stakeholder Engagement Process



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

- Code of Conduct, including the Statement of General Business Principles;
- Sustainable Development Policy;
- Human Rights Policy;
- Commitment and Policy on Health, Safety, Environment and Social Performance;
- Social Performance Standard (Public Consultation and Disclosure Appendix);
- Public Consultation and Disclosure Plan (updated annually).

These documents define the strategy, principles, process, mechanisms, and tools of stakeholder engagement and are available to the general public.

6.2. Stakeholder Engagement in 2018

Sakhalin Energy continued systematic and consistent engagement with key stakeholders in 2018.

The key activities included the following:

- engagement with personnel (see Section 6.3. Engagement with Personnel);
- public, group and individual meetings to update the participants on the latest development and other aspects of the company's activities and to receive feedback;
- provision of information for stakeholders through the company's website, Vesti monthly corporate newsletter, and the media (radio, newspapers, TV); distribution of information reports and printed materials in the communities;
- work of the company's information centres established in local libraries (see Section 6.4. Local Communities Engagement through the Company's Information Centres);
- engagement with indigenous people under the Sakhalin Indigenous Minorities Development Plan (see Section 6.5. Engagement with the Sakhalin Indigenous Minorities (SIM));
- engagement with non-governmental and non-profit organisations (see Section 6.6. Engagement with Non-governmental and Non-profit Organisations);
- engagement with Japanese stakeholders (see Section 6.7. Engagement with Japanese Stakeholders);
- engagement with customers, suppliers, and contractors (see Sections 6.8. Engagement with Customers, 7.4. Supply Chain Management, and 7.5. Vendor Development Programme);
- engagement with state and local government authorities (see Section 6.9. Engagement with State and Local Government Authorities).

Moreover, to prepare non-financial reports in accordance with international standards, additional opinion surveys and meetings with stakeholders were held to determine the range of topics to be included in the Report (see Section 2. About the Report).

Key statistics on stakeholder engagement in 2018:

- *15 public meetings held in communities located near the company's assets (114 participants from among residents of the Sakhalin Oblast);*
- *5,203 visits to information centres;*
- *13 public meetings in 11 communities of the districts of traditional residence of the Sakhalin Indigenous Minorities (186 participants — representatives of SIM, non-governmental organisations, tribal enterprises and communities, municipal authorities, and other stakeholders);*
- *two rounds of dialogues with the stakeholders as part of preparation of the Sustainable Development Report.*

6.3. Engagement with Personnel

Sakhalin Energy pays special attention to the process of addressing grievances and requests from employees, and makes every effort to conduct an open dialogue with its employees and respect their rights.

Engagement with personnel is an important component of strengthening and developing the company's corporate culture (see Section 5.5. Corporate Culture) and is conducted, among other ways, through the internal communication system, which includes the following:

- regular staff communication sessions to inform the employees about the results of the meetings of the Committee of Executive Directors, the Board of Directors, and the Supervisory Board, as well as other important events in Sakhalin Energy;
- opinion surveys. In 2018, a regular survey was conducted to study the opinions of the company's employees. The questions concerned personnel engagement, their attitude towards the company and its senior management, responsibilities, working conditions, teamwork, participation in activities held by the company, and respect for national, cultural, and individual diversity;
- in 2018, as part of the Goal Zero programme, a survey was conducted to study employees' opinions on the state of labour safety at the company to identify current problems and develop follow-up actions to address them;
- Vesti monthly corporate newsletter and various informational and reference materials. The Vesti is distributed within Sakhalin Energy, sent to the information centres, and posted on the company's website. Since 2016, the company has also been issuing an English version of the newsletter, thus ensuring that the information is accessible to foreign employees;

- a biannual newsletter on business ethics and internal control;
- a monthly HSE newsletter analysing incidents both in the company and in the industry as a whole, warning of hazardous production factors and seasonal natural phenomena, providing information about risk assessment and proposed measures for risk mitigation;
- news releases distribution through the daily news bulletin and email messages on behalf of the company's directors;
- distribution of printed information materials such as posters, leaflets, brochures, etc. to inform employees about various aspects of safety, operational excellence, HR issues, and upcoming events;
- announcements, posters, and other information on special information boards in the company's offices;
- training workshops and information sessions to explain new procedures and programmes of the company;
- corporate intranet site available to all employees, where they can find information on the company's activities and documents, including policies, procedures, schedules, etc.

THE 100 WORKSHOP

The annual 100 Workshop was held in November 2018. The event is traditionally attended by more than a hundred employees. In addition to directors, the company's leadership forum members and heads of business units, representatives of all directorates are also invited to participate in the workshop.

The results of the discussions formed the basis of the Journey Book for 2019–2023, with a focus on objectives for the next year.

6.4. Local Communities Engagement through the Company's Information Centres

The first information centre in Troitskoye village was launched ten years ago, in 2008. Currently, 23 information centres work at the district and village libraries located in the communities along the trans-Sakhalin pipeline and near other company's assets.

The centres are equipped with required office equipment, computers with Internet access, and information boards. This helps meet the company's objectives and increase the functional capacity of the libraries.

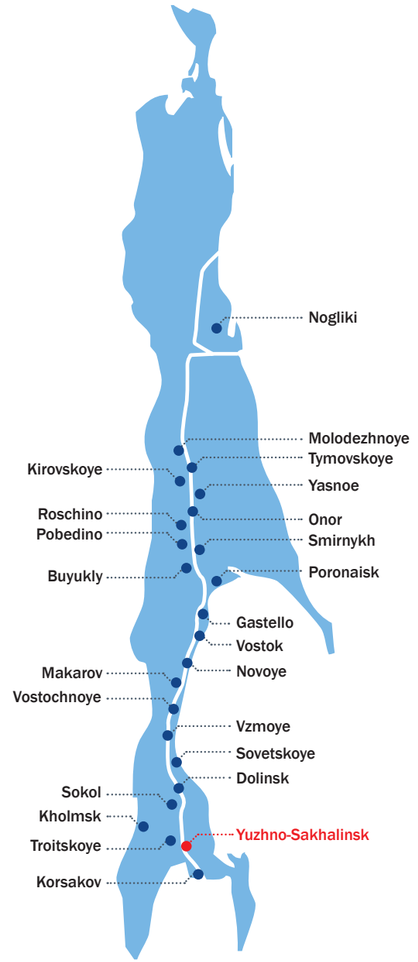
The librarians provide consultation to information centre visitors on issues related to the company's activities during working hours.

The following activities are carried out at the information centres:
- regularly updating materials of the company's information boards;
- helping people find information on the company's website;
- assisting the community in preparing and submitting complaints under the Community Grievance Procedure;
- providing company's information materials upon request.

These tasks require specific knowledge and skills. For this reason, all consultants attend special training every year, which includes:
- thematic lectures on the company's areas of activity, such as environmental protection and biodiversity conservation, protection and promotion of human rights, community grievance procedure;
- workshops that help consultants to develop professional skills in using computer and multimedia equipment, information resources provided by the company, etc.

During the workshop in 2018, the company's specialists spoke about the status of the OPF Compression Project, the company's contribution to the achievement of the UN Sustainable Development Goals, etc. The information centre consultants took part in a festive event dedicated to the 10th anniversary of the first information centre.

In 2018, Sakhalin Energy's information centres were visited by 5,203 people. The data are presented in the Statistics of Applications to the Information Centres in 2018 chart.

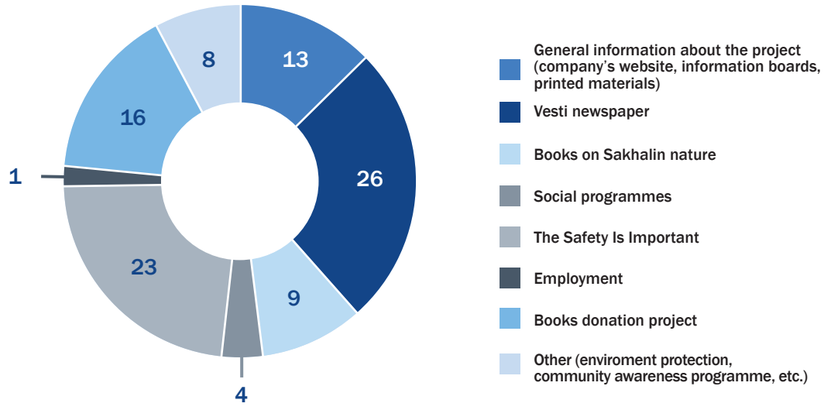


BOOK AS A GIFT PROJECT

In 2018, the annual Book as a Gift project, implemented by the company, was devoted to the customs and traditions of Russian people. The books were designed to complement the literary gifts of the previous years.

The sets of 17 books each, donated to 27 libraries of the region, included encyclopaedias, monographs, reference books, collections of maps, as well as gift editions for readers of different ages.

Statistics of Applications to the Information Centres in 2018, %



The company shared its best practice of establishing and maintaining partnerships with Sakhalin libraries via a network of information centres at district and village libraries in the UN Global Compact International Yearbook issued in September 2018.

Sakhalin Energy was the only Russian company to have its experience showcased among 39 international examples illustrating various ways of achieving the UN Sustainable Development Goals.

6.5. Engagement with the Sakhalin Indigenous Minorities (SIM)

Since its foundation, Sakhalin Energy has continuously interacted with the Sakhalin Indigenous Minorities (SIM). The company considers the SIM to be a special group of stakeholders for which the issues of industrial and environmental safety, the preservation of traditional culture and economic activity are of paramount importance. Sakhalin Energy takes this into account in its operations and implementation of social programmes. The long-term partnership social programmes implemented by Sakhalin Energy are examples of the company's activities in support of human rights. The programmes pay special attention to vulnerable groups of the population, in particular — to indigenous minorities.

Since 2006, the Sakhalin Indigenous Minorities Development Plan (hereinafter referred to as the SIMDP or the Plan; see Section 9.5.6.1. Goals and Structure of the SIMDP), has been the company's main programme for interacting with indigenous ethnic groups. It is implemented in accordance with the principle of partnership between business (Sakhalin Energy), society (the Regional Council of Sakhalin Indigenous Peoples' Authorised Representatives), and government authorities (the Government of the Sakhalin Oblast). The Third Plan (2016–2020) is based on and implemented in strict compliance with international standards in respect of indigenous peoples. The implementation procedures and the governance structure of the Second and Third Plans are also in line with the requirements of the new international standards. The Plans are developed in accordance with the principle of free, prior and informed consent (FPIC).

The partners of the SIMDP have demonstrated that business can fruitfully interact with indigenous peoples, which has been repeatedly noted at the federal and international levels. In particular, various government bodies have recommended, over many years, to extend the experience of the Development Plan implementation to the constituent entities of the Russian Federation.

As part of the SIMDP, the company financially supports cultural and educational areas, promotes linguistic rights of indigenous peoples as a part of human rights, contributes to the preservation, development and promotion of mother tongues as bearers of the intangible cultural heritage of the Sakhalin Indigenous Minorities.

The How the Earth Was Born exhibition, arranged by Sakhalin Energy and the Regional Council of Sakhalin Indigenous Peoples' Authorised Representatives, won the Grand Prix at the Treasures of the North International Exhibition & Fair.

The SIMDP is the key document that Sakhalin Energy uses as a basis for its work with the SIM. In 2018, the company also implemented a number of other projects related to indigenous ethnic groups, in particular:

- The Silhouette Magic by Semyon Nadein exhibition was opened in the Literary and Art Museum of Anton Chekhov's Book Sakhalin Island. It worked in Yuzhno-Sakhalinsk until 21 January 2018, after which it toured the local history museums of Sakhalin towns and villages — from Okha to Korsakov. More than 10,000 people visited the exhibition of works by the original Evenki artist and a series of events under the general title Around the Exhibition: excursions, workshops, a shadow performance based on Semyon Nadein's works and a street laser show with images created by the artist. The project dedicated to Semyon Nadein was organised with the support of Sakhalin Energy and the Association of Museums of the Sakhalin Oblast (see Section 9.5.7. Silhouette Magic by Semyon Nadein (a Cultural Project)).
- The first Mother Tongue Children and Youth Conference in the languages of the Sakhalin Indigenous Minorities held in Yuzhno-Sakhalinsk jointly by the Association of Museums of the Sakhalin Oblast, the Sakhalin Oblast Government and Sakhalin Energy. The main event of the conference was the session, where young representatives of the indigenous ethnic groups of Sakhalin made reports in the Nivkh and Uilta languages. In addition, a fragment of Anton Chekhov's book Sakhalin Island was translated by children into their native languages.
- Partnership in holding the Russian North IV Youth Forum of the Indigenous Peoples of the North, Siberia and the Far East of the Russian Federation, organised by the Russian Association of Indigenous Peoples of the North, the Federal Agency for Youth Affairs, and the Herzen Russian State Pedagogical University. The forum, whose theme was The Role of Education in the Sustainable Development of the Indigenous Peoples of the North, Siberia and the Far East of the Russian Federation, was attended by more than 200 young people representing universities, public organisations and regional ethnic associations of the indigenous peoples, youth leaders, engaged in the study, development and preservation of the socio-economic potential, traditional lifestyle and cultural values of the indigenous peoples of the North.

The Silhouette Magic by Semyon Nadein project, implemented in partnership with the Association of Museums of the Sakhalin Oblast and the Literary and Art Museum of Anton Chekhov's Book Sakhalin Island, was awarded a diploma of the KonTEKst competition in the Social Projects category. The participants of the contest were evaluated by a jury panel, composed of leading experts from the fuel and energy sector, the country's communications industry, representatives of the press services of energy companies in Russia and journalists from the energy pool.

6.6. Engagement with Non-governmental and Non-profit Organisations

In 2018, the company continued to cooperate with local, regional, and international public organisations in various forms, including meetings and correspondence. The key important areas of engagement include:

- cooperation with Japanese stakeholders — the authorities of Hokkaido Island, fisheries associations and other stakeholder groups in Hokkaido — on issues related to biodiversity conservation and preparedness for oil spill response (see Section 6.7. Engagement with Japanese Stakeholders);
- cooperation with the Western Gray Whale Advisory Panel (WGWAP) and the International Union for Conservation of Nature (IUCN) in developing optimal solutions to minimise the impact on whales. Within the framework of the consultations of the Advisory Panel in 2018, there were meetings of Sakhalin Energy's representatives with scientist members of the Panel, as well as representatives of environmental organisations included in the WGWAP as observers;
- cooperation with the World Widlife Fund (WWF) Russia.

6.7. Engagement with Japanese Stakeholders

Engagement with Japanese stakeholders is of special importance to Sakhalin Energy, considering the geographical proximity of Sakhalin Island to Hokkaido Island. Japanese specialists, businessmen, representatives of NGOs, fishermen, and other stakeholders are concerned about issues related to environmental aspects of the company's activities — for example, oil spill response operations and biodiversity preservation. The company has been successful in establishing a regular, open, and constructive dialogue with Japanese stakeholders. In 2018, Sakhalin Energy participated in a number of consultations and meetings with the Japanese stakeholders, including:

- meetings with representatives of the Hokkaido Government (February, Sapporo, Japan);
- the International Symposium on the Sea of Okhotsk (Oil Spill Response Workshop, February, Mombetsu, Japan);
- meeting with the Hokkaido Fisheries Environmental Centre (February, Sapporo, Japan);
- meeting of stakeholders on safety and prevention of accidents during the navigation of tankers as part of Sakhalin projects (August, Otaru, Japan).

6.8. Engagement with Customers

The company performs its obligations under the contracts of purchase and sale of hydrocarbons, and observes the rights and interests of buyers with all due responsibility.

Maintaining and developing constructive, respectful relationships with customers help the company resolve operational challenges that arise in the course of oil and LNG contract execution, and enter into new agreements on the best terms and conditions for the parties.

Every year, the company holds forums with its buyers, which contribute to the development of constructive cooperation. The range of topics discussed includes the issues of LNG transportation, safety of navigation, safety of cargo operations, environmental protection, maintenance of vessels, etc.

In August 2018, the company held the 9th Annual Forum of Buyers of Sakhalin Blend Oil. Representatives of all major oil buyers in the region, including JXTG, Idemitsu, GS Caltex, Fuji Oil, Cosmo Oil, Sinochem, SIETCO, Taiyo Oil, Petro-Diamond, Unipec, and other companies, arrived in Sakhalin to attend the event. During two days of the forum, participants attended information sessions, discussed current issues of sale and supply of Sakhalin Blend oil, as well as promising areas of cooperation.

In August 2018, Yuzhno-Sakhalinsk hosted the 13th Annual Conference on Maritime Hydrocarbon Transportation, focusing on the commercial transportation of oil and gas under the Sakhalin-2 project. The participants exchanged information on the main areas and current problems in the work of shipowner companies, discussed issues related to the safety of navigation in ports, the interface of ship masters with pilots and tugs, the reduction of LNG evaporation by maintaining an optimal temperature and pressure in the cargo tanks of vessels, reviewed the market of available shipyards in the region for long-term planning of the maintenance and scheduled repairs of vessels chartered by the company, and a number of other issues.

The conference was attended by representatives of seven shipowner companies that provide Sakhalin Energy with vessels on long-term and medium-term freight terms, as well as representatives of Shell and Sakhalin LNG Services.

In October 2018, the Annual LNG Buyers Forum for entities using their vessels for the transportation of LNG from the Prigorodnoye port on FOB (free-on-board) terms was held in Yuzhno-Sakhalinsk. The forum was attended by representatives of six LNG-buying companies from Japan and South Korea, as well as contractors representing the interests of buyers and the seller in the course of interaction and on board the vessels during cargo operations.

The forum covered a number of topical issues: specific features of immigration requirements for the crews of vessels in the Prigorodnoye port, safety of navigation and cargo operations in the 2018/2019 autumn and winter period, technical and operational cooperation during the LNG transportation by sea. The changes to the environmental requirements for maritime transport, introduced by the International Convention for the Prevention of Pollution from Ships (beginning with 2020) and the International Convention for the Control and Management of Ships' Ballast Water and Sediments (in connection with the start of operation of sewage treatment systems on vessels) were also paid due attention. In addition, the participants discussed the technical capabilities of the receiving terminals with a view to optimising the volumes of delivered hydrocarbons, and addressed the issues of determining LNG composition and data of quality certificates in cases of two-stage shipment.

A special place in all buyers' forums is assigned to the Goal Zero programme, aimed at further promoting the safety culture on ships and production assets of buying companies.

THE YEAR 2018 WAS DECLARED THE YEAR OF RUSSIA IN JAPAN AND THE YEAR OF JAPAN IN RUSSIA

Sakhalin Energy invited Japanese LNG buyers to visit the Cultural and Business Forum in St. Petersburg. The forum, held in late August, was attended by the top management of eight companies — regular LNG buyers: JERA, Tokyo Gas, Toho Gas, Kyushu Electric, Tohoku Electric, Osaka Gas, Hiroshima Gas, Saibu Gas, as well as Hokkaido Gas, which had signed a general agreement on the sale and purchase of spot LNG cargoes with Sakhalin Energy. The two-day programme, organised for the Japanese guests, included a business component and a cultural programme.

This visit became an important landmark in the history of the company's cooperation with Japanese LNG buyers. The guests had a splendid opportunity to learn more about the culture and history of Russia, which helped to deepen mutual understanding. The feedback received from the Japanese partners and shareholders testifies to their deep satisfaction with the results of the Forum. In general, such events contribute to further strengthening of relationships between the company and its customers.

6.9. Engagement with State and Local Government Authorities

Sakhalin Energy actively cooperates with executive and legislative authorities on the federal, regional, and local levels.

In 2018, as in the previous years, engagement with state authorities was carried out in various formats, with the Supervisory Board (SvB) and the SvB Working Group acting as the key Sakhalin-2 project official supervisory bodies provided for by the PSA.

In addition, the company interacted with state authorities on various aspects of the project implementation at the working level. In particular, the Coordinating Council for cooperation between the Administration of Yuzhno-Sakhalinsk and Sakhalin Energy continued its work.

Representatives of state authorities regularly participate in meetings with communities and dialogues with stakeholders, held by the company while preparing annual reports. The results of the 2018 dialogues are presented in Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and the Company's Response and Commitments.

In May and November 2018, two meetings of the Biodiversity Working Group of the Sakhalin Oblast Interdepartmental Environmental Council were held. The Group was established on the initiative of Sakhalin Energy in 2007. The meetings were aimed at discussing the approaches to and results of environmental monitoring and measures to reduce the impact of oil and gas companies, as well as regional environmental protection tasks set under the Biodiversity Conservation Strategy approved by the Government of the Sakhalin Oblast.

6.10. International and Regional Cooperation

In 2018, Sakhalin Energy continued to actively enhance its business reputation and strengthen its image as a socially responsible company both within and outside of the Russian Federation. Sakhalin Energy attended a number of important international and regional events, including:

ONLY WINGS MATTER: BREAKING STEREOTYPES PHOTO EXHIBITION, 28 FEBRUARY, GENEVA

The Only Wings Matter: Breaking Stereotypes photo exhibition took place on the sidelines of the 37th regular session of UN Human Rights Council in Geneva. The exhibition was sponsored by the Permanent Mission of the Russian Federation to the UN Office and other international organisations in Geneva together with the Give Love to the World International Charity Fund, All-Russian Society of Disabled People, Russian Union of Art Photographers, and Sakhalin Energy Investment Company Ltd. Russian Foreign Minister Sergey Lavrov made a welcoming speech at the opening ceremony. He stressed that provision of support to people with disabilities is an absolute priority of Russia's social policy. The Minister noted Sakhalin Energy for its sponsorship of the exhibition and its contribution to the development of an accessible environment for people with disabilities in Sakhalin.

OIL AND GAS INDUSTRY SUPPLY CHAIN (NEFTEGAZSNAB-2018) ANNUAL CONFERENCE, 15 MARCH, MOSCOW

This is a platform for productive communication between the managers of the supply chain services of oil and gas enterprises with partners from industrial companies, which has been operating for more than ten years already. The annual conference is held with the aim of creating a transparent and open system for selecting suppliers for oil and gas companies, exchanging experience, and discussing logistical support systems for various enterprises of the industry. This is the only conference designed specifically for managers of oil and gas supply chain.

ALL-RUSSIAN SAFETY WEEK OF LABOUR PROTECTION, 9–13 APRIL, SOCHI

Being the main annual event in the field of labour safety, it is the central discussion platform to share the best world and domestic practices in the field of labour safety management systems and to analyse various injury and occupational morbidity prevention measures. The participants discussed the objectives of the state policy in the field of labour safety and improvement of the regulatory legal framework. Sakhalin Energy took an active part in the event and

made a presentation on Tools for Creating a High Safety Culture: HSE Leadership, the Effective Observation and Intervention Programme.

ANNUAL GENERAL MEETING OF THE INTERNATIONAL BUSINESS CONGRESS (IBC), 26–27 APRIL, NEW DELHI

The IBC includes 127 members. The Congress deals with practical issues of economic cooperation, and the development of proposals to remove obstacles and create favourable conditions for an effective and safe business environment. At the 2018 meeting, the members of the Presidium got acquainted with the Congress work results and heard the reports of the Chairmen of the Working Committees. Sakhalin Energy's Chief Executive Officer spoke about the company's fundamentals and potential for developing cooperation in the Asia-Pacific region.

TOWARDS THE SUSTAINABLE DEVELOPMENT GOALS: PROMOTION OF SUSTAINABLE DEVELOPMENT AND DECENT WORK INTERNATIONAL CONFERENCE, 21 MAY, BAKU

The conference was organised by the Government of the Republic of Azerbaijan, the National Confederation of Entrepreneurs (Employers) Organisations of the Republic of Azerbaijan, and the International Labour Organization (ILO).

The conference focused on the issues related to achieving UN Sustainable Development Goal 8: Decent Work and Economic Growth, in particular the future of work, the opportunities for sustainable economic growth and comprehensive employment, the transition from the informal to formal economy, and the implementation of SDG monitoring systems.

The event was attended by representatives of more than 14 countries. Business and Sustainable Development Goals: Disclosure in Non-Financial Reporting was the title of the report made by Sakhalin Energy.

LNG CONGRESS RUSSIA, AN ANNUAL CONGRESS AND EXHIBITION, 6–8 JUNE, MOSCOW

More than 300 Russian and foreign companies took part in the international event dedicated to liquefied natural gas. The strategic issues of the industry, global technologies for the production and transportation of liquefied natural gas, the implementation of LNG projects were discussed by representatives of authorities, operators of large, medium, and small-scale LNG projects, Russian and international consumers (markets of Europe and Asia-Pacific region), technology and equipment suppliers. The company presented the report titled Sakhalin as the Supplier of the Best LNG for the Asia-Pacific Markets. Sakhalin Energy's representatives spoke about the Sakhalin-2 project achievements and plans for the future, as well as new opportunities in the face of increasing demand for LNG across the globe.

EASTERN ECONOMIC FORUM, 11–13 SEPTEMBER, VLADIVOSTOK

The 4th Eastern Economic Forum was the largest event in its history. The leaders of five countries (Vladimir Putin, President of the Russian Federation, Xi Jinping, President of the People's Republic of China, Khaltmaa Battulga, President of Mongolia, Shinzō Abe, Prime Minister of Japan, and Lee Nak-yeon, Prime Minister of the Republic of Korea) met at the forum site. During the forum, the company held a number of meetings and signed a cooperation agreement with the Federal Agency for Ethnic Affairs, an agreement of intent for offshore drill cuttings re-injection services with the Russian company AKROS, a memorandum of cooperation in the framework of the Sakhalin Oil and Gas Industrial Park construction project, a memorandum of intent on cooperation in the field of socio-economic development of the Sakhalin Oblast within the frames of the Mountain Air Sports and Tourism Complex project, and an agreement on further development and cooperation with Sovcomflot. The company also presented its booth in the exhibition pavilion of the Sakhalin Oblast. There, the representatives of the company told visitors about the Sakhalin-2 project, the main achievements of Sakhalin Energy, and the prospects for cooperation and employment.

SAKHALIN OIL AND GAS INTERNATIONAL CONFERENCE, 27–29 SEPTEMBER, YUZHNO-SAKHALINSK

Traditionally, Sakhalin Energy was one of the main newsmakers at the conference, reporting on the Sakhalin-2 project progress, its production indicators, marketing activities, the development of Russian content, and the status of work on the creation of the Sakhalin Oil and Gas Industrial Park. Sakhalin Energy's Production Director addressed the participants of the News of Oil and Gas Projects session. He stressed that the company's performance had remained consistently high for many years. One of the sessions was fully devoted to corporate social responsibility (CSR) issues — for the first time in the 22-year history of the conference. The participants also discussed business processes optimisation, technological problems and their solutions, strategies for further development of projects in the Far East.

ST. PETERSBURG INTERNATIONAL GAS FORUM, 2–5 OCTOBER, ST. PETERSBURG

The event was attended by 16,500 people, including 5,000 delegates from 51 countries. The Role and Place of Gas in the Energy Balance of the World Economy plenary session was the central event of the forum. Representatives of Gazprom, OMV, Uniper, CNPC, Shell, ENGIE, and Verbundnetz Gas participated in the dialogue. Sakhalin Energy's delegation took part in a number of sessions and conferences, and also held a series of meetings with representatives of the business community. The meeting participants reviewed the current status of the Sakhalin-2 project, discussed issues related to technology development, import substitution, petrochemistry, as well as a wide range of potential areas of cooperation.

MARINE MAMMALS OF THE HOLARCTIC INTERNATIONAL CONFERENCE, 29 OCTOBER–2 NOVEMBER, ARKHANGELSK

The conference brought together more than 200 participants from Russia, Japan, the USA, Canada, the CIS, and Europe. The programme of the event included sections and round tables devoted to the study and protection of gray whales, Atlantic walruses, beluga whales of the White Sea, seals residing in closed water bodies, and other species of marine mammals of the Holarctic — a biogeographic region that covers most of the Northern Hemisphere. The participants talked about imposing limits on fishing in the feeding areas and the use of fishing nets, reducing the negative impact of navigation, and preventing the pollution of marine animals habitat; they also discussed issues related to the exploration and development of offshore oil and gas fields in the Russian Arctic.

WORLD LNG SUMMIT, 28–30 NOVEMBER, LISBON

This is the world's largest LNG conference. The event is devoted to changes that have occurred in the world, the creation of new gas liquefaction facilities, and the prospects for the development of the LNG

industry across the globe. The Summit also focused on positioning LNG as a commercially attractive fuel that can actively compete with other fuels. More than 12,000 people from more than 100 countries took part in the conference.

UNITED NATIONS FORUM ON BUSINESS AND HUMAN RIGHTS, 26–28 NOVEMBER, GENEVA

The event was attended by more than 2,000 participants — representatives of governments, businesses, public organisations, legal institutions, trade unions, UN bodies, etc. At the invitation of the organisers, Sakhalin Energy held a session at the sidelines of the forum, which was devoted to monitoring compliance with human rights standards by contractors and subcontractors. The topic of respecting human rights in supply chains is one of the key issues on the international agenda, and has a wide range of aspects.

OFFSHORE OIL AND GAS CONTRACTS: NEFTEGAZSHELF-2018, ANNUAL CONFERENCE, 5 DECEMBER, MOSCOW

Participants of the conference discussed the challenges and prospects of work on the Russian continental shelf, the issues of attracting foreign partners to the transfer of technology, the development of contractors, and the formation of integrator companies. Sakhalin Energy presented the company's achievements in the development of the Russian content under the Sakhalin-2 project and highlighted the range of opportunities for potential project participants.

DAYS OF THE FAR EAST CONFERENCE AND FESTIVAL, 13–15 DECEMBER, MOSCOW

The festival was held under the motto The Far East: Russia's Youth. Young people who came to the Expocentre were able to get information about the regions, to meet with employers and representatives of the Far East universities, to attend lectures delivered by leading speakers and bloggers, to take vocational guidance tests, and to get professional career counselling. At the Sakhalin Oblast booth, the company's representatives introduced the festival visitors to the Sakhalin-2 project and informed them about employment opportunities at the company. The event, which was attended by more than 25,000 people, represented all regions of the Far East.

RUSSIAN BUSINESS AND HUMAN RIGHTS ROUND TABLE, 20 DECEMBER, MOSCOW

The event was dedicated to the 70th anniversary of the Universal Declaration of Human Rights and was attended by representatives of federal authorities, as well as international organisations and companies operating on the territory of the Russian Federation. The round table was organised jointly by the Russian Union of Industrialists and Entrepreneurs (RUIE), Global Compact Network Russia, and Sakhalin Energy. The participants learned about the experience of Russian business in respecting and promoting human rights.

Sakhalin Energy's participation in prestigious Russian and international forums allows the company to identify and apply advanced Russian and international experience and best practices in the field of sustainable development and corporate social responsibility, and helps to maintain its leading positions in various areas of activity.

ECONOMIC IMPACT MANAGEMENT

7

7.1. Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast

The Russian Federation and the Sakhalin Oblast have gained significant benefits from the Sakhalin-2 project.

- Since Sakhalin Energy started its operations, the Russian Federation's proceeds from Sakhalin Energy's activity under the Sakhalin-2 project have totalled over US$ 25.1 bln, including over US$ 9.5 bln received by the Sakhalin Oblast.
- US$ 25.7 bln worth of contracts have been awarded to Russian companies and organisations.
- The Russian Federation has gained valuable experience in managing complex high-tech projects in remote locations and in subarctic conditions.
- The infrastructure on Sakhalin Island has undergone large-scale upgrades.
- Local employment levels and local workforce quality have increased (both direct and indirect effect).
- Incomes and living standards for the local population have risen.
- Many contracts and subcontracts under the Sakhalin-2 project are being awarded to Sakhalin companies.
- With the company's support, extensive social and public initiatives are being carried out on Sakhalin Island.

In 2018, financial statements prepared in accordance with the International Financial Reporting Standards (IFRS), revenues of Sakhalin Energy amounted to US$ 6,273 mln, and its total net income was US$ 2,041 mln.

SAKHALIN INDUSTRIAL PARK

In December 2018, solemn ceremony of capsule placement in the foundation of Sakhalin Industrial Park was held in Yuzhno-Sakhalinsk. The ceremony was attended by Roman Dashkov, CEO of Sakhalin Energy, Valery Limarenko, Acting Governor of the Sakhalin Oblast, Sergey Nadsadin, Mayor of Yuzhno-Sakhalinsk, and Alexander Parkhomenko, Director of Sakhalin Business Development Section of Gazprombank affiliate branch.

The idea of establishing a dedicated service park for Sakhalin oil and gas industry had originated in 2013. In the beginning of 2016, the project entered the feasibility study phase. A memorandum of cooperation between Sakhalin Energy, Sakhalin Oblast Government and Gazprombank was signed at the Eastern Economic Forum in September 2018.

The first stage of the first phase of the project includes creation of the following services: repair and maintenance of drilling equipment, valves, instrumentation and control automation equipment, testing and lab testing complex, repair of electric motors and equipment that was previously maintained outside of Sakhalin.

Availability of such a park will enhance reliability and efficiency of operations under the Sakhalin-2 project. Considering international cooperation in the project, the park will become an arena for transfer of technologies and best industrial practices.

Similar projects, especially those deployed in conditions of geographical remoteness from the existing production assets, are very important for the island. They form local engineering and technological centres and carry out city-forming function: one job in oil and gas industry creates five or six jobs in related sectors.

STANDARDS HARMONIZATION PROJECT

The company's key production assets were originally designed using mainly international standards, foreign materials and equipment.

Over the years, the company has made a significant progress in production localisation and certification of Russian industrial companies according to international standards. Nonetheless, a certain share of equipment and services is still supplied from abroad. Therefore, to further develop Russian content, an initiative to align and harmonise the company's and Russian standards commenced in 2014.

This project is aimed at the identification and comparative analysis of gaps and alignment between international and Russian standards applied in the industry. Successful implementation of this project will allow the company to expand the potential vendor database, ensure a high level of competition and increase Russian content share in the project through larger volumes of Russian-sourced materials and equipment.

The main goal of the project is to establish opportunities for increased involvement of Russian vendors into onshore procurement processes without compromising on HSE, reliability, and integrity performance.

Taking into account the significant interest from key foreign industry players in the Russian market, the results of this comparative analysis might be used for developing unified requirements on combined use of Russian and international standards and potentially have an impact on a broader scale. The application of harmonised standards in Russian industry will sufficiently enhance the overall quality of products and services, and increase the readiness of Russian companies to participate in international projects.

7.2. Financial Benefits to the Russian Federation and the Sakhalin Oblast

In 1994, Sakhalin Energy signed the Agreement on the Development of the Piltun-Astokhskoye and Lunskoye Oil and Gas Fields on the Basis of Production Sharing (PSA) with the Russian Federation, represented by the Government of the Russian Federation and the Sakhalin Oblast Administration. A 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.

According to the PSA, the state retains the ownership rights to the field and grants the investor an exclusive right to develop the mineral resources. The investor develops the resources by its own means and at its own risk and invests funds required for the exploration and development of the fields.

Under the PSA, some types of taxes, levies, and duties are replaced with production sharing. This effectively means that instead of some taxes (including the mineral extraction tax, property tax, etc.) and levies, Sakhalin Energy uses hydrocarbons as a form of royalty payment, and after product sharing starts, it will use them as the profit share. Financial benefits to the Russian party include the profit tax paid by the company and a number of mandatory payments, contributions, and levies. In addition, the Russian party receives income on R-share dividends (a special preference share providing the right to receive dividends).

In total, for the reporting period, Sakhalin Energy allocated US$ 2.5 bln (in kind and in cash) to the Russian Federation.

Royalties (in kind and in cash payment) amounted to US$ 495 mln. The dividends paid by the company to the R-share amounted to US$ 177 mln.

The Russian party's production profit share was US$ 606 mln. In addition, the 2017 fiscal year profit tax totalled US$ 1.2 bln, which was paid by the company in 2018. Further payments of profit tax to the budget of Russian Federation in the amount of US$ 141.8 thousand were made.

Based on 2018 financial performance profit tax in the amount of approximately US$ 1.7 bln will be paid to the budget in 2019.

Production sharing between a company and a state is triggered when an investor recovers all of its costs (the specific shares of each party are not fixed, but depend on the profitability of the project). The PSA also stipulates that the company should pay a profit tax, and the profit tax for the company is currently payable at a rate higher than the profit tax rate for non-PSA taxpayers.

Over the entire period of project implementation (1995–2018), the Russian party has received US$ 25.1 bln from Sakhalin Energy under the Sakhalin-2 project, including amounts paid in 2018.

Total amount of payments to the Russian party from Sakhalin Energy under the Sakhalin-2 project in 1995–2018, US$ mln

1995–2014	2015	2016	2017	2018
13,623	5,188	2,022	1,768	2,528

Taxes and other mandatory payments made to the Sakhalin Oblast budget and to local budgets from Sakhalin Energy under the Sakhalin-2 project in 1995–2018, US$ mln

1995–2014	2015	2016	2017	2018
4,300	2,411	1,281	918	639

7.3. Russian Content

The Russian content means the utilisation of Russian labour, equipment, and services in the Sakhalin-2 project. In accordance with the PSA requirements, Russian content is measured in labour input (in man-hours), as well as materials and equipment (in weight units) delivered by Russian contractors (both legal entities and individuals). Sakhalin Energy will make its best efforts to achieve a Russian content level of 70% over the life of the entire Sakhalin-2 project. In 2018, the company reached a Russian content level of 88% of labour and 84% of materials and equipment used.

Sakhalin Energy has identified its key activities and mechanisms for increasing Russian content, which are featured in the Russian Content Policy and the Russian Content Development Strategy. The company's efforts are primarily focused on long-term planning for Supply Chain Management requirements, identifying opportunities for Russian content development at an early stage, providing targeted assistance to Russian companies in order to increase their competitive potential.

The total value of awarded contracts and variation under existing contracts with Russian companies since the project was launched through the end of 2018 has reached approximately US$ 25.7 bln. In 2018, the value of new contracts and amendments to existing contracts with Russian companies totalled approximately US$ 681.3 mln.

In 2018, the company reached a 58% level of Russian costs (actual expenditures).

EXAMPLES OF CONTRACTS AWARDED TO RUSSIAN COMPANIES IN 2018:

- Ioka Support Services (registered in the Sakhalin Oblast) for operation and maintenance of the company's infrastructure projects in Yuzhno-Sakhalinsk;
- SKF Geo (registered in St. Petersburg) for the provision of 3D/4D seismic acquisition services;
- Remote Project Services Group Global LLC (registered in the Sakhalin Oblast) for the provision of catering and janitorial services for remote onshore assets;
- Ioka Support Services (registered in the Sakhalin Oblast) for the provision of catering and janitorial services for offshore assets;
- Sakhalin centre Ecospas (registered in Moscow) for the provision of OSR operations and management services;
- RBT Sakhalin (registered in the Sakhalin Oblast) for the provision of travel agency services;
- SMNM-VECO, ECC LLC (registered in the Sakhalin Oblast) for the provision of services on modification of hazardous industrial facility OPF Compression Site: Tie-ins and Hookup of Utility Lines;
- Nabil Timber Industries (registered in the Sakhalin Oblast) for the provision of services on maintenance and repair of 0–50 km section of the Southern Access Road

Further, in 2018, the company achieved a significant milestone in utilising TMK piping in the first offshore well, following successful international certification of TMK piping.

5,779 contracts and orders were awarded by the company in 2018. This includes 3,926 contracts and orders awarded to Russian companies with 2,580 (66%) of them awarded to the companies registered in the Sakhalin Oblast. The main contracts awarded to the companies registered in the Sakhalin Oblast are listed above.

While participating in the international project, Russian companies obtain a unique experience, opportunity to learn and develop the personnel's competence, introduce high quality and HSE standards, therefore enhancing their competitiveness in the Russian and international market.

Sakhalin Energy is currently exploring opportunities for engaging more Sakhalin companies. To achieve that, we are closely interacting and exchanging information with the Sakhalin Oblast Government. It is planned to include a number of Sakhalin companies to Prequalification Audit Programme.

SAKHALIN ENERGY OPENS THE LARGEST DATA CENTRE IN THE RUSSIAN FAR EAST

The new Data Centre is an integrated multi-component system designed to support uninterrupted automated operation of all Sakhalin Energy's business processes.

The Data Centre was designed according to the latest standards for construction in seismic areas. The project uses unique engineering solutions, including energy and back-up power supply, HVAC and fire safety systems.

Sakhalin companies will provide servicing and data processing for the Data Centre, which is another illustration of the Sakhalin-2 project maintaining focus on the Russian content development.

IN SEPTEMBER 2018, SAKHALIN ENERGY AND AKROS SIGNED A LETTER OF INTENT AT THE EASTERN ECONOMIC FORUM

This document provides for cooperation in the area of cutting re-injection services provision.

Sakhalin Energy re-injects cuttings and wastewater from the platform, which is a safer, more environmentally friendly and cost-efficient method when compared to conventional methods of waste disposal.

For the first time ever in the Sakhalin-2 history, a Russian company will be providing these services at the project's offshore platforms.

7.4. Supply Chain Management

The company pays close attention to the effectiveness of Supply Chain Management (SCM).

Our fundamental Supply Chain Management document is the Sakhalin Energy Supply Chain Management Policy (hereinafter referred to as the Policy). This Policy applies to all company's employees and contractors, but primarily to the company's personnel that are directly engaged in supply chain management. The Policy is applicable to all activities that involve spending the company's funds on equipment, materials, resources, services, and works.

The Supply Chain Manager is responsible for ensuring that our model contracts contain the appropriate terms and conditions, for effective implementation of these terms and conditions in the procurement processes and for ensuring that control and assurance measures that are specified in the Policy and other Policy-based documents.

Sakhalin Energy adheres to the following principles in Supply Chain Management:

- safety — causing no harm to people, the environment, or to our property; ensuring that contractors comply with the company's safety standards;
- additional value in SCM — value maximisation, cost effectiveness, and long-term commercial profit;
- zero tolerance for personal profit, bribery, or corruption — in all SCM operations in accordance with the supply transparency principle;
- competition — development of open competition in markets;
- Russian content — maximisation of the Russian content and development of Russian suppliers and contractors;
- human rights — ensuring respect for, observance, and promotion of human rights by contractors;
- sustainable development — ensuring sustainable development in the process of selecting a contractor and in making supply chain management decisions.

The Policy lists rules and measures that ensure compliance with these principles.

In accordance with the principles listed above, our sourcing and award and contract management processes are set up as follows.

CREATING A LIST OF QUALIFIED VENDORS (FOR CERTAIN SCOPES OF RESOURCES/SERVICES OR FOR SPECIFIC TENDER SCOPES):
- conducting workshops for potential vendors (see Section 7.5. Vendor Development Programme);
- pre-qualifying potential vendors.

CONDUCTING TENDERS FOR PURCHASE OF MATERIALS/ EQUIPMENT OR PROVISION OF SERVICES:
- competitive bidding is preferred when sufficient market capacity exists;
- distributing Invitations to Tender (ITTs) and Clarification Bulletins;
- receiving bids (proposals);
- conducting technical bid evaluation (including HSE, etc.);
- conducting commercial bid evaluation.

CONTRACT AWARD:
- upon completion of all stages of the bidding process, the company awards the contract under the terms and conditions specified in the ITT.

CONTRACT MANAGEMENT:
- during performance of the contract, the company monitors contractor activities by tracking the mutually agreed Key Performance Indicators (KPIs) and by organising meetings to review contractor performance;
- the company raises awareness of, and conducts trainings for contractors in order to ensure compliance with its requirements (including those related to HSE and social performance, anti-corruption and bribery principles, human rights, etc.);
- the company conducts contract performance audits.

SAKHALIN ENERGY'S REQUIREMENTS FOR CONTRACTORS AND SUPPLIERS

Sakhalin Energy attaches great importance to the fulfilment of the company's requirements by contractors and suppliers. These requirements include the following.

HEALTH, SAFETY AND ENVIRONMENTAL AND SOCIAL PERFORMANCE (HSE&SP) REQUIREMENTS

Contractors must:
- include compliance with HSE&SP principles to the performance assessment;
- perform checks and investigate any breaches of the HSE&SP rules to ensure the company's HSE policy is properly followed;
- independently certify the HSE&SP management system for compliance with generally recognised standards;
- verify that they comply with HSE&SP standards.

REQUIREMENTS FOR THE QUALITY OF MATERIALS, EQUIPMENT AND SERVICES SUPPLIED

Contractors must:
- develop and comply with quality assurance policy;
- specify (develop) and comply with the quality control process and its procedures;
- specify (develop) and comply with quality assurance procedures.

RUSSIAN CONTENT REQUIREMENTS

Sakhalin Energy's Russian content requirements have arisen from the Production Sharing Agreement concluded with the Russian party. The parameters used to measure the Russian content are weight of material and equipment, number of man-hours and their cost equivalent.

REQUIREMENTS FOR A TENDER PROPOSAL

A tender proposal shall clearly demonstrate and confirm the following:
- a tenderer is a financially stable and solvent company/ organisation;
- a tenderer has the relevant experience in the subject scope;
- high quality and reliability of the provided services/performed works/supplied materials;
- HSE&SP management systems and procedures are in place;
- a quality assurance system and procedure are in place;
- availability of resources to meet the work/supply schedule.

WORKSHOP FOR POTENTIAL RUSSIAN SUPPLIERS FOR MOLIKPAQ MAJOR RIG REFURBISHMENT AND UPGRADE PROJECT

In July 2018, the company held a workshop for potential Russian suppliers of bulk materials for implementation of the Molikpaq Major Rig Refurbishment and Upgrade Project. The main purpose of the event was to inform potential Russian suppliers about the scope of supply of the forthcoming tenders and get feedback about the current Russian suppliers' capabilities to ensure the manufacture and supply of products according to the requirements of Sakhalin Energy.

The workshop included general presentation of the project, planned scope and terms of procurement, main requirements for participants of tenders as well as holding technical discussions in format of „round tables" concerning pre-qualification procedures and imposed technical requirements for the following categories:
- *piping, fittings and valves;*
- *electrical materials;*
- *instrumentation & automation;*
- *structural steel and fasteners.*

The workshop was attended by more than 60 representatives from 42 Russian companies, most of them the leading manufacturers and suppliers of equipment and materials in the Russian market.

Participation of technical specialists both from Sakhalin Energy and Russian suppliers gave a special importance and information value to this event that provided an open, „live" and interesting discussion and allowed to develop constructive proposals for further successful cooperation with Russian companies.

7.5. Vendor Development Programme

Development of Russian vendors is one of the key activities of Sakhalin Energy, the main purpose of which is to contribute in developing their competences and increasing Russian content in the Sakhalin-2 project.

For over 10 years, Sakhalin Energy has been actively implementing the Vendor Development Programme. An important component of the Vendor Development Programme is its training module that provides regular workshops on the following important subjects:
- HSES;
- quality assessment and quality control;
- skills in participating in Sakhalin Energy's tenders;
- business ethics principles.

As part of the Vendor Development Programme, in 2018, the company held four workshops for potential contractors of Sakhalin Energy, including one workshop in Moscow. The workshops were attended by 71 Russian companies, including 33 Sakhalin ones.

In addition, the company provides individual information sessions (round tables) which purpose is early informing about terms and conditions of forthcoming tenders for potential Russian vendors. During such sessions, Russian vendors get information of scope of supply and general requirements for equipment and service provider.

Information about Vendor Development Programme is available on the company's website, including description of the programme's components, requirements for participants (including the process for application), preliminary schedule with topics indicated, and contact details.

QUALIFICATION AUDIT PROGRAMME FOR RUSSIAN VENDORS

In addition to the Vendor Development Programme, the company continued with the programme of pre-qualification audits for drawing up a list of Russian manufacturers possessing technical capabilities to produce and supply equipment and materials for the LNG Train 3 project. 46 Russian companies were audited during the year, with the total number of leading Russian vendors and manufacturers in the oil and gas sector covered by the audit reaching 183 within the programme duration period (2016–2018).

The companies recognised during the analysis as technically qualified for inclusion in the project will also be considered as suppliers within the company's operating activity that will allow to significantly increase the number of domestic suppliers under the Sakhalin-2 project.

8

ENVIRONMENTAL
IMPACT MANAGEMENT

Sakhalin Energy conducts environmental management based on environmental protection laws and regulations of the Russian Federation and in line with international standards and best oil and gas industry practices.

8.1. General information

Sakhalin Energy's environmental policy has been integrated into the corporate Business Principles, Sustainable Development Policy and HSE&SP Policy. Relevant commitments are included in the HSE&SP Plan, standards and procedures, as well as other corporate documents.

The HSE&SP management system is described in Section 3.5 above. It has been certified according to ISO 14001 and OHSAS 18001 international standards.

For continuous improvement of environmental performance, the system follows a repeating cycle: planning — implementation — evaluation — review. External and internal audits are held to monitor and evaluate the system's efficiency. Company's assets are audited on a regular basis for compliance with environmental laws and regulations and corporate standards and procedures.

Sakhalin Energy also promotes the development of vendors and suppliers through "one team approach", experience sharing and contractor compliance monitoring.

The company places special focus on proactive risk management and environmental impact assessment. The company has developed and implemented a risk management system (see Section 5.4 above) to reduce environmental impacts and pollution risks.

The company is implementing an administrative and technical action plan to gradually reduce negative environmental impacts and to develop competencies of the company and contractor personnel, as well as to develop and implement programmes for industrial environmental control and monitoring of natural environment and biodiversity.

In 2018, Sakhalin Energy was once again ranked first in the annual Environmental Responsibility Rating of Russian Oil and Gas Companies (OGERR) conducted by the World Wildlife Fund (WWF) Russia and CREON Energy, a provider of advisory services, in partnership with the UNDP/GEF/RF MNR project „Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations."

A total of twenty-two companies were selected by OGERR based on their annual production of liquid hydrocarbons (at least 1.5 mln t per year).

Speaking at the ceremony, Alexey Knizhnikov, Head of Environmental Policy Programme at WWF Russia, said, „My congratulations to Sakhalin Energy on keeping up the good work and demonstrating high environmental safety performance adhering to the WWF criteria. We would like Sakhalin Energy, which has been leading the list of environmentally safe companies for a few years now, to use every opportunity to share their best practices."

8.2. Industrial Environmental Control

8.2.1. General information

Sakhalin Energy exercises industrial environmental control of its assets to ensure the compliance with legislation on environmental protection, to observe the established environmental regulations, and to provide the rational use of natural resources and fulfilment of the plans for minimising the environmental impact.

The company exercises industrial environmental control in the following areas:
- air emissions;
- water use and impact on water bodies;
- waste management.

The company tracks and controls emissions and discharges, greenhouse gases and ozone-depleting substances from hydrocarbon production and transportation assets and the LNG asset it operates; special attention is given to waste management, energy consumption and associated petroleum gas utilisation issues.

The company has developed and has been implementing the Air Emissions and Energy Management Standard, Water Use Standard, and Waste Management Standard.

8.2.2. Impact on Atmospheric Air

Sakhalin Energy seeks to minimise environmental impact, including by reducing air emissions.

In order to reduce emissions, the company uses gas turbines equipped with low-NOx burners. A system that increases gas turbulence is used on flaring units, which facilitates soot-free gas flaring.

To reduce atmospheric pollutant emissions, measures are implemented to improve operational reliability and fail safety of equipment and to monitor compliance with the operating mode of gas turbines. To ensure timely elimination of potential gas leaks at the company's assets, the company performs inspections and diagnostics of equipment using fixed and portable gas analysers and infrared cameras and carries out any required repair and maintenance. To assess the impact of greenhouse gas and ozone-depleting substances emissions on the atmospheric air, records are kept of their emission sources and consumption (see Section 8.2.6. Greenhouse Gas and Ozone-Depleting Substance Emissions).

The company conducts monitoring of fixed sources for compliance with established standards for maximum allowable emissions. Monitoring of air quality is carried out at the boundaries of sanitary protection zones around the company's production assets.

In 2018, total gross emissions remained the same as in the previous year. A slight increase in carbon oxide emissions was mainly caused by a scheduled repair of gas compressing units at the OPF.

Monitoring of air quality at the boundaries of sanitary protection zones of the Prigorodnoye production complex, OPF, and BS 2 showed neither non-compliance with established standards, nor any increase in pollutant concentrations.

Gross Air Emissions in 2015–2018, thousand t

Pollutant	2015	2016	2017	2018
Carbon oxide	4.1	4.4	4.1	4.2
Nitrogen oxides (in NO_2 equivalent)	4.1	4.3	4.3	4.3
Methane	1.0	1.1	1.2	1.1
Sulphur dioxide	0.04	0.03	0.04	0.03
Other pollutants	1.1	0.97	0.8	0.7
Total	10.3	10.8	10.4	10.3

Specific Air Emissions in 2015–2018, by areas of activity

Activity	2015	2016	2017	2018
Hydrocarbon production, kg/toe	0.19	0.19	0.18	0.19
Hydrocarbon transportation, kg/thousand t-km	0.06	0.08	0.06	0.08
LNG production, kg/toe	0.24	0.25	0.23	0.20

Measures implemented to improve operational reliability and fail safety of equipment, as well as the monitoring of the correct operating mode made it possible to maintain the specific emission values at the same level as in the previous years, even though the company increased its production volumes.

8.2.3. Impact on Water Bodies

The company strives to reduce water consumption for production needs and to minimise the environmental impact from wastewater discharge.

The intake of water from surface and groundwater bodies for domestic, drinking and industrial purposes is carried out on the basis of water use agreements and licenses for subsoil use. To ensure compliance with the established standards for maximum allowable discharges of pollutants to water bodies and rational use of water resources, the company monitors efficiency of sewage treatment plants and carries out quality control of sewage, surface and groundwater, as well as monitors compliance with the established water use and water discharge limits. Water intake and treatment facilities are maintained in good order; water bodies' water protection zones are monitored on a regular basis. Groundwater monitoring is performed to identify areas of possible changes in groundwater levels or areas

of possible contamination caused by the operation of the company's production assets.

In 2018, the water use figures remained the same as in the previous year. Increased water disposal on the surface is due to the flow of stormwater as a result of active snow melting at the OPF in spring. Personnel mobilisation during the LNG plant shutdowns and the beginning of the main construction works under the OPF Compression project have resulted in the increased water intake from groundwater sources. Reduced water consumption to maintain reservoir pressure is due to the scheduled repair of the PA-A reservoir pressure maintenance system.

Consolidated Figures of Water Use in 2015–2018, thousand m^3

Parameter	2015	2016	2017	2018
Water intake, including:	29,489.71	30,160.90	30,050.94	28,290.83
from surface sources	28,225.09	29,260.99	29,228.98	27,507.64
from underground sources	310.19	329.32	326.27	347.43
Water consumption, including:	28,573.81	29,631.45	29,593.53	27,893.77
production needs (not including reservoir pressure maintenance needs)	22,126.72	22,750.15	22,520.46	21,458.08
reservoir pressure maintenance needs	6,104.22	6,505.06	6,689.23	6,077.11
Water discharge, including:	23,212.21	23,439.71	23,163.00	22,062.96
into surface water bodies	22,988.01	23,317.13	23,047.10	21,944.30
on the surface	193.56	92.43	86.54	88.13

Environmental monitoring did not reveal any adverse impact on the water bodies located in the area of the company's production assets.

Specific Water Use in 2015–2018, by areas of activity

Activity	Water consumption for in-house needs				Disposal of polluted water into surface water bodies			
	2015	2016	2017	2018	2015	2016	2017	2018
Hydrocarbon production, m^3/toe	1.0	1.1	1.0	1.0	0.002	0.005	0.004	0.004
Hydrocarbon transportation, m^3/thousand t-km	0.001	0.001	0.001	0.001	–	–	–	–
LNG production, m^3/toe	0.01	0.01	0.01	0.01	0.001	0.005	0.006	0.006

Specific water consumption indicators remained the same as in the previous year. Only 1% of the wastewater was insufficiently treated, 2% of the wastewater was treated to minimum standards, and the other 97% met minimum standards without treatment.

8.2.4. Waste Management

The company's waste management activities were aimed at meeting Russian and international requirements and optimising waste management processes in order to reduce the adverse environmental impact.

Most of the company's waste is classified as low-hazard (Hazard Class IV and V); it is mainly drilling waste and solid domestic waste.

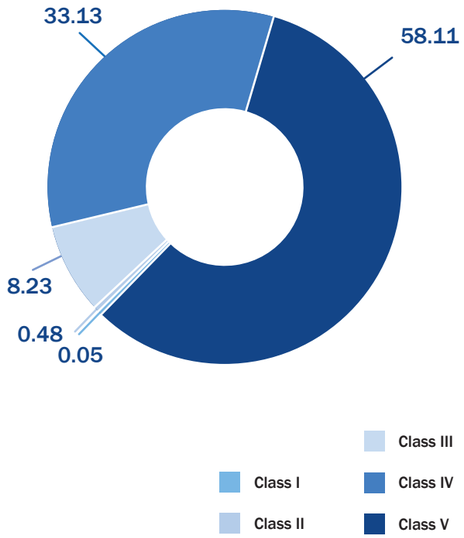
To prevent an adverse environmental impact, the company continued injecting drilling waste through special disposal wells into deep underground horizons with necessary insulating formations to ensure their full containment and safe disposal. This is one of the best available technologies for the disposal of waste associated with oil and gas production (according to engineering manual ITS-17 2016 Disposal of Industrial and Consumer Waste).

During 2018, the company continuously monitored the injection process and took all reasonable measures to reduce the volume of drilling waste. In the area of underground drilling waste disposal assets, to confirm the elimination of its adverse environmental impact, the company continued monitoring the sea water condition in the bottom layer, sediment and benthic communities. Based on the monitoring results for the previous two years, Rosprirodnadzor has confirmed the fact that the disposal of drilling waste had caused no adverse impact on the environment.

At the production assets, waste is collected separately for subsequent disposal and treatment in order to reduce the amount of waste disposed at landfills; timely removal of waste is performed; the company conducts inspections of waste storage sites.

All Hazard Class I–III waste is transferred to licensed contractors for disposal or treatment. All Hazard Class IV–V waste is sent to specially

Waste Breakdown by Hazard Class in 2018 (not including drilling waste), %



Waste Management Indicators (including drilling waste) in 2015–2018, thousand t

Parameter	2015	2016	2017	2018
Amount of waste at the beginning of the year (all Hazard Classes)	0	0.14	0.11	0.15
Waste generated in the reporting year (all Hazard Classes)	30.52	36.86	36.58	27.13
Waste disposed during internal production	0.02	0	0	0
Transferred to other organisations for disposal and treatment	1.81	2.73	3.47	2.89
Transferred to other organisations for burial at landfills, including:	2.01	1.63	1.66	1.89
in the Sakhalin Oblast	1.82	0	0.21	0.45
outside the Sakhalin Oblast	0.19	1.63	1.45	1.45
Waste disposed at own assets (burial of drilling waste)	26.54	32.52	31.41	22.50
Amount of waste at the end of the year (all Hazard Classes)	0.14	0.11	0.15	0

equipped landfills that conform to the Russian requirements. The company searches for cost-effective methods of management of Hazard Class IV–V wastes in order to reduce the proportion of waste disposed at landfills.

The total amount of waste decreased by 26% compared to the previous year mainly due to the reduction of drilling waste generation.

In 2018, the amount of waste transferred for treatment and disposal was less by 16%. It resulted from increased waste transferred for treatment in 2017, which was caused by the replacement of the filter bed at the LNG gas drying unit and by the write-off of materials and equipment that had become unusable due to physical wear or expiration date.

However, as the result of maintenance and repair of equipment and industrial facilities, generation of certain kinds of Class IV and V low-hazard and practically non-hazardous waste was increased at OPF, LNG plant and offshore platforms, which entailed increased amount of waste disposed at landfills.

8.2.5. Energy Production and Consumption

The company is striving to use energy resources efficiently, and this is stated in its policies, standards, and commitments on gas flaring and energy management.

The company's assets have been designed in line with international best practices, and new depletion compression facilities under construction incorporate the latest technological advances. All production assets use independent power supplies.

Energy saving and efficiency improvement efforts are organised under the company's Continuous Improvement Programme (see Section 4.3. Continuous Improvement Programme) and in accordance with the principles of process optimisation. Green House Gas and Energy Management Plans have been developed for the offshore platforms, the OPF and LNG plant.

Natural gas has the biggest share in the energy use mix of the company. Diesel fuel is used for backup, with low-sulphur diesel used in most cases. The power supply for the company's infrastructure in Yuzhno-Sakhalinsk and Korsakov comes from the public electrical grid, with independent power supplies in place. Energy consumption balance is shown in the table below.

2018 energy consumption breakdown by activity is shown in the diagram. The LNG plant is the main consumer of energy. In 2018, the total and activity-specific energy consumption remained the same as in the previous year.

Sakhalin Energy's assets have high energy efficiency compared to international industry benchmarks. E.g. in 2017–2018, the energy intensity of the company's assets was 0.63–0.64 GJ/t hydrocarbons produced. The data from the International Association of Oil & Gas Producers indicate that the average 2017 energy intensity among the international oil & gas companies was 1.5 GJ/t hydrocarbons produced.

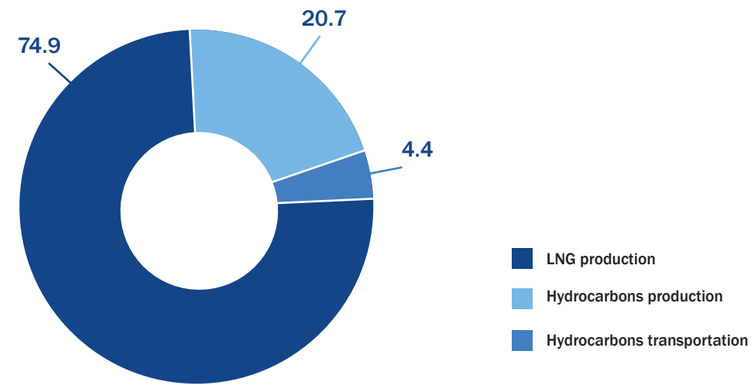
Sakhalin Energy's LNG plant remains a world leader in reliability, production performance and energy efficiency.

Energy Generated* and Consumed in 2015–2018, million GJ

Parameter	2015	2016	2017	2018
Primary energy generated	846.85	868.06	910.28	895.63
Primary energy sold, incl.:	790.36	807.92	858.07	839.04
provided to Russian party	38.61	39.12	39.83	39.99
Primary energy consumed, incl.:	58.26	58.74	59.29	59.08
direct energy consumed (natural gas)	56.45	56.95	57.49	57.19
primary energy purchased (diesel fuel)	1.81	1.79	1.80	1.89
Indirect energy purchased/consumed (electricity)	0.11	0.12	0.12	0.13

* The company does not produce energy from renewable sources of energy and currently has no plans to do so. Sakhalin Energy is the operator of the Sakhalin-2 project under a Production Sharing Agreement and builds its activity plan based on the works programme, oil and gas fields development plans and cost estimates approved by shareholders, Russian party and Supervisory Board on an annual basis (see Sections 4.1, 5.3).

Energy Consumption in 2018, by areas of activity, %



Energy Intensity in 2015–2018, by areas of activity

Activity	2015	2016	2017	2018
Hydrocarbon production, GJ/t hydrocarbons produced	0.71	0.68	0.64	0.63
Hydrocarbon transportation, GJ/Kt-km	0.14	0.16	0.15	0.15
LNG production, GJ/t LNG produced	4.01	4.00	3.85	3.88

8.2.6. Greenhouse Gas and Ozone-Depleting Substance Emissions

Russia signed the Paris Agreement in 2016. According to this agreement, each party defines its own contribution to global climate change prevention and takes internal measures to adapt to the changes and achieve the goals.

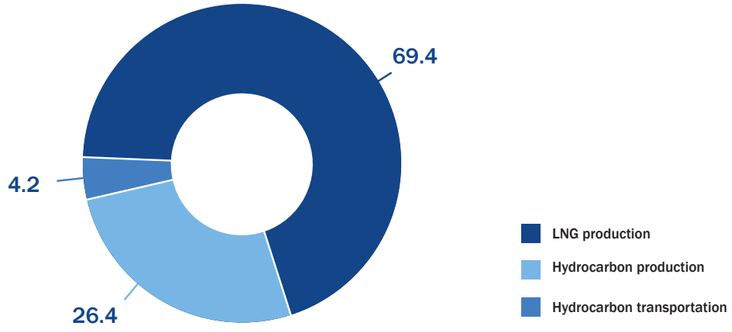
The company shares the concern about the global climate change problem and annually measures and controls GHG emissions. Emissions from both production and non-production assets of the company are taken into account, both direct and indirect emissions associated with the purchase of electric energy. Greenhouse gases include the following substances: carbon dioxide, methane, dinitrogen monoxide, and hydrofluorocarbons (HFC).

In 2018, total and specific GHG emissions remained the same as in the previous year. There is a slight growth of emissions as a result of an increase in the volume of gas flared during the maintenance and repair of the company's gas facilities.

GHG Emissions in 2015–2018, mln t of CO_2 equivalent

Parameter	2015	2016	2017	2018
Direct emissions (scope 1)	3.699	3.708	3.740	3.768
Indirect emissions (scope 2)	0.005	0.008	0.008	0.009
Total	3.705	3.716	3.748	3.777

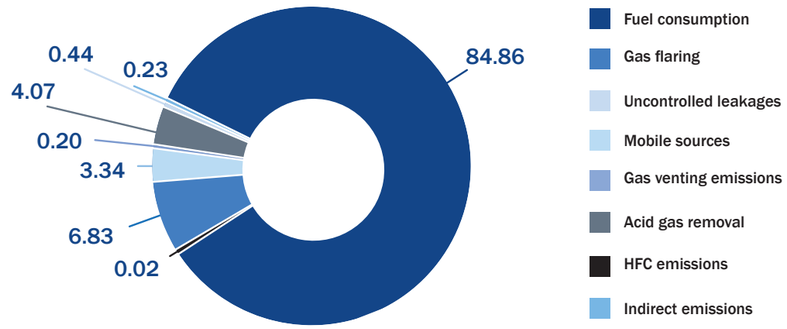
GHG Emissions in 2018, by areas of activity, %



Specific Emissions of GHG in 2015–2018, by areas of activity

Parameter	2015	2016	2017	2018
Hydrocarbon production, t CO_2 eq./t of hydrocarbons produced	0.054	0.050	0.048	0.052
Hydrocarbon transportation, t CO_2 eq./thousand t-km	0.008	0.010	0.009	0.009
LNG production, t CO_2 eq./t of LNG produced	0.242	0.242	0.231	0.230

Structure of GHG Emission Sources in 2018, %



To ensure effective management of risks associated with greenhouse gas emissions, comprehensive plans for energy management and GHG emissions control have been developed for all company's production assets. These plans contain the assessment of current results and outline actions aimed at reducing GHG emissions.

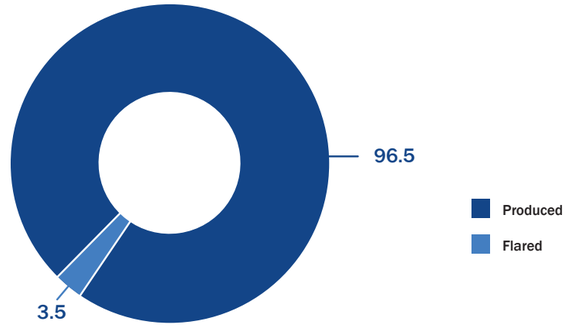
8.2.7. Utilisation of Associated Gas in Production

The company strives to reduce associated gas flaring to a minimum. Associated gas produced at PA-A and PA-B platforms is transported via offshore pipelines to the shore, and it goes though the onshore pipelines to the OPF, where it is mixed with LUN-A gas for further transportation. Some of the associated gas is used as fuel for production assets.

Currently, the company does not re-inject associated gas into the reservoir.

The company has included targets for associated gas utilisation in the Reservoir Management Plans for PA-A, PA-B, and LUN-A platforms. The actual associated gas utilisation in 2018 was 96.5%.

Utilisation of Associated Gas in Production in 2018, %



8.2.8. Environmental Protection Costs and Payments for the Negative Impact

To comply with the international and Russian legislation requirements, Sakhalin Energy implements environmental conservation measures. The current cost of implementation in 2018 was RUB 4,566 mln.

Sakhalin Energy's environmental conservation activities are controlled by the state supervisory authorities at federal and regional levels, including:

- Ministry of Natural Resources and Environment of the Russian Federation;
- Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor);
- Federal Subsoil Resources Management Agency;
- Federal Service for the Supervision of Natural Resources (Rosprirodnadzor);
- Amur Water Basin Committee of the Federal Water Resources Agency;
- Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast.

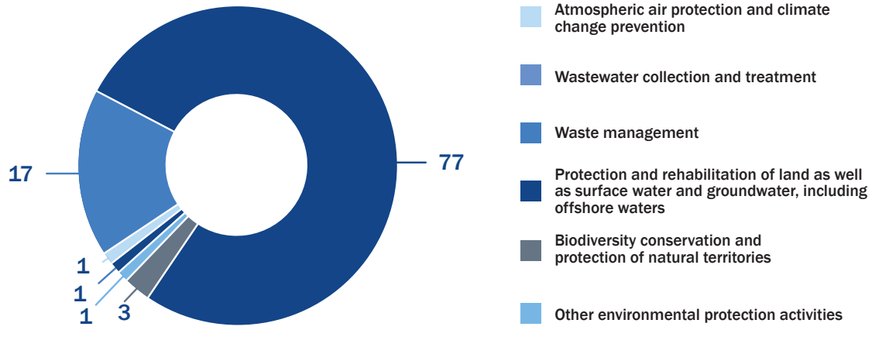
Two inspections were conducted by the federal supervisory authorities in the reporting year, one of which revealed a minor gap in documentation relating to the quality of groundwater intake.

Payments for Adverse Environmental Impact in 2015–2018, thousand roubles

Parameter	2015	2016	2017	2018
Air emissions	4,931.253	987.595	898.409	806.52
Discharges into water bodies	91.602	29.045	72.008	157.21
Waste disposal	13,263.975	1,475.297	180.882	680.15
Total	18,286.830	2,491.937	1,151.299	1,643.88

Increased payments in 2018 were mainly due to the absence of landfill disposal limits for Class IV–V hazardous waste. The fees for exceeding the disposal limits were 51% of the total payment.

Current Environmental Costs in 2018, %



8.3. Environmental Monitoring and Biodiversity Conservation

8.3.1. General Information

The implementation of environmental monitoring in the potential impact zones during the operations phase ensures Sakhalin Energy's compliance with the requirements of the State Environmental Expertise for in-process environmental monitoring and local monitoring.

The environmental monitoring programmes are carried out to assess the condition and restoration of the environment in the areas of the company's production assets, to identify signs of the impact, and to develop actions to mitigate it, if necessary.

The implementation of the corporate Biodiversity Action Plan (BAP) fulfils the company's obligations with respect to impact mitigation, development and implementation of measures aimed at protecting

In 2018, the activities of the Biodiversity Working Expert Group of the Ecological Council under the Sakhalin Oblast Governor were focused on the protection of marine mammals in the coastal waters of the Sea of Okhotsk, as well as the study and protection of the Sakhalin taimen on the island. The Biodiversity Working Expert Group devoted particular attention to Sakhalin Energy's actions to mitigate its impact on gray whales during seismic surveys and to the development of the regional programme for studying and protecting the Sakhalin taimen.

both rare and endangered species and environmentally significant and vulnerable habitats.

In 2018, specialised organisations were involved in environmental monitoring and biodiversity preservation activities addressing the following areas:
- soil cover;
- river ecosystems;
- flora and vegetation;
- wetlands;
- protected species of birds, including the Steller's sea eagle;
- marine environment and biota in the waters of the oil and gas fields;
- marine environment and biota in the area of Prigorodnoye port and ballast water control;
- gray whales and marine mammals protection.

The results of the environmental monitoring and biodiversity conservation measures have confirmed that the company is minimising the impact of its production activities on the environment through its environmental protection management system, which includes risk assessment, and prevention and prompt mitigation of identified risks.

8.3.2. Soil Monitoring

The system of regular soil monitoring allows identification of tendencies towards possible changes. The company assesses the soil condition along the route of the onshore pipelines, at the infrastructure assets, and within the areas around the Prigorodnoye production complex and the OPF at certain intervals of time prescribed in the monitoring programme.

In 2018, soil landscape monitoring included:
- obtaining data on physicochemical and agrochemical characteristics of soils along the onshore pipelines route (in the areas of land remediation and in adjacent territories);
- analysing the content of pollutants in soils in the territory of the Prigorodnoye production complex.

The territory of the Prigorodnoye production complex is characterised by man-made gleic soil with heavy and dense particle-size distribution and basic rubble, while turf layer is fairly developed. The floodplain of the Goluboy Stream has preserved its natural meadow-bog soils. In general, the values of petroleum hydrocarbons, heavy metals and detergents in the soils of the Prigorodnoye production complex were significantly lower than permitted levels (or levels in baseline soils) or are below the detection limit using standard methods. In 2018, the content of petroleum products as the main ecotoxicant in the soils (in the 0–25 cm layer) was 53–130 mg/kg, which is comparable with data for the previous year (from <50.0 to 94.9 mg/kg) and significantly lower than the permissible level (1,000 mg/kg).

The content of organic substances in the soils beyond the territory of the Prigorodnoye production complex (in the 4 km potential impact zone) varies significantly, from increased (in black bog soils) to relatively low (in raised bog soils) and low (in brown forest soils). In 2018, no disturbance to the soil layer or instances of soil degradation associated with LNG/TLU activities were identified at the monitoring sites; no petroleum products or benzo(a)pyrene were detected in the soils at the monitoring sites. The average levels and maximum concentrations of benzo(a)pyrene in the upper soil layers at the monitoring sites around the Prigorodnoye production complex were below the permitted level (20 µg/kg).

The pipeline right-of-way is characterised by man-made disturbed soils: the northern parts are characterised by significant areas of man-made disturbed peat bog soils, peat gley soils, gley soils, and podzolic soils, while the areas in the central and southern parts of the island have man-made disturbed brown forest soils, alluvial meadow soils, and alluvial turf soils. Data for 2018 suggest that the condition of the soil cover is stable; no signs of water erosion or soil collapse have been detected along most of the pipeline right-of-way. The bulk density parameters for the upper layers of the man-made disturbed soils indicate the absence of overcompaction. The content of humus in the areas subject to vegetation layer backfilling is similar to the average values of this parameter in the upper layers of natural soils. The man-made disturbed soils in the northern and central parts of the pipeline route are characterised by insufficient humus content.

Man-made disturbed soils in the most part of the pipeline route are characterised by an average or a high content of accessible forms of phosphorus, potassium and nitrogen. This facilitates the reinstatement of vegetation along the right-of-way. Soil fertilisation and vegetation reinstatement measures are planned for the areas characterised by low content of labile soil nutrients.

The monitoring in 2018 did not reveal any land contaminated with oil and petroleum products as a result of work in the territories of the company's assets.

At the end of 2018, the area of disturbed land was 79.15 ha, including 5.03 ha disturbed in connection with the OPFC project.

8.3.3. River Ecosystems Monitoring

The onshore pipeline system covering virtually the whole territory of Sakhalin Island crosses more than a thousand water bodies (rivers, streams, lakes and canals) from Chaivo Bay in the north to Aniva Bay in the south. During the design stage and construction, the company conducted baseline studies and operational monitoring of all crossings of water bodies. For the operations stage, a comprehensive observation programme was developed to monitor environmentally significant and hydrographically complex watercourses, which allows the company to monitor any changes, to identify critical areas, to develop and take timely corrective measures.

River ecosystem monitoring comprises several areas: the monitoring of the quality of surface waters, bottom sediments, and benthos. The quality of river ecosystems primarily recognises the nature and specifics of potential impact on the aquatic ecosystems during the operation of pipeline and infrastructure facilities. The other objective of monitoring is to identify any potential adverse impacts from natural factors on the Sakhalin-2 project infrastructure.

The monitoring of river ecosystems includes:
- determination of hydrological and hydrochemical characteristics of streams;
- assessment of bottom sediment condition in river beds;
- identification of hydromorphological changes (river bed and bank erosion in the areas of pipeline route crossings);
- assessment of benthic community and abundance (ground species);
- assessment of area and quality of potential Pacific salmon spawning areas.

In 2018, the monitoring of hydrological and hydrochemical characteristics and condition of bottom sediments was implemented in the following water bodies:
- 26 watercourses crossed by the pipelines,
- the Vazi and Firsovka rivers, whose under-river crossings were performed using the horizontal directional drilling (HDD) method;
- the Vatung River in the area of potential impact from the OPF;
- the Mereya River and the Goluboy Stream in the area of the Prigorodnoye production complex.

Monitoring was performed during three hydrological seasons: summer low water, autumn high water and winter low water. Sampling was carried out at two cross sections: the upstream baseline (with no impact from the company's infrastructure assets) and downstream monitoring sections.

On most investigated river-crossing sites (from the upstream to the downstream cross sections) no significant horizontal or vertical deformations of river beds were found. The crossings are in satisfactory condition, and no damage to utility lines was found.

The physicochemical properties of surface water met the regulatory criteria in all observation seasons. The properties of the surface water at the upstream and downstream cross sections of each watercourse changed equally and had similar quantitative and qualitative characteristics.

The oxygen regime of surface water was within the standard limits during all observation periods. The exception was the Vatung River (both cross sections during summer), which was the result of natural causes. Insignificant seasonal variations in concentrations were observed for suspended substances. Of all the biogenic substances analysed (ammonium ions, nitrites, nitrates, and phosphates), the content of nitrates varied most significantly: their values were higher in summer than in autumn. All measured parameters of biogenic substances met the concentration requirements for the quality of fishery water bodies (MPCf). The highest concentration of nitrates over the entire observation period was recorded in autumn in the Seredka River (1.56 mg/dm^3, with MPCf = 40 mg/dm^3).

None of the monitored watercourses contained readily oxidizable organic matter specified by the BOD5 index.

Of all the studied metals, concentrations of iron and copper showed the highest variability. In most of the watercourses, the content of these metals exceeded the corresponding MAC standards. Elevated concentrations of iron and copper is a natural phenomenon, characteristic of the surface waters in Sakhalin.

The monitoring did not reveal surface water contamination with oil products. All measurement values were insignificant and in line with MACf standards. The highest concentration of petroleum products (0.085 mg/dm^3) was recorded at the upper (baseline) section of the Dagi River in the summer period (MACf = 0.05 mg/dm^3).

The content of petroleum products in bottom sediments did not significantly change from season to season. The measurements of their concentrations made at the upper sections were the same as those made at the lower ones.

The particle size distribution of bottom sediments in all of the watercourses was heterogeneous in all seasons and was mainly dominated by the particles with a diameter of 10 mm and more. The share of these particles in the summer and autumn periods was more than 50% of the total mass.

Benthos monitoring studies in streams continued in 2018. The analysis of habitat conditions (such as bed type, current speed, sediment type, depth), quantitative and qualitative indices of macrozoobenthos showed that the variability of the composition, state and structure of bed communities between the baseline and control sections of the watercourses under study is due to natural variability, in particular the heterogeneity of biotopes and hydrologic-hydrochemical indicators at monitoring stations.

In view of the low numbers of humpbacked salmon in Aniva Bay and the almost total absence of spawners in the Goluboy Stream in 2017, no fry migration in the spring of 2018 was recorded. The timing of the spawning migration of humpbacked salmon spawners in the Goluboy Stream in 2018 was close to the average timing for the rivers of the Tonino-Anivsky Peninsula. The figure for use of the spawning grounds in the Goluboy Stream was significantly lower than the long-term average, while the number of spawners that entered the area in 2018 was estimated at 700. Around 70% of the total number of fish who entered the area actually spawned in the stream, while the rest were killed by poachers. The majority of salmon failed to get further than the bridge across the federal road. Most humpbacked salmon spawning grounds were recorded within the protected area of the LNG plant and in the area from the LNG plant to the federal road. No significant obstacles for the migration of Pacific salmon were identified in the course of monitoring.

Overall, the outcomes of river ecosystems monitoring in 2018 did not reveal any impact from Sakhalin Energy's production assets on the quality of surface waters or their flora and fauna.

8.3.4. Flora and Vegetation Monitoring

Sakhalin Energy implements the Environmental Monitoring Programme for vegetation cover, which allows assessing the current vegetation condition and timely respond to any adverse environmental impacts from the operating assets.

The Monitoring programme includes the following objectives:
- to control the condition of vegetation on the areas adjacent to the company's assets;
- to evaluate and forecast natural and man-induced changes/successions in the plant communities;
- to control the state of rare and protected species of plants, lichens, and mushrooms;
- to control the restoration of vegetation within the rights-of-way and generate recommendations for additional works required in some areas.

In 2018, flora and vegetation monitoring, including protected species, was conducted in the area of the Prigorodnoye production complex and around OPF at a distance of 6 km from Lunsky Bay. Within the onshore pipeline impact area only the habitats of protected species were inspected. 163 species of vascular plants have been identified in the course of vegetation survey in sampling sites around production assets.

The vegetation cover around the Prigorodnoye production complex is mainly represented by dark coniferous and larch and dark coniferous forests. The structure and species composition of vegetation communities in sampling sites remain unchanged. No reduction in the number of trees that was recorded in previous years in certain sites due to windfalls has been identified. The species composition of subordinate layers in all sampling sites surveyed has not changed. The habitats of 11 protected species of vascular plants have not been violated. The vegetation is not impacted in any way be the activities of Prigorodnoye production complex.

The vegetation cover around the OPF is represented by boggy larch forests and larch and dark coniferous forests. Wetlands are spread to the north of the OPF. It is found that standing timber in woodlands is not impacted by OPF activities. The identified insignificant variations in the number of trees are due to natural processes in phytocenoses, such as undergrowth ageing and natural death of old trees. The species composition of layers in all sampling sites surveyed has not changed. The natural habitats of the only protected species of vascular plants, Sakhalin Ephippianthus, located south-west of OPF, have not been violated. As of today, these habitats, identified in the course of monitoring, are the northernmost on Sakhalin.

Some epiphytic lichens in the area of potential impact of the company's assets (both along the pipeline route and around Prigorodnoye production complex and OPF) are still affected to a certain degree by the change in the microclimatic conditions (stronger lighting and wind, decreased air humidity at the boundaries of open areas and forest parts). On the other hand, the sprouting of thalluses of these species of lichens is observed, which suggests the preservation of the species composition and the general restoration of the lichens cover.

The studies of habitats and condition of 18 protected species of vascular plants along the onshore pipeline route, three of which are on the IUCN Red List (Chosenia Arbutifolia, Sakhalin Spruce, and Japanese Yew), indicate their good condition. In one of Sakhalin Spruce habitats located in the Mereya River floodplain, the hydrological regime was reinstated as a result of engineering and technical measures taken in recent years.

The excellent degree of grass cover reinstatement was recorded for more than 85% of the right-of-way, many sites are characterised with a developed dense grass canopy. Individual lightly overgrown areas still persist on steep slopes and in some areas in the northern districts of the island, which is due to the lack of fertility on sandy and clay soils. Despite this, even these areas show positive dynamics: vegetation is gradually reinstated on the right-of-way.

8.3.5. Wetlands Monitoring

Wetlands are especially important and vulnerable ecosystems of Sakhalin Island. Their importance is due to their water protecting and water regulating features. The Sakhalin-2 pipelines cross about 200 boggy areas (including peat bogs), almost half of which are represented by sparse birch and larch, as well as alder and larch woodlands. Sakhalin Energy regularly monitors the restoration of natural bog vegetation on the right-of-way and in the potential pipeline impact zone. This approach is due to the risks of possible violation of the hydrological regime, draining or swamping of the territory, irreversible transformation of the bog lands, and reduced water inflow into rivers and streams.

The objectives of the Wetlands Recovery Monitoring Programme, which is implemented by the company, include:

- to monitor wetlands recovery processes after the construction;
- to monitor the condition of vegetation and soil cover in the adjacent areas;
- to assess all potential adverse impacts on wetlands resulting from onshore pipeline operations;
- to develop impact mitigation measures, if necessary.

In 2018, 24 wetland areas were surveyed along the entire pipeline route. The surveyed areas belong to the category of acid bogs characterised by poor mineral nourishment of peat soils, acidic environment, and a peculiar plant species composition. Particular attention is given to the species composition of the vegetation so that it will be possible to identify, in a timely manner, cases of invasive species on the right-of-way.

It was noted that the degree of grass cover reinstatement on the right-of-way is good. The grass cover in all areas is above 50%, with the average being 70%. Recovery of natural wetland ecosystems can be observed on the right-of-way in 19 wetland areas, which account for 79% of the surveyed territory. In five areas surveyed in 2018, vegetation is further reinstated with species typical for the vegetation cover of adjacent wetlands, as well as species not typical of these ecosystems. This process is characteristic of the initial stages of disturbed vegetation recovery. Positive dynamics of the recovery of moss, lichen, and shrub covers is observed. For some parts of the right-of-way, actions were developed and implemented to normalise the hydrological regime of adjacent wetland ecosystems.

The only natural habitat of Pogonia Japonica (a protected plant species from the orchid family), identified on Sakhalin Island during wetlands monitoring, is not violated, and the plants are in good condition. The 2018 monitoring season did not identify any aggressive invasive species on the right-of-way at the crossings of wetland ecosystems.

Generally, monitoring of the wetlands in the right-of-way shows that their recovery goes with slow but sustainable pace.

8.3.6. Monitoring of Protected Bird Species

In 2018, the company continued the monitoring of bird species, which covered bird populations in the Chaivo split pipeline landfall area and studies of the Long-billed Murrelet in the area potentially affected by OPF and OPFC.

The Chaivo split (Sakhalin-2 pipeline landfall area) is part of the key bird protection area in the Russian Far East ("Sakhalin North-East Coast Lagoons") and is characterised by a wide variety of bird species, a unique bird population and high abundance of birds during the migration period.

The multi-year monitoring of birds in the Chaivo split area has resulted in the recording of 193 bird species, including 37 protected species listed in the Sakhalin Red Book. During the nesting period of 2018, 96 bird species were recorded in the Chaivo split area, including 17 rare and protected species. This included the first recordings of the Eurasian Bittern and the Eagle Owl. It is also the nesting area of the Sakhalin Dunlin, which is endemic to Sakhalin island. The counting of nesting pairs of the Sakhalin Dunlin in the potential pipeline impact area in 2018 showed favourable reproduction conditions for this species, with 100-120 pairs recorded by the experts, which is above the long-time annual average.

Abundance of the Aleutian Tern, another key monitored species using the Chaivo split as a nesting ground on a massive scale, varies from year to year due to the species' specific biological features. Aleutian Terns come to the monitored area in late June — early July after having experienced unsuccessful nesting in other locations. Out of 1,344 individuals recorded in 2018, 833 were sighted on nesting grounds.

This is significantly higher than in 2016, when just 310 individuals of this species were registered.

Abundance of other bird groups that nested at the Chaivo split in 2018 — ducks, divers and grebes — was comparable to the long-term average annual numbers. However, the number of Common Goldeneyes' hatching have reduced, while the Horned and Red-necked Grebes have on the contrary grown in numbers. Nesting success for the latter two species was also notably higher than during the previous seasons. For some of the wetland bird species, the Chaivo split nesting area is on the boundary of their occurrence range, which explains the year-to-year abundance changes. The structure of the bird communities at the Chaivo split remains generally stable.

The Long-billed Murrelet, a key monitored species in the area of potential impacts from OPF and OPFC, is listed in the Red Books of Russia and Sakhalin Oblast. This bird is unique for spending most of its life at sea and coming onshore only to nest on branches of larch trees. For feeding the chick, both parents twice daily, early in the morning and late at night, migrate between the sea and the nest, which is often at a considerable distance inland. Most pairs pass the OPF site in transit to other locations, but some birds stay to nest in the adjacent forests. The monitoring established that the nesting grounds of the Long-billed Murrelet are to the north and to the south-west from the onshore production assets. Seven (7) nesting areas were registered within the 4 km zone outside the boundaries of the OPF and OPFC in 2018, which is in line with the previous periods' monitoring results.

Long-billed Murrelets may be potentially affected by lighting, noise and flaring. However, the monitoring has shown that in their daily flights between the offshore feeding areas and the onshore nests, most of the birds tend to detour the production assets, choosing north-east and south-west directions. As a result, Long-billed Murrelets avoid adverse impacts from the production assets. A total of 433 individuals were recorded during the morning and evening counts in 2018.

The results of the 2018 monitoring show no negative impacts on the protected and migratory bird species from the operation of the Sakhalin Energy production assets.

8.3.7. Steller's Sea Eagle Monitoring

Steller's Sea Eagle is the world's largest fish-eating bird of prey. This species is listed in the IUCN (International Union of Conservation of Nature) Red List (Category VU, Vulnerable), in CITES (the Convention of International Trade in Endangered Species) Appendix II, in the Bonn Convention, in bilateral agreements on the protection of migratory birds between Russia and the USA, Japan, and South Korea, in the Red Book of Russia (Category III, Rare), and in the Red Book of the Sakhalin Oblast (Category II, Rare).

Pursuant to Federal Law On Wildlife Protection No. 52 dated 24 April 1995 (Articles 22 and 24), the protection regime for rare species includes a number of restrictive measures concerning users who perform business activities in these species' habitats. Legal entities and individuals who perform business activities within the onshore and offshore habitats of animals listed in the Red Books are responsible for the preservation and conservation of these animals in accordance with the laws of the Russian Federation and its constituent entities.

As early as the project feasibility study stage, Sakhalin Energy used the results of baseline studies to develop measures to protect nesting areas of Steller's sea eagle located within the production assets potential impact area, in line with the requirements of Russian legislation and international best practice.

The company monitors Steller's sea eagles and has implemented impact mitigation measures for Steller's Sea Eagle and White-Tailed Eagle during construction, modification and operation of assets under the Sakhalin-2 project.

Monitoring is conducted in Nogliki District within the 2 km corridor along the onshore pipelines route, within the 3 km zone around OPF boundaries, and in the control zone at a distance of up to 2 km from the northern part of Lunsky Bay shoreline.

During the field study of 2018, 193 nests were inspected and their status was determined; one individual of the white-tailed eagle and 91 individuals of Steller's sea eagle were identified.

In 2018, 113 eagle nesting areas were inspected within the pipeline impact area. It was found that along the onshore pipeline route, 12 nests were abandoned, 23 nests were not occupied, 11 nests were visited on a rare basis, six nests were occupied by birds, and 13 nests were used by birds for breeding. 48 nests were recorded to have disappeared. In four nests, there were two chicks per nest, and in eight nests, 1 chick per nest. One nest was destroyed by a bear, and at least one chick was killed. In total, 16 chicks flew the nests in the area near the infrastructure facilities. This indicates the effectiveness of the measures taken by the company to mitigate negative impacts and suggests that the species can adapt to living in proximity to man.

In the control zone located in the northern part of Lunsky Bay (evidently the less productive and the more developed part), 71 nesting areas were inspected. There were found to be seven active nests, 13 occupied nests, 23 nests visited by birds, 18 vacant nests and 3 abandoned nests. Seven nests in the control zone were recorded to have disappeared. Of the seven active nests, two nests were destroyed by a bear, and at least one chick in each nest died. One more chick died after falling from the nest. In four remaining nests, the following was observed: three nests had one chick each, and one nest had two chicks. In total, five chicks flew from four nests located in the control zone in 2018.

The average size of the brood in the pipeline impact area was 1.33 chicks, and in the control zone, 1.25 chicks.

The impact of bears on the eagle population (i.e. the predator pressure) in 2018 may be characterised as significant. One nest was destroyed in the potential pipeline impact area, and two in the control zone.

In the OPF potential impact area, nine nesting areas were inspected in 2018. There was one occupied nest, one visited nest, two vacant nests and two abandoned nests. Three nests in the OPF impact area had disappeared.

The future health of Steller's sea eagle population depends on its young, so the number of birds in this group is an indirect indicator of its condition. In stable eagle populations, the percentage of young birds should be 25-30% of the total. 2018 monitoring results showed that, in the monitored population of Steller's sea eagles, 12.1% were young immature birds, while 87.9% were adults.

The condition of the nesting pool in the potential impact area, as well as in the control zone, can be characterised as good. Within the potential pipeline impact area, 62% of all nests are in good or satisfactory condition, with the corresponding figure for the control zone near Lunsky Bay being 66%.

The analysis of variations in nesting site occupancy in the control zone (northern part of Lunsky Bay) and the pipeline impact area in 2004–2018 indicates a continuing downward trend in the number of nesting (breeding) eagle pairs, which is probably typical of the whole population of eagles inhabiting the north-eastern coast of Sakhalin, and is not a specific feature of the territory under consideration.

8.3.8. Monitoring of Marine Biota and Its Environment

Environmental monitoring of the potential impact of offshore production assets is carried out to timely identify any impacts and forecast the development of the processes affecting the quality of seawater, bottom sediments, and the condition of biological communities.

As part of the 2018 Industrial Environmental Monitoring (IEM) programme, the company continued to monitor the state of the marine environment and marine biota near the north-eastern coast of Sakhalin Island and in Aniva Bay. Field studies in the northern area where the PA-A, PA-B and LUN-A platforms and the subsurface assets for drilling waste are located, were conducted during the autumn using the „Gennadiy Nevelskoy" modern platform supply vessel; the southern area covering the OET and LNG jetty area in Prigorodnoye port in Aniva Bay was studied using the company's tug boats.

Based on the comparative analysis of the 2018 survey results and taking into consideration the spatial and temporal variability of the parameters from previous monitoring years, the following conclusions were made.

- Hydrochemical characteristics of the water near offshore production assets, including pollutants such as petroleum hydrocarbons, heavy metals, phenols and detergents, were within the baseline value range for these sea areas and complied with the standards established for water bodies extensively used for commercial fishery (MPCf).
- Concentrations of chemicals (phenols, detergents, petroleum hydrocarbons) in bottom sediments were distributed unevenly due to the specific geological features of the region and the distribution of different types of soil. Overall, concentrations of pollutants in bottom sediments varied within baseline ranges typical for these offshore areas and were mainly lower than the values causing initial biological effects at the organism and marine ecosystem community levels.
- Baseline concentrations of petroleum hydrocarbons in the near-bottom layer and bottom sediments at the boundaries of drilling waste disposal did not exceed the established limits. The maximum recorded concentration of petroleum hydrocarbons in seawater was 0.03 mg/dm^3, which is 1.6 times less than the MPCf. The maximum concentration of petroleum hydrocarbons in seabed sediment was 0.021 mg/g, which is considerably less than concentrations that may have biological impact. Assessment of annual fluctuations demonstrated consistency with previous survey years.
- Depending on the depth and type of seabed sediments, areas around offshore platforms are inhabited by several types of bottom communities. Benthic communities identified in the course of monitoring are typical for the water areas of the Sea of Okhotsk and are characterised by rich species diversity with high qualitative indicators comparable to background values.
- The biomass of benthic communities is mainly formed by sea urchins, actinias, bivalves, gastropods, polychaetes, and crustaceans. Amphipods and polychaete worms dominate by species abundance, bivalves and gastropods are characterised by richness of species. No trend towards the depletion of biomass was identified for this area.

In general, the results of long-term research show the stability of indicators for local marine ecosystems in the areas of offshore production assets at the operation stage and the absence of any impact of production activities on the quality of seawater, bottom sediments, and the condition of marine biota in the water areas of the Piltun-Astokhskoye and Lunskoye fields and Prigorodnoye port in Aniva Bay. This indicates that environmental standards are observed at the company's production assets.

8.3.9. Ballast Water Control

Every year, over 200 standard oil and LNG cargoes have been loaded to oil and gas tankers arriving to the Prigorodnoye production complex mainly from the ports of Asia Pacific Region.

The ballast water taken at the port of departure may contain dangerous invasive marine (alien to the local environment) organisms, which, under favourable conditions, can adapt to the local environment, and dangerous aggressive invasive species able to disturb the balance of the ecosystem of Aniva Bay.

Sakhalin Energy has developed a package of preventive measures to ensure ballast water management, which is based on international and national regulations and best international practices. Currently one of the most effective measures to prevent the introduction of alien species is the exchange of ballast water on the high sea. This method is imperative in accordance with the International Convention for the Control and Management of Ships' Ballast Water and Sediments (Convention), which was adopted in 2004. Following the innovation strategy, the company included this requirement in the corporate Ballast Water Management Policy in 2009 prior to start of large-scale hydrocarbons transportation. Russian Federation ratified the Convention in 2012, and since September 2017, ballast water of ships shall be controlled by all the countries and carriers according to the Convention.

The ballast water monitoring and control of each tanker to be loaded in Prigorodnoye port includes:

- checking vessels' logbooks for ballast water exchange in deep waters of the Pacific Ocean and the Sea of Japan;
- express analysis of physicochemical characteristics of ballast water;
- planktonic organisms sampling.

A vessel is only allowed to commence discharging ballast water in the area of the port and loading of hydrocarbons when prior exchange of ballast water in deep waters is confirmed. In addition to this, environmental, taxonomic and biogeographic analysis of organisms found in ballast tanks is carried out.

The research results of phyto- and zooplankton species in the ballast water in 2018 confirm compliance with ballast water exchange in open deep waters. No dangerous invasive species have been found. However, potentially toxic phytoplankton species are occasionally encountered among those species alien to Aniva Bay. Since such

microalgae are encountered in ballast water only on rare occasions and in low quantities, the risk is extremely low. Such species were not found during Prigorodnoye port 2018 environmental monitoring. However, the monitoring of the offshore strip of Aniva Bay will be continued.

As a result of the long-term monitoring of Aniva Bay flora and fauna, over 600 species of phytoplankton, over 90 forms of zooplankton, about 40 species of ichthyoplankton and 160 species of benthos have been identified. Also recorded are new species of seaweed and animals, which were never before recorded in Aniva Bay. Biogeographic and environmental characteristics indicate they are local inhabitants.

No protected species of flora and fauna have been observed during the environmental monitoring of the waters of Prigorodnoye port.

8.3.10. Gray Whale Monitoring and Marine Mammal Protection

23 species of marine mammals, including 17 species of cetaceans (whales, dolphins, porpoises) and six species of pinnipeds (seals), can be found in the area of the Sakhalin-2 project in the coastal waters of the Sea of Okhotsk. Of these, 7 species are listed in the Red Book of the Russian Federation — the gray whale, the bowhead whale, the North Pacific right whale, the fin whale, the Cuvier's beaked whale, the harbour porpoise, as well as pinnipeds such as the Steller sea lion. The Okhotsk-Korean (Western) gray whale subpopulation, which also has a high conservation status on the Red List of the International Union for Conservation of Nature (IUCN), feeds near the Sakhalin Energy's offshore production assets during the ice-free period. The company therefore pays much attention to the monitoring and conservation of gray whales, as well as other mammal species.

The implementation of the corporate Marine Mammal Protection Plan (MMPP), updated in 2018, makes it possible to take into account all the risks associated with production activities, and to take timely measures to reduce the negative impact. This includes establishing special corridors for vessels to bypass the main feeding areas of gray whales, imposing speed restrictions and prescribing specific minimum distances between vessels and marine mammals to ensure their safety. One of the key components of the MMPP is the presence of marine mammal observers on the company's vessels, which has been run as a separate observation programme since 2003. According to the long-term data, the most common species in the waters washing the north-eastern coast of Sakhalin are cetaceans such as the harbour and Dall's porpoises, the minke whale, the gray whale; and pinnipeds such as the largha or spotted seal, the northern fur seal, and the Steller sea lion. Individual specimens of other rare species, including the Cuvier's beaked whale, the Short-finned pilot whale, the northern right whale dolphin, and the North Pacific right whale have been observed over the years of monitoring.

In 2018, Sakhalin Energy conducted geophysical surveys in the Piltun-Astokhskoye and Lunskoye license areas. The company received a positive conclusion of the RF State Environmental Expert Review for the project, and it was implemented in strict compliance with Russian legal requirements, international standards, and industry best practices. Based on the recommendations of experts from the IUCN Western Gray Whale Advisory Panel (WGWAP), the company developed a plan for monitoring and mitigating the impact on marine mammals. The implementation of the plan, which involved more than 30 experienced Russian and foreign experts, ensured the prevention of incidents with marine mammals during the seismic surveys.

Number of Gray Whales Included in the Sakhalin Photo Catalogue, individuals

Year	2015	2016	2017	2018
Gray whales	259	274	283	297

The field work for the coastal photographic identification of gray whales was executed with the use of unmanned aerial vehicles (drones), the effectiveness of which was proven by research experience in previous years. Photographs obtained from the drones made it possible to identify a part of the whales feeding in the remote areas around Piltun.

During the 2018 field season, 155 whale individuals were preliminary identified, including 10 calves and two new adult whales. Updates have been made to the Sakhalin photo catalogue, currently numbering 297 animals (including another whale, photographed in 2017, but reidentified as a new whale in 2018).

In addition to field studies, considerable efforts were focused on making an interdisciplinary analysis of the data collected over the past years, and preparation of research results for publication in peer-reviewed scientific journals. This analysis served as a basis for a comprehensive assessment of the environmental capacity to support

gray whales in the feeding areas off the north-eastern coast of Sakhalin Island that was conducted in 2018.

The results of the long-term monitoring indicate the well-being of the gray whale feeding aggregation that comes near to the company`s offshore production assets. According to international experts from the WGWAP, the number of individuals in the subpopulations has seen an annual increase of 2–5%. Taking this increase into consideration, IUCN has changed the category of Western gray whale subpopulation in the Red List from Critically endangered (CR) to Endangered (EN).

Not a single incident of impacting marine mammals has been registered since the start of Sakhalin Energy's operations on the north-eastern shelf of the island. All of this supports that the management of the environmental aspects of the company's activities and the measures applied to minimise the impact are effective.

In the autumn of 2018, the X International Conference „Marine Mammals of Holarctic" took place in Arkhangelsk. Sakhalin Energy was one of the primary sponsors of the event. During sections devoted to the study of gray whales, nine reports were presented on the results of the joint monitoring programme, and two reports on the results of the company's MMPP implementation. The presentations were highly regarded by the scientific community. Research materials were subsequently published in collections of articles and abstracts of the conference.

8.4. Pipeline Right-of-Way Maintenance

In 2018, regular monitoring and geotechnical surveys were carried out along the pipeline right-of-way. Their results have been recorded in order to have relevant actions taken.

The list of right-of-way monitoring actions included:
- helicopter fly-overs and photoshooting;
- river crossing surveys;
- river surveys based on geomatics principles;
- monitoring of river hydrological characteristics;
- surveys of geological hazards, cover thickness;
- plant growth and local soil monitoring;
- groundwater surveys;
- satellite surveys of the pipeline right-of-way;
- wetland surveys.

Based on right-of-way monitoring outcomes, a right-of-way maintenance plan has been developed. Repair and maintenance of the right-of-way were completed in December 2018, as planned. Work was performed at three plots and included eliminating the consequences of natural erosion as well as repairing existing anti-erosion structures.

No pipeline damage occurred in 2018.

During 2018, landslide mitigation activities started in 2017, as well as repair of two existing bank protection sites, were completed.

8.5. Oil Spill Prevention and Response Preparedness

8.5.1. General Information

Oil spill prevention and oil spill response (OSR) preparedness are the top priorities for Sakhalin Energy. The company applies a complex approach to addressing this important mission.

The company has established a Crisis Management Team, an Emergency Coordination Team, and a Duty Dispatcher Service that are on duty 24/7 to coordinate the response in emergency situations.

The company has developed the OSR Plans for all onshore and offshore assets; all necessary approvals and expertise have been obtained from appropriate state agencies.

The company has concluded contracts for OSR services to be provided by the professional emergency response teams of CREO, Ecoshelf and Sakhalin branch of the Rosmorrechflot Offshore Rescue Service for offshore assets.

Furthermore, the company's own certified Non-Professional Emergency Response Teams (NERTs) have been established at Sakhalin Energy's production assets.

The OSR vessels with appropriate equipment are continuously on standby near the offshore platforms and in Prigorodnoye port.

The number and volume of oil spills have decreased significantly in recent years, with only 28 emergency oil spills totalling 119 litres reported between 2010 and 2018 versus 21 emergency spills releasing 3,504.46 litres of oil in 2008–2009.

In 2018, there were four crude oil and/or petroleum products spills from the company's assets totalling less than 1 litre (0.62 litres).

In 1999–2018, the total hydrocarbons produced amounted to over 539 MMbbl, the total hydrocarbons spilled was 26.5 bbl, which is less than 0.000005%.

Since the commencement of the project, none of the crude oil and/or petroleum product spills from the company's assets has been defined as an emergency situation.

Emergency Coordination Team members receive Level I and II OSR programme training, as well as Level I (ICS-100), Level II (ICS-200) and Level III (ICS-300) Incident Command System training. Level I of the programme is basic and is designed for regular rescuers and emergency responders, while Level II is designed for training supervisors, leaders of oil spill response teams and groups. Level III training is intended for Asset Managers, Department Heads and Emergency Response Coordinators.

In order to increase the personnel's OSR preparedness and improve their practical skills, the company conducts monthly practical and theoretical training sessions at all company's assets.

Integrated corporate emergency oil spill response drills took place at onshore pipeline system and Lunskoye field in May and August 2018.

According to observers, the company and contractors acted in a well-coordinated and effective manner during the drill. The objectives of the drill were fully realised. As a follow-up to the drill, recommendations were developed and appropriate measures were taken to improve the OSR systems. The analysis of the drills and exercises conducted by the company showed it to be fully prepared to respond in the event of an emergency oil spill at any Sakhalin-2 asset, whether offshore or onshore.

Global practices of providing response to large-scale emergencies have proven that an effective response to major oil spills is possible only with an integrated application of mechanical and non-mechanical technologies. Namely, using dispersants and in-situ burning allows significantly mitigating the environmental damage, reducing the response, and rescuing unique wildlife species. Sakhalin Energy has conducted a net environmental benefit analysis (NEBA) that confirmed the effectiveness of combining mechanical recovery methods with non-mechanical — dispersants use and in-situ burning — in response to large-scale spills.

8.5.2. Oiled Wildlife Rehabilitation

More than 500 people from 25 organisations operating in Sakhalin have been trained through the oiled animals rescue programme over the years. Trainings in repelling, capturing and rehabilitating oiled animals have also become an integral part of Sakhalin Energy's corporate culture.

Oil spills can cause serious harm to coastal and marine fauna. Coastal bays and lagoons temporarily or permanently inhabited by birds and other wildlife species, many of which are protected species, as well as rivers and wetlands, are especially vulnerable to oil spills. Animals affected by the impact of crude oil and petroleum products need prompt and proper rescue actions, including capturing, rehabilitation, and subsequent release into the wild. This task can be carried out only by properly trained staff.

In keeping with its commitments to environmental protection and biodiversity preservation and in line with the international best practices, Sakhalin Energy has been training personnel under the Oiled Wildlife Rehabilitation programme since 2005.

The programme was developed in cooperation with the International Fund for Animal Welfare (IFAW) and the International Bird Rescue Research Centre (IBRRC), taking into account Sakhalin's ornithologic fauna and severe climate. The programme provides opportunity for the participation of all employees of the company and contractors involved in oil spill response.

In addition to oil spill response plans, a number of corporate documents were developed as part of the programme, the main one being the Oiled Wildlife Response Plan, which identifies the necessary resources and procedures for coordinating actions between corporate units and external entities.

Since 2011, Sakhalin's rehabilitation centre for oiled wild animals has been operating in the territory of the Prigorodnoye production complex. This is the first in Russia and the only one in the Pacific Region.

To implement the programme, the company installed specialised equipment in the central and northern parts of the island, at OPF near Lunsky Bay, and at the pipeline maintenance depot (PMD) in Gastello.

The company organises annual training for oiled wild animals rescue. During 2018, training was successfully provided for 39 employees.

The training programme included two response modules: (1) repelling, capturing and transportation of birds, and (2) cleaning and stabilisation of birds at the rehabilitation centre for oiled wild animals.

The first module was carried out as part of regular OSR exercises. In July 2018, exercises were conducted in the waters of Aniva Bay in the territory of Prigorodnoye port and in August 2018 — on the shoreline strip and the waters adjacent to Nyisky Bay, near the Kaigan port. In the course of practical training programme, participants practised the skills of repelling animals from the sites of oil spills, catching polluted animals from small boats and transporting them to the shore, and consolidated their theoretical knowledge of preventing injury to birds and maintaining their welfare during transportation.

The second module was carried out in October 2018 and included work at the rehabilitation centre for oiled wild animals, located in the territory of the Prigorodnoye production complex. During the training, the participants received theoretical knowledge of providing assistance in the rehabilitation of oiled birds and animals, including feeding them, monitoring their general state and sampling. They also developed practical skills of capturing, holding and carrying oiled birds and animals. The participants also were acquainted with the equipment for giving first aid, and received practical experience in cleaning birds from oil products.

8.6. Sanitary Protection and Safety Zones

To ensure the safety of the population and in accordance with Federal Law No. 52 Federal Law On the Sanitary and Epidemiological Welfare of the Population of 30 March 1999, a special-use area, i.e. a sanitary protection zone (SPZ), was established around assets and production sites that may impact human habitat and health. The size of such a zone is set to mitigate the impact of pollution on the atmosphere, keeping it in line with health standards and acceptable health risk levels.

The sanitary protection zone boundaries confirmed by the Chief State Medical Officer of the Russian Federation for the Prigorodnoye production complex, OPF, and BS 2 were not changed in 2018.

The onshore main pipelines run in the same right-of-way and are clearly designated with special signs. A safety zone is established along the entire pipeline route, and its boundaries are clearly marked with signs.

A safety zone was established for the main pipelines to prevent any possible damage to them. This zone is mandated by the Rules for Main Pipelines Protection, approved by Ruling No. 9 of Gosgortekhnadzor (currently, Rostekhnadzor, the Federal Service for Environmental, Technological, and Nuclear Supervision) of the Russian Federation of 22 April 1992 and Governmental Degree No. 1083 on Approval of Rules for Main Gas Pipelines Protection dated 08 September 2017. The safety zone along the pipelines transporting oil and natural gas is a strip of land extending 25 m on either side of the pipeline.

SOCIAL IMPACT MANAGEMENT

9

9.1. Personnel: Management and Development

Personnel is the main asset to the company. As in the previous years, one of the most important tasks set by the company is to ensure that the rights of its employees are respected and supported. Sakhalin Energy is committed to upholding human rights of its employees, as stipulated in the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work, including non-discrimination, the prohibition of the use of child and forced labour, the right to associate, to form trade unions and to join them, collective bargaining and conclusion of contracts and agreements, as well as the creation of safe and favourable working conditions for the company's employees, as well as contractor, subcontractor, and agency personnel.

Sakhalin Energy provides equal opportunities for all job applicants and employees in strict accordance with well-defined and generally accepted recruitment rules and labour standards, and prevents any discrimination.

Sakhalin Energy undertakes to develop and comply with regulations related to the work of personnel in all aspects of employment relationships, including recruitment, selection, hiring, assessment, promotion, training, maintaining discipline, development, payment of compensations, and termination of employment contracts.

9.1.1. Approaches to HR Management and HR Policy

The HR Directorate meets the company's manpower needs, which includes preparing organisational changes for upcoming large-scale projects, training and retaining staff, and attracting skilled employees from shareholder companies and the external labour market. The Directorate is guided by the following strategic priorities:

- attract, hire, and retain the most talented employees in the global energy market by relying on our internal talent pool, the expertise of shareholder companies, and other sources;
- develop an effective collaborative work environment that unites employees working in the offices and at the assets of the company.
- invest in the professional and personal development of Russian specialists to ensure staff retention and the formation of a successors pool for key managerial and engineering positions;
- offer an attractive and competitive Employee Value Proposition;
- promote simple and clear HR processes using lean manufacturing methodologies and high-quality HR information systems;

THE USE OF THE SAP HCM AUTOMATED SYSTEM

The company's HR Directorate makes maximum use of human capital management software, namely HCM SAP, in the implementation of the HR Policy. This allows us to significantly reduce time and costs and to optimise many processes in the HR Directorate and other units of the company. In particular, the system modules used by the company automate the preparation of HR documents and reports and aid in managing important processes such as learning and development of personnel, succession planning, competence assessment, and recruitment.

According to the employee opinion survey conducted in 2018, the level of staff engagement was 85%. Having surpassed the results of other Russian companies, the identified figures for 2018 are leading in the industry. Employees continue to note the company's high degree of responsibility in the field of safe and quality work performance, occupational safety and environmental protection, equipment reliability and process safety, and are ready to recommend the company as a good employer.

In September 2018, the company held a regular HR Managers Week with the participation of representatives of shareholder companies and Sakhalin Energy's senior management. The goals of the event were to enhance the professional competence of the HR Directorate personnel, to familiarise them with new trends in personnel management, and to exchange experience with shareholder companies.

The company's senior management believes that all employees should feel engaged in their work, be confident the company supports and respects them, and be given the opportunity to contribute to the growth of the company using their knowledge, skills, and abilities. Employee engagement is measured annually via employee opinion surveys and is viewed as one of the most important indicators of employee work satisfaction at the company.

To pursue these goals and objectives, Sakhalin Energy implements its HR strategy through its HR policy.

The HR policy is an integral and strategic set of methods, tools, and documents that governs the company's relations with its employees and helps it to promptly respond to changing conditions in the global oil and gas market and the market of qualified professionals. All required notifications regarding changes in employment conditions are communicated to the employees as required by labour legislation of the Russian Federation.

The HR Director and the Committee of Executive Directors oversee the development, modification, and approval of the company's HR policy. These processes are based on our HR management policy, which is in line with international standards.

9.1.2. General Information

As of 31 December 2018, the total number of people employed by the company was 2,298, including 2,134 Russian employees. Sakhalin Energy operates mostly in the territory of the Sakhalin Oblast, Russian Federation. There were 2,274 employees working in this region, and 24 people employed in the Moscow office.

The company strives to hire Russian citizens, mostly Sakhalin residents, to work on the Sakhalin-2 project. This is the approach set forth in the company's HR policy and complies with the terms of the PSA project. At the end of 2018, the number of Sakhalin Oblast residents working at the company was 1,243 people, which is 54.1% of the total personnel.

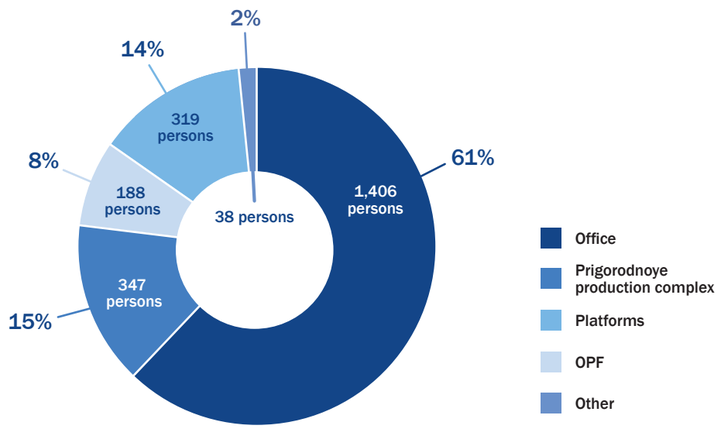
At the end of 2018, 28% of the company's employees were working on a rotational basis and living in hotels and rotational camps built and equipped in accordance with Russian legislation and best international practices.

Personnel Structure in 2018

	Total, persons	including, persons		Total, %	including, %	
		Female	Male		Female	Male
Russian personnel	2,134	629	1,505	93	99	91
including Sakhalin residents (58% of the Russian personnel)	1,243	494	749	58	79	50
Foreign personnel	164	8	156	7	1	9
Total	2,298	637	1,661	100	100	100

The personnel structure is mandated by the specific nature of the company's operations: 87% are managers, specialists, and salaried workers, approximately 61% are office employees, and the rest work at the production assets of the project.

Personnel Structure in 2018 by Assets



438 of 2134 Russian employees were in managerial positions (see the Managerial Personnel Structure chart), 223 of which are residents of the Sakhalin Oblast. In order to increase the share of Russian executive personnel, the company is training, developing, and promoting existing Russian staff, and actively recruiting new qualified Russian specialists. The implementation of the Traineeship Programme, as well as the formation and development of successors pool make it possible to meet the company's needs for junior technical staff through the recruitment of trainees (see Sections 9.1.7.4. Traineeship Programme and 9.1.7.5. Successors Pool Planning and Development).

Managerial Personnel Structure in 2018

	Total, persons	including, persons		Total, %	including, %	
		Female	Male		Female	Male
Russian personnel	438	89	349	86	20	80
including Sakhalin residents (51% of the Russian personnel)	223	68	155	44	30	70
Foreign personnel	69	1	68	14	1	99
Total	507	90	417	100	18	82

In 2018, 113 employees were granted child care leave. Of these, two fathers used this right. During the same period, 47 employees (45 women and two men) resumed their job duties at the end of their child care leave. Of these, 36 people continued their employment with the company.

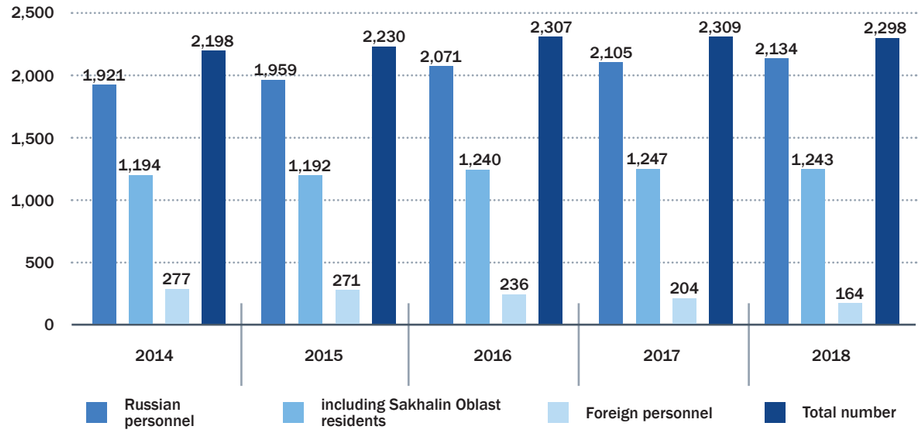
About 28% of the company's employees are women (637 people at the end of 2018). Of these, 90 occupy executive positions, making up 18% of the company's management team (see the Managerial Personnel Structure chart).

Change in the Number of Employees in Managerial Positions in 2014–2018 (as of the year end), persons

	2014			2015			2016			2017			2018		
	Total	including		Total	including		Total	including		Total	including		Total	including	
		Female	Male		Female	Male		Female	Male		Female	Male		Female	Male
Russian personnel	366	70	296	374	73	301	399	82	317	413	88	325	438	89	349
including Sakhalin residents	199	50	149	200	52	148	215	60	155	216	66	150	223	68	155
Foreign personnel	99	5	94	96	5	91	86	5	81	83	4	79	69	1	68

Over the past five years, the number of employees has slightly changed due to production needs and the development strategy of the company. Unlike the tourism or agricultural industries, the company does not experience significant seasonal fluctuations in the number of personnel.

Change in the Number of Employees in 2014–2018 (as of the year end), persons



In 2018, 224 people left the company. Of these, 152 were men and 72 — women, including 75 foreign citizens and 149 Russian citizens (including 95 residents of the Sakhalin Oblast). Staff turnover rate in 2018 was 4.3%, in 2017 — 3.75%, in 2016 — 4.07%, and in 2015 — 4.95%. The statistics of personnel who left the company in 2018, broken down by age group and gender, are shown in the Structure of Personnel Who Left the Company in 2018 table.

Structure of Personnel Who Left the Company in 2018

Age, years	Total, persons	including, persons		Total, %	including, %	
		Female	Male		Female	Male
Below 35	70	33	37	31	46	24
36–50	79	29	50	35	40	33
Above 50 years	75	10	65	34	14	43
Total	224	72	152	100	100	100

At the end of 2018, the average age of employees was 39.5 years. Employees aged under 50 accounted for more than 87%.

Personnel Age and Gender Structure in 2018

Age, years	Total, persons	including, persons		Total, %	including, %	
		Female	Male		Female	Male
Below 35	855	319	536	37	50	32
36–50 years	1,139	290	849	50	46	51
Above 50 years	304	28	276	13	4	17
Total	2,298	637	1,661	100	100	100

The working hours are established in the company's Internal Working Rules:

- five-day working week with two days-off;
- cumulative hours worked (rotation-based work);
- shift work;
- individual work schedule.

The working schedules used at the company's assets are shown in the Company's Employee Working Schedules by Asset table.

Company's Employee Working Schedules by Asset

Company's asset	Working schedule
Offices	– five-day working week
Prigorodnoye production complex	– five-day working week – cumulative hours worked (rotation-based work)
OPF	– cumulative hours worked (rotation-based work)
Platforms	– cumulative hours worked (rotation-based work)
Other	– five-day working week – cumulative hours worked (rotation-based work) – shift work – individual work schedule

9.1.3. Recruiting, Hiring and Onboarding New Employees

Recruitment in the company is based on the staff schedule and joint work with the heads of structural units aimed to forecast the need for personnel. Various tools and methods are used to attract potential candidates and advertise new vacancies, in particular:

- advertising through the Sakhalin Energy's website. For the applicants' convenience, there is an automated service for submitting CVs online. The website offers guidelines for uploading CVs; applicants can edit their CVs in their personal accounts;
- provision of information on vacancies to the Yuzhno-Sakhalinsk Labour Centre (on a monthly basis);
- cooperation with leading recruitment agencies;
- participation in local and regional specialised job fairs;
- publishing vacancy lists in online resources and in print media;
- promoting the company's Employee Referral Programme, according to which Sakhalin Energy's employees who recommend candidates are given a bonus if these candidates are hired to work at the company;
- attracting skilled employees from shareholder companies.

In 2018, the company actively recruited specialists both from the Sakhalin Oblast and other regions. Personnel mobility is one of the key trends in the labour market of the oil and gas industry, which is why Sakhalin Energy uses various opportunities and platforms for dialogue with potential job candidates. One of such events was the Job & The City job fair in Moscow organised by representatives of Skolkovo Technopark.

In December, the Legislative Fundamentals of Developing Mechanisms for Attracting Young Specialists to the Arctic and the Far East round table was held in the Maly Hall of the State Duma. It was attended by members of the lower chamber of the Parliament, employees of relevant ministries and departments, representatives of the regions, university teachers and students, and schoolchildren. Sakhalin Energy took part in the round table at the invitation of the event organiser — the Committee on Regional Policy and Problems of the North and the Far East. Young professionals are expected to play a key role in the implementation of strategic initiatives to expand the existing LNG production and the sales markets.

In addition, representatives of Sakhalin Energy shared their professional knowledge with SSU students as pro bono intellectual volunteering. A series of lectures on supply chain management and contracting were delivered by the managers and specialists of the corresponding Sakhalin Energy department. Future managers, lawyers and economists — about 40 students of the third and fourth years of study — listened to the lectures with great interest.

The company's interest in the graduates of Sakhalin State University is due to the fact that more than 400 Sakhalin Energy's employees graduated from this educational institution at different times, and nearly 100 employees — from the Polytechnic College of Sakhalin State University.

Sakhalin Energy makes every effort to continue to increase the proportion of Sakhalin Oblast residents among its staff; today, the figure is nearly 54.1%. Being well aware of the specifics of the local labour market, the company offers Sakhalin university graduates special conditions for joining the Graduate Development Programme.

In 2018, Sakhalin Energy took part in the Days of the Far East held in Moscow. The event was organised by the Office of the Presidential Plenipotentiary Envoy to the Far Eastern Federal District, the Russian Ministry for the Development of the Far East and the Moscow City Government. Representatives of the company told the guests, among which were high school students, graduates of secondary and higher educational institutions, about the Sakhalin-2 project, as well as about career and professional development opportunities at the company. Participation in such events allows to attract students for traineeship at Sakhalin Energy, and promising graduates are offered employment opportunities at the company.

In 2018, Sakhalin Energy representatives held a regular Business Day for students of Sakhalin State University (SSU). It was the third time already that the company had organised this kind of event, but this year, unlike the previous times, the dialogue between Sakhalin Energy specialists and SSU students was held on the company's premises.

During the event, students were actively involved in project activities, in particular, project defence. The captains of the teams presented their projects to the company's employees, who played the role of shareholders.

In 2018, the company hired 186 people (134 men and 52 women). 11 of the personnel hired were foreign employees, and 175 were Russian nationals (including 95 residents of the Sakhalin Oblast).

The statistics of employees hired in 2018, broken down by age group and gender, are presented in the Personnel Recruitment Structure in 2018 table.

The percentage of critical technical jobs filled remains one of the key performance indicators of the HR Directorate. The figure was 99.8% in 2018, 99.7% in 2017, 99% in 2016, 95.7% in 2015, and 93.8% in 2014.

The company continues to run the New Employee Onboarding Programme aimed at maximising the awareness of employees and increasing performance efficiency.

Regular information sessions are held for new employees in Russian and English with a complete overview of the specifics of the organisational units, processes, and interactions between the units and stakeholders.

Personnel Recruitment Structure in 2018

Age, years	Total, persons	including, persons		Total, %	including, %	
		Female	Male		Female	Male
Below 35	123	39	84	66	75	63
36–50	55	13	42	30	25	31
Above 50 years	8	-	8	4	-	6
Total	186	52	134	100	100	100

9.1.4. Remuneration and Bonus System

The company applies a time-based remuneration system, which also provides for additional payments that depend on the employees' skills and position. This encourages efficient work and provides motivation for excellent performance.

Remuneration of Sakhalin Energy's employees includes:
- base salary, hourly rate as per the employment agreement;
- compensating or incentive allowances and uplifts to the base salaries and hourly rates payable as per the Regulations on Labour Remuneration, Bonuses and Social Benefits, RF Labour Code and other normative acts;
- bonuses payable as per the Regulations on Labour Remuneration, Bonuses and Social Benefits and other local normative acts.

Sakhalin Energy's remuneration policy, practices and methods are designed to recognise and encourage excellent personal and production performance. The company uses the same remuneration system for both men and women employees.

The existing incentive system uses a single unified, standard approach to motivating employees in all the company's subdivisions. This is achieved through the following types of bonuses as per the 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 payment to the employees in connection with rewarding;
- bonus for participation in a research-to-practice conference held by the company on a regular basis;
- Committee of Executive Directors Award to employees who achieved special success in teamwork.

Employees may be awarded certificates of honour and Honorary Letters on the professional holiday (the Oil and Gas Workers Day) and the company's anniversaries. Awarding employees may also be given to celebrate anniversary dates of employees (50 years and then every five years).

To make sure that its salaries are competitive, Sakhalin Energy regularly monitors the financial segment of the job market and annually adjusts salaries to account for the employees' individual performance (see Section 9.1.6. Individual Performance Review).

In 2018, the minimum salary in the company was three times higher than the minimum wage established by Russian legislation.

Sakhalin Energy's labour remuneration expenses totalled 13.74 bln roubles in the reporting year, with award/bonus payments totalling 3.5 bln roubles.

The main principles of remuneration adhered to by Sakhalin Energy are to pay its employees competitive salaries that are equal to or exceed the average salary in the Russian oil and gas industry, and to use a transparent bonus system for all personnel categories.

9.1.5. Social Benefits and Compensations

The company does everything possible to ensure the attractiveness and competitiveness of its compensation and benefits package in order to attract and retain skilled and high-potential personnel. The compensations and benefits provided to Sakhalin Energy's personnel ensure the well-being and social security of employees and their families.

In addition to the guarantees and benefits provided for by Russian labour law, Sakhalin Energy provides its employees with:
- voluntary medical insurance for employees and their families;
- accident and sickness insurance;
- travel insurance;
- temporary disability benefits;
- free meals at the company's production assets and in the company's offices;
- benefits related to the provision of housing for employees and their families for the duration of their employment (for those employed on terms of relocation from other regions);
- mortgage programme;
- compensation of part of round-trip travel expenses to employees' chosen place of vacation within the RF territory (this applies to employees and non-working members of their families (spouses and children up to the age of 18 years), living in the Far North and equivalent areas);
- corporate pension programme;
- material assistance upon the birth (or adoption) of a child and in difficult personal circumstances;
- maternity benefits;
- additional paid vacation days;
- leisure and development programmes for the children of the company's employees;
- sport and recreation facilities (see also Section 9.3. Occupational Health).

HOUSING BENEFITS

The company provides benefits related to the provision of housing for employees and their families who are hired on terms of relocation from other regions of the Russian Federation, the CIS member states, as well as from the Far North and equivalent areas. The benefits are provided in the form of housing from the housing stock of the company, or payments for the rental of accommodation.

Presently, most of the company-owned housing is located at Zima residential complex. The company also has leased residential premises in Strawberry Hills complex.

The company runs a mortgage programme, which provides for compensating a part of mortgage interest for the purchase (construction) of dwelling premises in the Sakhalin Oblast. Under the programme, the company reimburses 40% of interest payments actually paid by

an employee during the accounting period, not exceeding the amount set by the company.

Since the beginning of the programme, 251 Russian employees (more than 10% of total staff) have participated in it.

MEDICAL INSURANCE

The company provides employees and their families with medical insurance benefits under insurance contracts with SOGAZ concluded as part of voluntary medical, accident and illness, and travel insurance programmes.

In accordance with Russian legislation, the company provides foreign employees with required medical assistance under voluntary medical insurance contracts in the territory of the Russian Federation. The company also helps employees to acquire voluntary medical insurance policies for family members on favourable terms.

CORPORATE PENSION PLAN

The company offers a corporate non-state pension plan under which employees and the company pay contributions towards occupational pension schemes.

Participation in the corporate pension plan is voluntary and allows each employee to independently pay into their retirement pension.

At the end of 2018, 22% of the company's Russian employees are enrolled in the corporate pension plan.

The company contributed a total of 245.6 mln roubles to Gazfond from 2011 to 2018.

PROGRAMMES FOR THE CHILDREN OF THE COMPANY'S EMPLOYEES

The company implements leisure and development programmes for preschool and school children. Development groups, creative associations and hobby groups for children of the company's employees have been working at the sports and leisure facilities of Zima residential complex since 2012.

In summer, children of the company's employees have an opportunity to attend the Happy Holidays Leisure and Recreation Programme. The programme has been run for eight years already, and is designed for children of preschool age up to 16 years old. Every year, a different theme is developed for the programme, and each summer session is held according to a unique scenario.

Since the beginning of the programme, there have been 35 summer sessions. They were attended by about 4,000 children, who took part in nearly 300 excursions and more than 250 workshops.

Taking into account the principles and priorities of the company in the area of HSE, measures are taken for personnel involved in the programme implementation to improve the culture of safe behaviour and build personal responsibility for their own safety and the safety of other programme participants.

In 2018, the Safety Leader category was announced for camp counsellors working under the programme. This was done to honour the most active participants who contributed to the creation of safe conditions for the programme implementation and thus to promote the prevention of injuries and accidents.

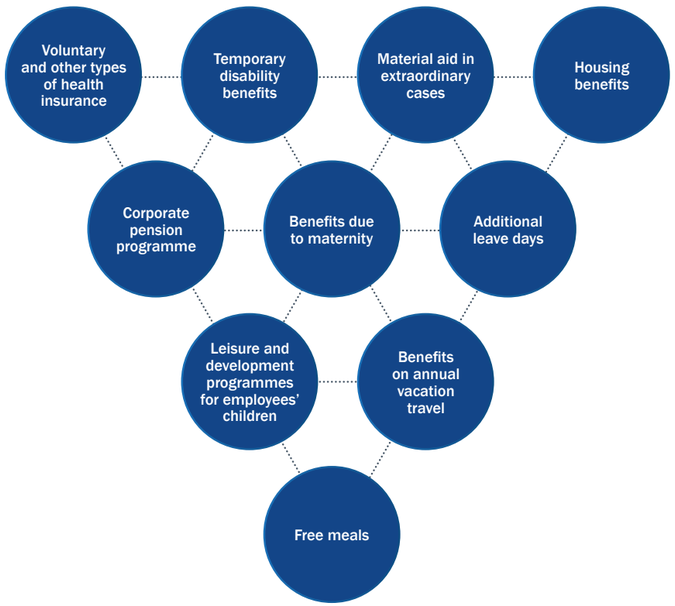
Each session of last year's programme was organised so that there were special activities for children aimed at creating a culture of safe behaviour. The children showed great enthusiasm about the Camp Safety Map, the collective creative activity dedicated to the topic Safety Is Important, filming and presentation of videos on the topic Safety and Happy Holidays, as well as the common Safety Day held during the fourth session, with the participation of Senya — the character of the favourite corporate animated television series about safety.

OTHER

Employees and their families can use the company's shuttle buses, which run along the approved routes across the city to the company's offices, and stop at educational institutions of Yuzhno-Sakhalinsk.

School psychological consultations are available for employees and their children.

Social Benefits and Compensations at Sakhalin Energy



9.1.6. Individual Performance Review

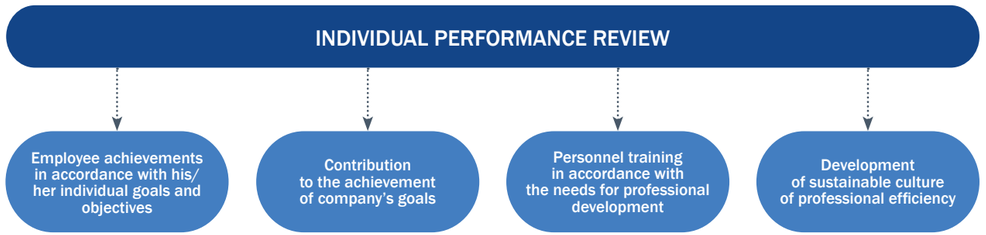
The Individual Performance Review process is one of the main tools used to achieve the company's strategic goals of building a performance culture.

All employees undergo annual performance review. An employee's performance is assessed based on the degree to which he/she reaches business and individual goals set at the beginning of the year.

This assessment shows whether professional development is required for the employee to continue to grow professionally and improve the company's efficiency in general.

As of the end of 2018, 2,207 employees (96% of the personnel) underwent the Individual Performance Review (see the Individual Performance Review in 2018 table).

Individual Performance Review



Individual Performance Review in 2018

Personnel category	Gender	Total number of employees, persons	Employees who underwent the Individual Performance Review, persons	Employees who underwent the Individual Performance Review, %
Managers		507	503	99
including	Male	417	416	100
	Female	90	87	97
Specialists		1,475	1,431	97
including	Male	948	939	99
	Female	527	492	93
Salaried workers		15	11	73
including	Male	–	–	–
	Female	15	11	73
Workers		301	262	87
including	Male	296	259	88
	Female	5	3	60
TOTAL		2,298	2,207	96
including	Male	1,661	1,614	97
	Female	637	593	93

9.1.7. Learning and Development

9.1.7.1. General Information

Sakhalin Energy's learning and development system is designed to meet the needs of the company for highly qualified personnel, to achieve short-term and long-term production goals.

Learning and development in the company is based on the following principles:

- compliance: the training content is formed based on the needs of personnel and business; the training results contribute to production goals achievement and the company's overall strategy implementation;
- competence approach: learning and development process is based on an analysis of employees' competence;
- centralisation: learning and development subdivisions are responsible for all training processes in the company, planning and spending the training budget;
- cost effectiveness: achieving the maximum level of efficiency through the application of learning and development criteria agreed with the business, as well as the choice of educational service providers without compromising the production safety and reliability;
- equal opportunities: continuous, systematic, and consistent improvement of the employees' professional level and development of their potential throughout their career in the company;
- reasonable balance: the ratio of on-the-job training, distance learning, internal and external training in accordance with the 70/20/10 model;
- partnership: maintaining partnership with international and Russian educational institutions, expanding cooperation with universities in the framework of partnership agreements, cooperation with organisations and training centres of shareholders' companies.

9.1.7.2. Staff Assessment

The company applies the competence-based development approach for HR management. A profile of functional, leadership and general business competences has been developed for each position. Competence assessment is used as a basis for recommendations regarding further development and training of the employee occupying this position, as well as for other HR decisions. The job competency profile is a standard list of competences set for the company for every job.

Competence assessment gives a clear understanding of employees' professional and behavioural qualities against the established requirements, depending on their qualifications, positions, and tasks performed.

There are various tools that can be used by managers in the process of competence assessment, in particular:

- observation of the employee in the course of work;
- studying competence evidence provided by the employee;
- conducting competence-based structured interviews;
- interviewing witnesses;
- knowledge testing;
- detailed recording of the employee's performance results;
- analysing the quality of the product delivered by the employee;
- the 360 Degree assessment;
- solving business cases;
- Assessment Centre (for leadership competences only).

By the end of 2018, 99% of Job competence profiles for staff (specialists, and managers) had been posted in SAP HCM.

To assess the leadership potential and managerial qualities of personnel, the company uses modern tools such as:

- **Current Estimated Potential (CEP) Ranking Exercise** – a current estimate of the highest position that the employee can occupy at the peak of his/her career during his/her work at the company. CEP is evaluated once every two years for the company's employees JG5 and above positions. The assessment criteria are known by the acronym CAR: Capacity, Achievements, and Relationships.

  In 2018, the CEP evaluation process was carried out for 1,123 employees. As a result, 64 high-potential staff were identified and included into the Top Talent List, which unites the employees whose individual and career development is in the focus of attention of the Committee of Executive Directors.

- **Assessment Centre** – a technology for integrated expert assessment of employees' leadership competency against their current job profiles, which has been widely used in the company since 2009. This method incorporates such components as case-studies, business games, structured interviews, and feedback with a detailed analysis of the employee's strengths and areas for development.

  The target audience of the Assessment Centre is employees included in the successors pool for senior managerial positions. In 2018, 78 employees of this category passed the Assessment Centre, among them 8 women and 70 men.

  Since 2009, the Assessment Centre has been used to assess the leadership competency of 668 company's employees, including 124 women and 544 men.

- **360 Degree** – an additional tool used to assess leadership competency and personal effectiveness of employees that was developed and implemented in the company at the end of 2014. As of the end of 2018, this type of assessment had been arranged for 145 people.

  To do this, the employee, his supervisor, subordinates and peers fill in an online questionnaire designed on the basis of the company's model of leadership competences.

The final results are presented as average ratings of each group of raters and are accompanied by the key findings regarding the employee's strengths and weaknesses as well as recommendations for employee development.

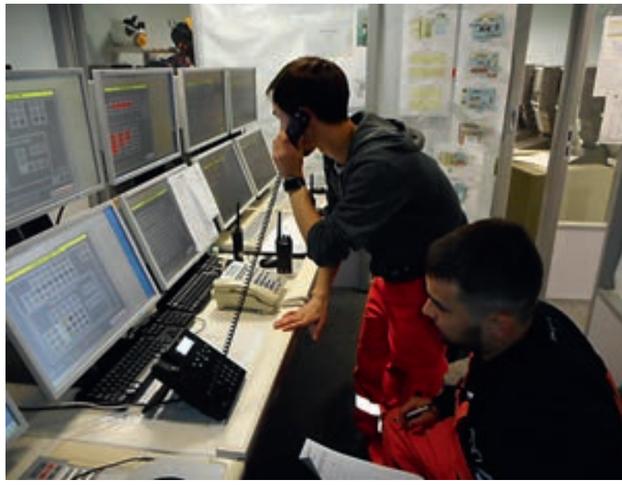
The structured interview method plays a special role in assessing professional competences. This is an interview during which the competence of a job candidate or employee is determined by applying the appropriate methodology. The Professional Learning Subdivision worked out information sessions on the structured interview methodology, during which videos are shown that give examples of proper and improper behaviour of managers during competence assessment. The materials are available on the HR Directorate web page. Six managers took part in information sessions in 2018.

To assess employees' general business competences, it is recommended to use tests with specifically designed tasks and questions that help the manager assess the level of each functional competence of his/her subordinate. In 2018, 37 people used this tool. Upon completion of the testing, both the employee and the manager receive an automatically generated report that includes recommendations for development.

The **Competence Assurance Programme** for technicians was designed to encourage safe and reliable operations of the production assets. The programme is a system to assess knowledge and skills of Operations and Maintenance technicians. During the assessment, employees demonstrate professional knowledge acquired through learning and professional development, as well as the skills and abilities developed in the course of their work. In addition, when assessing employee competences, focus is made on the rules and standards of labour behaviour in the team and the attitude of employees towards their work, which is an important component of operating hazardous production facilities.

Competency assessment results are used later to recommend areas for employee development, prepare individual development plans, and make decisions on technician progression and transfer to other units and work areas within the production asset.

In 2017, the Competence Assurance Programme was introduced into HCM SAP (with the transfer of all active job competence profiles of employees), which made it possible to automate the planning and reporting processes under the programme. In 2018, 98.9% of the company's employees passed the competence assessment, of which 94.5% were deemed as fully competent.



9.1.7.3. Personnel Training

The company prepares annual plans for personnel training and professional development based on current production targets, career development plans, and employee's competence assessment results.

In 2018, 1,903 employees attended workshops and training courses, including e-learning (one or more courses per individual). The company provides training for personnel of all categories without exception (see the table of Employee Training in 2018). The average duration of training was 8.14 man-days, or 65 hours per employee (excluding on-the-job training).

In 2018, Sakhalin Energy invested 290 mln roubles in employees training.

In 2018, the company continued to implement cost optimisation programmes, including those aimed to optimise learning and development costs. However, it affected neither employees' opportunities for learning and development, nor the number of recommended programmes and their providers. The company began to plan employee training more thoroughly, to combine various forms of training (distance, including online training, training in groups on Sakhalin instead of individual training outside the island), and to attract

Employees Training in 2018

Personnel Category		Number of employees, persons	Number of employees trained, persons	Percentage of trained personnel	Average training duration, hours / person
Managers		507	398	79	60
including	Male	417	328	79	62
	Female	90	70	78	53
Specialists		1,475	1,214	82	59
including	Male	948	836	88	67
	Female	527	378	72	43
Salaried workers		15	11	73	34
including	Male	–	–	–	–
	Female	15	11	73	34
Workers		301	280	93	99
including	Male	296	277	94	99
	Female	5	3	60	43
TOTAL		2,298	1,903	83	65
including	Male	1,661	1,441	87	72
	Female	637	462	73	45

LEARNING FAIR

Striving to improve communication with employees and increase their awareness of the company's HR processes, the HR Directorate organised Learning Fair in 2018, which included a series of events.

As part of the Learning Fair, the company's employees were invited to complete a training online questionnaire on learning and development process in the Russian and the English languages. More than 300 people took part in the survey.

Then the participants of the event were shown a video message from the company's management on learning and development. One of the values shared by all employees of the company is professionalism and its continuous improvement.

On June 8 and on, interactive kiosks were deployed in all office buildings and assets of the company. Employees had an opportunity to ask any questions to learning and development specialists, to receive information about learning and development processes, resources, opportunities and tools, and to take part in a lottery with prizes. More than 700 people took part in the event.

In addition, the most active users of learning resources (online training courses on the Skillsoft portal, general business skills tests) and industrial training instructors were recognised during the Learning Fair.

internal resources. All these activities allow the company to maintain the competence of its staff at the high level.

Sakhalin Energy's unique training resources include Russian and foreign training service providers. Employees themselves, their line managers, the HR Directorate, and the company's senior management monitor the implementation of training plans.

The company determines the types of personnel training, resources for the training, knowledge examination, certification, and professional development of employees in the following areas.

1. HSE MANDATORY TRAINING IN ACCORDANCE WITH THE REQUIREMENTS OF THE RF LAWS AND THE COMPANY'S INTERNAL STANDARDS.

The company's activities are a vivid example of compliance with the requirements of the RF legislation and the internal standards in terms of competence assurance and HSE training provision. Timely provision of mandatory training is an integral part of the Goal Zero programme implementation.

The main objective in this field of training is to organise training, certification, and knowledge check of managers, specialists and technicians in the field of labour, industrial and process safety, special types of work, etc. As a result of effective and timely mandatory training, employees receive relevant certifications, necessary knowledge and required work permits, which ensures safe performance of work, safety of other employees, the environment and assets of the company, meeting the requirements of the RF legislation, the HSE standards of the company, the requirements of international standards and certification bodies.

2. PROFESSIONAL TRAINING

The main goal in this area is to increase professional competence in order to achieve safe, reliable, and efficient operation of all structural units and production facilities of the company by ensuring that the qualifications of each employee correspond to the level of complexity of the work performed. Employees of the company are nominated for professional training in accordance with the qualification requirements for the position occupied to fill gaps in functional competences, and in the case of production necessity.

Professional training of personnel is subdivided into the following areas:

- advanced training of managers and specialists, including advanced training courses, participation in workshops, conferences, and round tables dedicated to professional issues;
- professional training and requalification in technical and non-technical areas;
- further training of technicians, obtaining a second/related profession;
- obtaining international professional qualifications (IWCF, CIMA, CIPS, ACCA, NEBOSH);

MODERN TECHNOLOGIES FOR MANDATORY TRAINING: NEW HORIZONS

In 2018, the company continued implementing the HSE Learning Portfolio Automation Project on the SAP HCM e-system platform in order to ensure compliance with HSE training requirements, as well as timely planning of mandatory training. The catalogue of requirements currently includes 79 training courses. During the project implementation, profiles of mandatory certifications are compiled and made accessible on the employees' and managers' portal. The profile is convenient to use for self-registration for a training course, and also provides an opportunity to take mandatory training in the online format. Employees and managers of the company point out a positive effect from the implementation of this project. Compliance with the HSE training requirements increased in 2018 due to the availability of the tool for monitoring and planning mandatory training. Relevant reports are submitted to the HSE Management Committee and the company's senior management on a monthly basis.

In 2018, Sakhalin Energy continued to develop closer links with the training units of the shareholder companies. The company actively cooperates with the Gazprom Training Simulator Computer Centre in the preparation of electronic training modules for the development of a base for targeted technical training of production personnel and HSE training. Six training courses have been developed, four courses are at the final stage of development, and eight courses will be converted into the e-learning format in the nearest future. Work continues to determine whether it is possible to convert technical training courses from the full-time classroom to the distance learning format. The development of new e-learning courses will make it possible to preserve the information about advanced technologies/practices applied by Sakhalin Energy, and to provide unique technical expertise for training Russian specialists and contractors' personnel at any asset, no matter how remote it may be.

Particular attention is paid to the standardisation of educational materials for target technical courses included in the In-house Technical Training Portfolio, taking into account the experience of the Gazprom Training Simulator Computer Centre.

– vendor training (training in technical support and maintenance of equipment, organised by the manufacturer).

In 2018, the company continued the development of professional portfolio by discipline in order to provide targeted training and knowledge management.

3. IN-HOUSE TECHNICAL TRAINING

The growth of the company and the use of advanced technologies in constructing and operating production assets require technicians to have a particular level of knowledge and skills within the framework of their technical competencies and the ability to safely and efficiently perform work tasks of any complexity.

The development of the technical competences of technicians is carried out through the in-house technical training system. Discipline in-house technical trainers and lead trainers, selected from among experienced production personnel, were united in the Technical Training Centre, which successfully functions at the company. The Centre ensures continuous technical training for technicians employed at the company's production assets and contractors' staff. The In-house Technical Training Portfolio includes more than 180 courses.

The Technical Training Centre implements the following training programmes and courses:

- by discipline (LNG process technology, operation, repair, and maintenance of production equipment);
- on-the-job and off-the-job technical training for all disciplines;
- in developing practical process control skills utilising the existing Operations Training Simulators and training equipment;
- in targeted modules aimed at developing specific technical competencies and customised to the production assets' specifics;
- in safe production asset operations, developed in accordance with best international practices, as well as based on the findings of audits and investigations of industrial accidents;
- in technical areas developed by equipment vendors;
- in the target areas for the main contractors whose personnel work at the company's production assets;
- in developing technical competencies in accordance with the approved technician progression scheme and with regard to the competency assessment results of technicians.

Training is conducted at the company's own training facilities.

The systematic development of training programmes ensures uniform implementation of the competence standards at the production assets. The programmes reflect the specific features of the assets related to work flow, material handling, and operation of equipment. Further, the training programmes include the requirements and practices in the field of HSE process and personal safety, which allows using them as guidelines in the performance of any work tasks and implementation of initiatives at the production assets.

The company has made it a priority to study the best practices in in-house technical training, the integration of Russian and international approaches, the use of modern technologies in the educational process, as well as further development of training portfolio and training facilities.

A purposeful and mutually beneficial interaction with shareholders in the field of professional training of personnel provides a solid basis for managing unique knowledge. In September, representatives of Gazprom and Shell attended the events of the HR Managers Week, held at Sakhalin Energy. In turn, managers and specialists of the company regularly participate in the work of the Educational and Methodological Council of Gazprom training centres.

4. TRAINING IN THE DEVELOPMENT OF LEADERSHIP, BUSINESS, AND PERSONAL EFFECTIVENESS SKILLS

The development of general business skills is carried out within the framework of the internal training system, taking into account the requirements of existing competences, internal assessment, and using electronic resources. The company recommends that its employees engage in self-education to develop these skills.

The leadership qualities development framework is specified in Section 9.1.7.6. Leadership and Management Development Programmes.

9.1.7.4. Traineeship Programme

To ensure that there is a sufficient number of qualified technicians, the company continues to implement the Traineeship Programme. Since 2003, 285 people have taken part in the Programme, of which 39 people continued training as the company's trainees at the end of 2018.

The Programme focuses on professional development and further employment for young residents of the Sakhalin Oblast having vocations relevant to the company's needs. Programme participants are mainly graduates of the Polytechnic College of Sakhalin State University.

The key component of technical training of trainees is to help them to develop practical skills and acquire work experience. The practical part of the Programme ensures that trainees develop their skills and learn the material so that they reach the required competence level.

Different training methods are actively used, such as:

- having trainees prepare projects;
- having trainees independently develop and deliver presentations;
- simulating various production scenarios followed by analysis.

At all stages of the Traineeship Programme, emphasis is laid on process and personal safety in the performance of various types of work tasks.

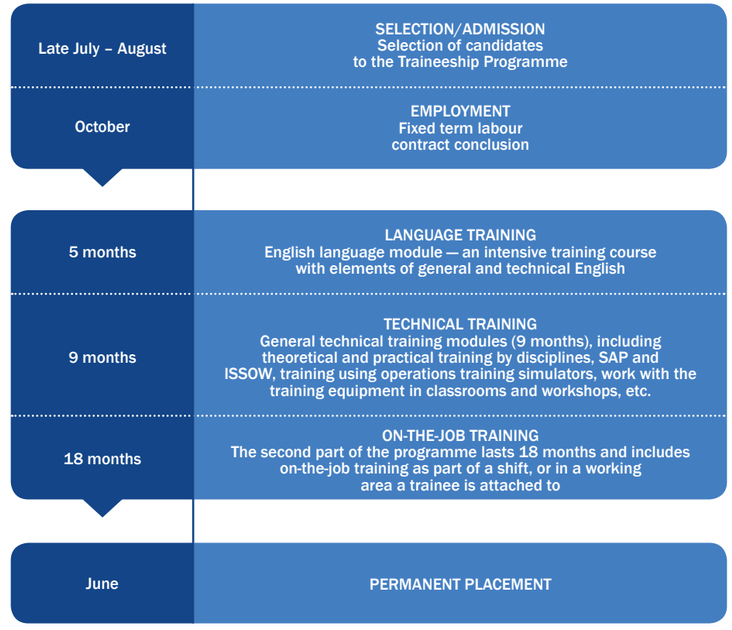
The Programme graduates are in demand at all production assets. When working at the assets, they demonstrate a high level of knowledge and skills acquired during the Programme, steady motivation for further professional development, and commitment to the principles of the safety culture.

The first part of the programme lasts 14 months and includes:

- English language module — an intensive training course with elements of general and technical English;
- general technical training modules (9 months), including theoretical and practical training by disciplines, SAP and ISSOW, training using Operations Training Simulators, work with the training equipment in classrooms and workshops, etc.

The second part of the programme lasts 18 months, and includes on-the-job training as part of a shift, or in a work area a trainee is assigned to.

Traineeship Programme



9.1.7.5. Successors Pool Planning and Development

Successors pool planning and development is the company's high priority activity for further development of personnel capacity. The key stages of the process are as follows:

- identification of potential candidates from among the Russian personnel to fill positions occupied by foreign specialists, as well as key and managerial positions occupied by Russian employees;
- assessment of the potential successors' readiness to succeed the positions according to the succession plan;
- the potential successors' development in accordance with the job requirements to the positions planned for succession.

During the succession planning process for 2018–2022, potential successors (in the short- and long-term) were identified to 624 of the 669 positions within the succession planning scope (93%). For all employees included into the successors pool, Individual Development Plans were developed incorporating trainings and development activities to be taken under the company's learning and development framework (professional training, development of leadership and management skills, developmental assignments, coaching, project management, etc.).

In 2018, 71 vacant positions out of the 82 included into the Successors Matrix were filled with internal candidates (86.6%), including 14 out of 16 expatriate positions (87.5%).

9.1.7.6. Leadership and Management Development Programmes

An important component of training highly qualified leaders and strong managers at all levels of management in the company is the formation and development of employees' management and leadership skills through developmental classroom and online training courses, on-the-job and relationship-based training, such as coaching and mentoring.

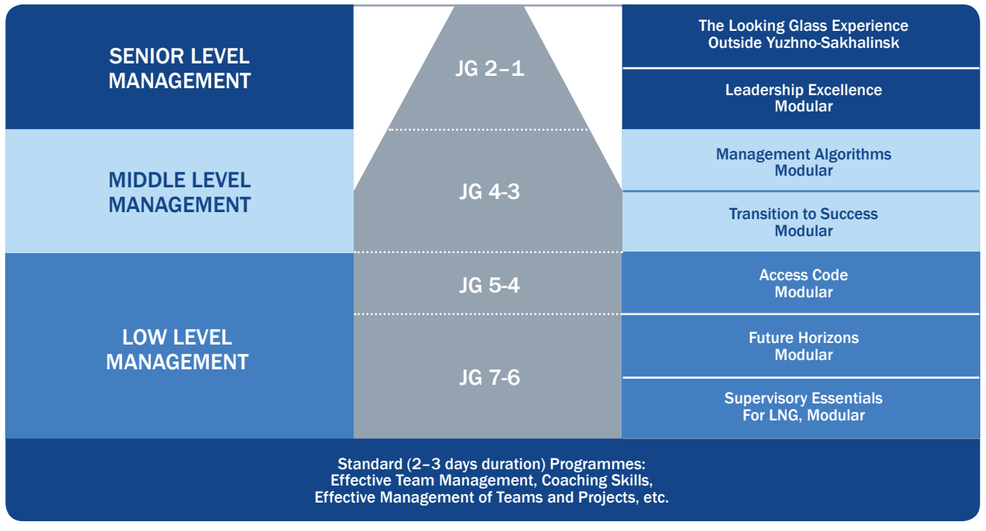
Leadership development programmes have been developed for all levels of management based on the Nine Planets Leadership Competency Model (see the Leadership and Management Development Programmes chart).

As of the end of December 2018, 221 Russian employees of the company (43 women and 178 men), occupying managerial positions at various levels, completed training programmes under the leadership and management development framework, including the use of Skillsoft.

The company also develops its leaders through the implementation of the Mentoring Programme, which includes:

- individual mentorship, which is voluntary informal relationships between the Programme participants, in the process of which an experienced leader (Mentor) shares his/her knowledge, experience and skills with an employee (Mentee) to facilitate personal and career development of the latter one;
- group mentorship, which is a series of knowledge-sharing sessions held as part of the Journey to Nine Planets project, organised for high-potential JG2 employees, during which the leaders of the company share their experience in building a career, managing projects and staff in the context of leadership competencies.

Leadership and Management Development Programmes



9.1.7.7. Graduate Development Programme

Since 2010, the company has been implementing the Graduate Development Programme aimed to meet Sakhalin Energy's needs for talented staff. Pursuant to the Memorandum on Cooperation in the Area of Personnel Management, signed by Gazprom and Shell, representatives of the shareholders' companies have been participating in the programme since 2016, too.

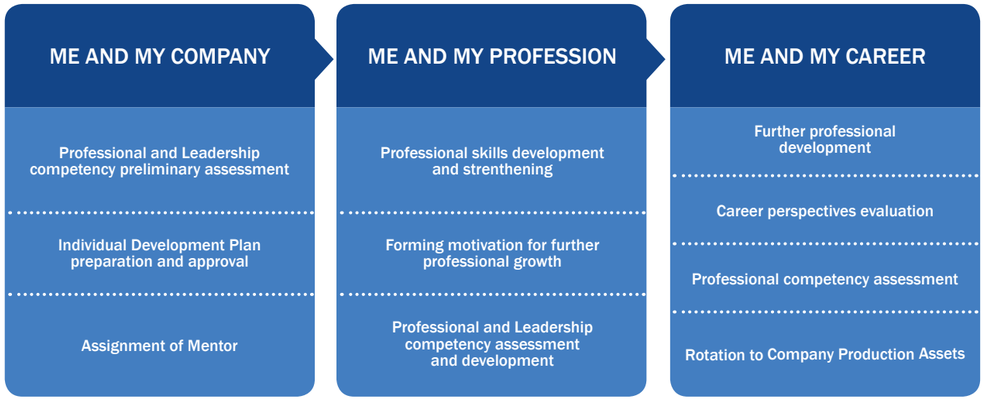
The company organises systematic work with graduates in accordance with the three-year development programme (see the Stages of the Graduate Development Programme chart).

YOUNG ENERGY GRADUATES CLUB

The Young Energy Graduates Club has been functioning in the company since 2012. Its purpose is to facilitate the rapid adaptation of young professionals and to develop their business and leadership skills. In 2018, the club held a number of events, including information sessions on the company's charitable activities, on the Continuous Improvement and the Goal Zero programmes, as well as meetings with the Production Directorate management.

In 2018, the Sakhalin Energy's Graduate Development Programme entered the shortlist of PEOPLE INVESTOR contest in the Human Resource Management category. The contest reveals the best practices in human resources management, corporate social responsibility, environment protection, and effective relationships with business partners.

Stages of the Graduate Development Programme



In 2018, the company hired 14 graduates under the programme. Since 2010, 137 young specialists, including 35 residents of the Sakhalin Oblast, have participated in the programme. As of the end of 2018, there were 45 programme participants, including 14 residents of Sakhalin.

9.1.7.8. Personnel Developmental Assignments

Arranging developmental assignments for the company's employees at the Shareholders' companies is an integral part of Sakhalin Energy's HR strategy. Personnel developmental assignments are arranged on the basis of relevant agreements signed between Sakhalin Energy and the Shareholders companies. This form of cooperation allows the employees to study the practical aspects and specifics of work in the corresponding units of the host company and to organise more effective interaction during implementation of joint projects.

Participating in the developmental assignments, employees gain extensive experience in project work and receive additional opportunities to use their knowledge and skills in various organisational environments, to acquire new skills and experience in solving challenging tasks.

In 2015–2018, personnel developmental assignments in the shareholder companies were organised for 25 employees of Sakhalin Energy. In turn, 21 employees from the shareholders companies completed their developmental assignments at Sakhalin Energy.

9.1.7.9. Developing Scientific Potential

Sakhalin Energy pays great attention to the development of scientific potential of its employees. The company cooperates with universities and research institutes in the development of joint technical projects. The company's specialists are involved in the work of student scientific societies, in the preparation and delivering of lectures, etc.

Every year, the company holds Young Professionals Scientific and Practical Conference.

In October 2018, the 10th anniversary conference took place. The format of the event had changed: it had received the status of an open conference. Not only the company's employees participated in the event, but also representatives of the subsidiaries of PJC Gazprom (Gazprom Dobycha Nadym, Gazprom Dobycha Yamburg, Gazprom Transgaz Tomsk, Gazprom Dobycha Urengoy, Gazprom Transgaz Ufa, Gazprom Training Simulator Computer Centre, Gazprom Dobycha Shelf Yuzhno-Sakhalinsk), specialists from Salym Petroleum Services B.V., undergraduate and graduate students of the Gubkin Russian State Oil and Gas University, Far Eastern Federal University, and Sakhalin State University. The 2018 conference had a record number of participants and sections: 58 reports were presented by 81 participants in six sections: Geology, Drilling and Development of Oil and Gas Fields, Production and Maintenance, Information Technologies and Automation of Production Processes, Economics and Personnel Management, University. For the first time the conference programme included an English-language section. The Conference Evaluation Panel included experts from the Production, Technical, Commercial and HR Directorates of Sakhalin Energy, as well as representatives of the Gubkin Russian State Oil and Gas University and Sakhalin State University.

9.1.7.10. Internship Programme

In order to form an external successors pool for the Graduate positions, since 2000 the company has been implementing the Internship Programme.

Working alongside with highly qualified professionals, students of Russian universities and vocational schools get acquainted with advanced production technologies and the best international and domestic business practices as well as gain unique practical experience.

In 2018, 72 university students and 23 students of vocational schools underwent on-the-job training and pre-graduation internships at the company. 70% of the interns were residents of the Sakhalin Oblast.

The company has a successful partnership with the Polytechnic College of the Sakhalin State University in the area of vocational education, annually accepting 20 to 30 third- and fourth-year students studying in the fields relevant to Sakhalin Energy's operations to receive on-the-job training and pre-graduation internship at the Prigorodnoye production complex.

9.1.7.11. Scholarship Programme

The Scholarship Programme was launched by Sakhalin Energy in 2003.

The Programme focuses on talented leavers of Sakhalin Oblast secondary schools and vocational schools who are interested in obtaining an industry-specific education and building a career with the company.

The educational grants offered by Sakhalin Energy are awarded in the form of a scholarship (for those receiving state funds to study at a university) or reimbursing of tuition costs (for those admitted to the fee-based slots for a full-time study at a university).

In 2018, five graduates of Sakhalin schools won the contest.

As of the end of 2018, 24 participants of the Scholarship Programme studied at RF universities with the financial support of the company.

9.2. Labour Safety and Protection

9.2.1. General Information

In order to successfully implement major projects and operate production assets, the main focus must be on health and safety. Sakhalin Energy is committed to industrial safety and causing no harm to people's health.

At present, there are ten mandatory Life Saving Rules applied by the company. These rules are associated with high-risk activities.

Statistics on violations of the Sakhalin Energy's Life Saving Rules by the company's and contractor's staff in 2018 are presented in the table Violations of the Sakhalin Energy's Life Saving Rules in 2018.

Any violation of the Life Saving Rules leads to serious consequences, including potential dismissal.

The company uses a consistent approach when handling HSE issues (see Section 3.5 Health, Safety, Environment, and Social Performance Management). This approach complies with both legislation and risk management so as to ensure continuous improvement in this area. The company also requires contractors to manage HSE issues in compliance with this approach and international standards adopted by the company.

The company's main fields of activity in the area of safety are:
- leadership and commitment at all levels of the company;
- industrial safety;
- road safety;
- preventive work with contractor organisations;
- learning from incidents in the industry and awareness-raising campaigns.

Life Saving Rules

Do not appear at work under the influence of ALCOHOL or DRUGS.

Do not SMOKE outside designated smoking areas. Do not carry or use unauthorised IGNITION SOURCES in hazardous areas.

Do not walk under a SUSPENDED LOAD.

While driving, do not use COMMUNICATION DEVICES and do not exceed the SPEED LIMIT.

Work with a valid WORK PERMIT when required.

Verify ISOLATION before work begins.

Obtain authorisation before entering a CONFINED SPACE.

Protect yourself against a fall when WORKING AT HEIGHT.

Wear your SEATBELT.

Follow prescribed JOURNEY MANAGEMENT PLAN and have valid DEFENSIVE DRIVING CERTIFICATE.

Violations of the Sakhalin Energy's Life Saving Rules in 2018, number of cases

Violation	Number of cases
Alcohol or drug abuse	6
Smoking or use of ignition sources in hazardous areas	3
Standing under suspended load	0
Failure to follow the requirements of a work permit	6
Locking or isolating equipment before work begins	1
Obtaining authorisation before entering a confined space	0
Taking protection measures against a fall when working at height	3
Failure to use a seatbelt	4
Failure to follow Journey Management Plan or invalid Defensive Driving Certificate	4
Using a communication device or exceeding the speed limit when driving	4

Injury Rates for the Company and Contractor Organisations in 2014–2018

Parameter	2014	2015	2016	2017	2018
Number of people injured in accidents at the workplace, total people	6	9	9	4	4
including fatalities	0	0	0	0	0
Number of accidents for contractor organisations at the company's assets, total people	4	9	9	4	4
including fatalities	0	0	0	0	0
Total registered incidents (per 1 mln man-hours)	0.46	0.68	0.64	0.26	0.23
Number of people injured in road traffic accidents (per 1 mln man-hours)	0	0.07	0	0	0

9.2.2. Industrial Safety

Sakhalin Energy has an Industrial Safety Policy and an Industrial Safety Management System (ISMS) that comply with Russian legislation and international best practices.

The company's main industrial safety goal is to ensure individuals and society are protected from accidents at hazardous production facilities and to mitigate their effects.

An integral part of ISMS is overseeing compliance with the industrial safety requirements. This is done by evaluating the functioning of all hazardous production facilities of the company, preventing accidents at these facilities, and ensuring we are prepared to respond to accidents and incidents and their consequences.

All aspects of industrial safety are continuously and regularly inspected by the company's experts under the ISMS. These inspections are planned and carried out so that the safety of all operations is effectively monitored at hazardous production facilities.

The company submits production control data to Rostekhnadzor annually as required by law.

The company operates hazardous production facilities with the following hazards:

- reception, use, processing, generation, storage, and transportation of hazardous substances listed in Appendix 1 to the Federal Law No. 116 Federal Law. On the Industrial Safety of Hazardous Production Facilities dated 21 July 1997;
- use of equipment operated under excess pressure (over 0.07 MPa);
- use of permanently installed hoisting equipment.

As required by law, 10 hazardous production facilities have been registered in the state register, and hazard classes were assigned.

For Hazard Class I and II facilities, it is mandatory to develop industrial safety declarations. The company has developed such declarations for all hazardous production facilities.

The company conducts industrial safety training and certification for employees working at the company's hazardous production facilities in compliance with law and the ISMS. The procedure for industrial safety training, examination, and certification is in compliance with the current legislation.

The company achieves high productivity and observes all industrial safety regulations by using the latest technologies and regularly assessing and managing industrial safety risks. The company takes many measures to improve performance, including:

- setting up and operating the company's Industrial Safety Management System as required by law;
- auditing at different levels and regularly reviewing the ISMS;
- having an efficient and unbiased procedure for accident and incident investigation at the assets; preparing reports as required by law;
- monitoring compliance with the industrial safety rules set forth in federal laws, other regulations, and local regulations;
- developing preventive measures and organising accident and incident prevention work at all hazardous production facilities of the company;
- offering industrial safety training and a certification system for the company's employees as required by law.

On the company's decision, Justification of Safety (JoS) documents were developed and implemented at seven hazardous production facilities of the company. All JoS passed the industrial safety expert review pursuant to the requirements of the RF legislation.

All the above measures implemented by the company along with a number of the best practice tools guarantee that the company complies with industrial safety regulations at all stages of production, starting from designing each new well up to the moment hydrocarbons are loaded in the Prigorodnoye port.

Sakhalin Energy pays great attention to the HSE leadership development of all company's employees. In 2018, 70 line managers, HSE specialists, and HSE critical contract holders underwent HSE Leadership for Mid-level Managers training course.

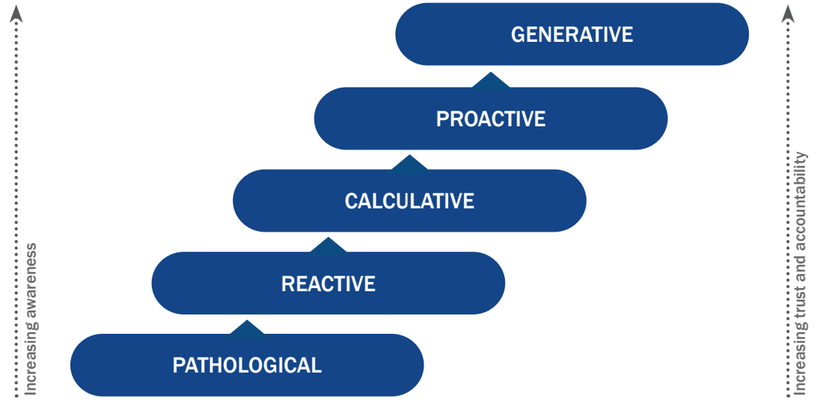
The aim of the training programme is to ensure a common understanding of the current HSE situation, to motivate employees to seek continuous HSE improvement and to develop their leadership qualities.

9.2.3. Safety Culture

Occupational health and safety is one of the company's core values. Sakhalin Energy sets high standards and expects all employees of the company, contractor and subcontractor organisations to comply with them.

Continuous improvement of the corporate safety culture aimed at achieving Goal Zero is one of the priority tasks of Sakhalin Energy.

Safety Culture Evolution Ladder



The company supports leaders' development at all levels to ensure creation of safety culture and continuous improvement. A safety culture is a system of values, beliefs, and ideologies adopted in an organisation. It depends on many factors, in particular:

- the top managers' commitment to HSE principles;
- the company's priorities;
- the company's policies, procedures, and standards;
- employee engagement and motivation;
- availability of feedback, information exchange;
- safety awareness among employees, their behaviour;
- competency of employees.

Implementation of the Goal Zero programme has been an integral part of developing the safety culture in the company.

Goal Zero is a mindset that actively promotes no leaks, spills, harm or injury, both at work and in daily life. Employees' personal responsibility for compliance with the HSE rules and intervention in unsafe situations (as one of the elements of the safety culture) help the company to reach its safety targets and production goals.

The company continues to promote the Effective Observation and Intervention Programme. The Programme aims to implement a systematic approach to the identification, assessment, and prevention of unsafe practices and conditions in the workplace, as well as to continuously improve the safety culture and safe behaviour.

When employees adopt the practice of safe behaviour and it becomes the norm at production sites, in the offices, and in their homes, it will be a tremendous step towards achieving the generative level of the safety culture.

In the company, there is the CED award for the best safety practices, which promotes safe behaviour and HSE achievements.

All employees of the company and contractor organisations can take a training course under the Effective Observation and Intervention Programme. The purpose of this course is to build employees' conscious attitude to safety through observation, communication, and concrete actions, as well to teach them effective intervention methods.

The company has been holding Summer and Winter Safety Days for the last eleven years. All employees of the company and contractor organisations gather to discuss the ever topical safety issues: how

GOAL ZERO
No harm. No leaks.

people's actions and behaviour influence the safety of others, and how to improve work safety. They also discuss following safety rules both at the workplace and outside working hours.

Safety Days topics in 2018 included care for people, decision making dilemmas, risk normalisation and preparation for winter conditions (both of individuals' and company's assets).

9.2.4. Road safety

Road safety is of particular importance for Sakhalin Energy.

More than 650 vehicles with combined annual mileage over 9 mln km are engaged in the project activities. Sakhalin Energy's management and the Road Safety Steering Committee emphasise strict adherence to the norms of the RF transport legislation and compliance with the requirements of the company's Road Safety Management Standard.

To maintain and improve its road safety performance, the company continues to implement the following actions:

- **Monthly meetings of the Road Safety Steering Committee** chaired by the Chief Executive Officer of the company;
- **Analysis of IVMS reports.** IVMS monitors driver behaviour, identifies non-compliance, and allows the company to take steps to prevent situations that may lead to road traffic accidents. The entire monitoring system covers about 1,500 drivers and 650 vehicles;
- **Defensive driving training.** All professional drivers, and also non-professional drivers required to drive on the company's business, take defensive driving courses. In 2018, the courses were conducted for more than 1,500 drivers of various categories. Moreover, the company allowed any employee to attend the defensive driving training;
- **Vehicle compliance control.** All company's and (sub-) contractors' vehicles used in production activities are inspected, and company's and (sub-)contractors' drivers are monitored to see that they comply with road safety rules and company's Road Safety Management Standard. Four Road Safety Monitoring teams perform oversight in different regions.
- **Interaction with other organisations.** The company initiated cooperation with Gazprom Dobycha Shelf, which develops the Kirinskoye Field, in order to jointly solve road safety issues at the south access road to Lunsky Bay. The Road Safety Monitoring team and the State Traffic Safety Inspectorate keep watch over the south access road;
- **Active participation in various forums,** where the company shares its experience in ensuring road safety under the project. In 2018, the company attended the following events: 4th Annual Conference Safe Driving–2018, Road Safety Conference for Contract Holders, and others.
- **Implementation of the Safe Journey Management Programme at the company's assets.** Each of Sakhalin Energy's production assets has appointed persons responsible for road safety who monitor the daily operation of all vehicles within the asset, including journey management and check-ups of the technical state of vehicles and transported cargoes;
- **Cargo Securing and Vehicle Transportation training course.** Sakhalin Energy's operations involve transportation of materials and heavy equipment using the roads of the island. Statistics prove that improperly secured cargoes are one of the main reasons behind a significant number of road traffic accidents. It became apparent that a training course had to be introduced when it was discovered that non-compliant cargo transportation had risen under the project and that there are no clear recommendations in the regulations of the Russian Federation on proper securing of cargo. A Cargo Securing Standard, consistent with the best international practices, was developed in 2018. All oversize and heavy cargoes within the project are transported under the control of the company's Road Safety Department.

Under the Road Safety Programme, the company has committed to promote and disseminate robust corporate safety standards outside of its and contractors' area of responsibility, especially in those communities and locations in Sakhalin where Sakhalin Energy has its operations. This is done through cooperation with Sakhalin Oblast Government, Yuzhno-Sakhalinsk Administration and Traffic Police.

9.3. Occupational Health

The company uses a systematic approach in protecting the health of its personnel. Sakhalin Energy has developed and approved a corporate occupational health and hygiene standard, including the following sections:

- medical requirements for occupational fitness;
- occupational health;
- health risk assessment;
- medical emergency response;
- medical requirements for contractors;
- control over the prohibition of alcohol and psychoactive substances use at workplaces;
- chronic fatigue management;
- etc.

Periodic health examinations and clinical screening of the company's employees working under hazardous, dangerous and/or harsh work conditions were arranged in accordance with the Medical Requirements for Occupational Fitness Standard.

In 2018, 99.6% of the company's employees engaged in work under harsh, hazardous and/or dangerous conditions underwent mandatory periodic health examination. More than 75% of office personnel were covered by clinical screening.

The company continues to focus on preventing employee fatigue. Fatigue risk management guideline has been issued. Also, additional measures are introduced to assess and manage the fatigue risk (training materials). The company's employees have access to interactive information on managing risks associated with fatigue.

Health risks are assessed at all company's assets. A monitoring system for harmful occupational factors has also been introduced. The process of mapping harmful occupational factors at the company's remote assets was continued to increase the visibility of information on harmful factors.

Cause and effect were analysed to compare the production environment data (air in working zones, vibration, noise, microclimate, ionising radiation, etc.) and employee health data. Risks of harmful factors influencing employee health at the production assets are assessed based on the analysis.

Corrective measures are subsequently developed to minimise any risks, and the Fountain electronic database is used to make sure the measures are put into place. In 2018, the rate of reported occupational diseases remained at a relatively low level (see the Rate of Reported Occupational Diseases table).

Performance indicators are analysed on a regular basis in order to improve working conditions, prevent illness, and promote a healthy lifestyle.

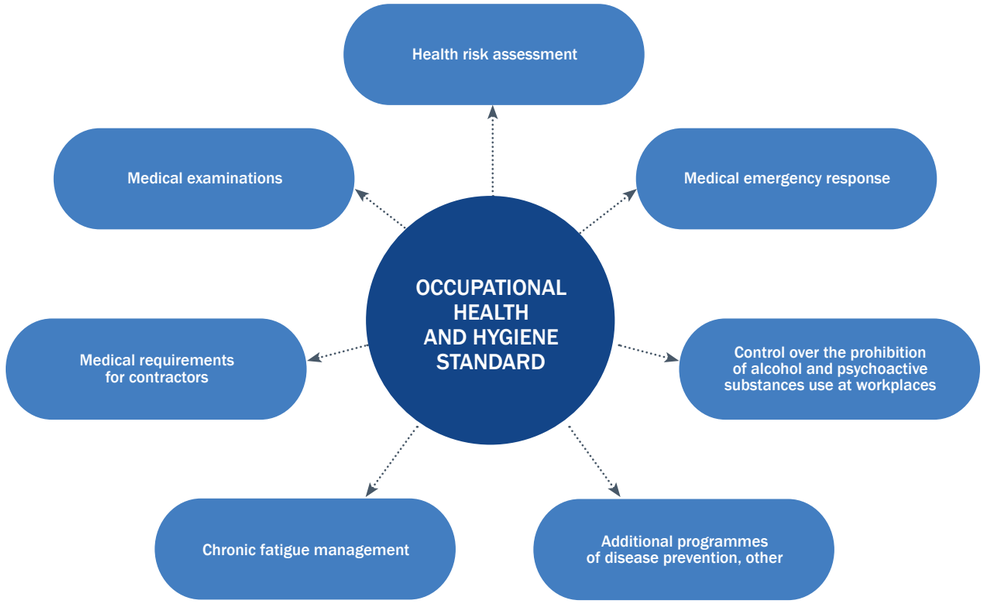
In 2018, an increasing number of contractors applied the company's approach to assessing cardiovascular disease risks and body mass index. This allows them to effectively monitor the risk of developing acute coronary syndrome. The company uses software to ensure that only employees who are fit in terms of health are admitted to work at remote assets. The company's approach to risk assessment of cardiovascular disease and body mass index calculation is based on an analysis of mortality for reasons other than occupational injuries.

Besides mandatory health programmes, in 2018, the company continued its policy of encouraging personnel to keep fit and prevent diseases.

To do this, additional steps were taken, such as:

- preventing acute respiratory viral diseases and influenza, including health education and vaccination;
- implementing a programme promoting a healthy lifestyle and engaging in sports. An initiative group of the company developed a schedule of activities to improve general health and promote fitness and sports. According to this schedule, employees participated in sports and competitions both within their subdivisions and at the corporate level as well as in open local and regional championships

Sakhalin Energy's Occupational Health and Hygiene Standard



Rate of Reported Occupational Diseases in 2014–2018

Total rate of reported occupational diseases	2014	2015	2016	2017	2018
Company alone	0.61	3.33	0	0	0
Company and contractors	0.39	1.15	0.21	0.2	0.4
With temporary disability (company alone)	0.36	0.67	0	0	0
With temporary disability (company and contractors)	0.23	0.15	0.07	0.1	0.4

in various sports (football, hockey, volleyball, tennis, swimming, hiking, etc.);
- providing access for the company's employees and their families to the corporate sports and fitness centre in Yuzhno-Sakhalinsk (gym, swimming pool, football field, tennis courts and icerink). Moreover, there are gyms and sports fields at the company's remote assets;
- implementing a programme to prevent alcohol and drug addiction by raising the awareness of the impact alcohol and drugs have on health;
- introducing a campaign against smoking. Every year on 31 May, Sakhalin Energy celebrates the World No Tobacco Day when employees meet to discuss the problem of tobacco addiction. Smokers are offered free medical advice and nicotine replacement therapy. Also, there is an extensive information campaign during which posters and leaflets are distributed;
- continuing to implement high standards for medical emergency response. In 2018, over 350 employees of Sakhalin Energy and contractors completed first-aid training.

The company's and contractors' employees at remote assets of the Sakhalin-2 project as well as the company's employees on foreign business trips are provided with high-quality medical support guaranteed by AEA International (Sakhalin). The company's employees can also receive medical services at other healthcare facilities listed by SOGAZ insurance company under the VMI (voluntary medical insurance) programme (see Section 9.1.5. Social Guarantees, Benefits and Compensations).

9.4. Human Rights

9.4.1. Human Rights: Principles and Management System

Sakhalin Energy's key business principles include running its business in a socially responsible manner, compliance with the laws of the Russian Federation, and respect for fundamental human rights within the legal business framework.

The integrated approach to human rights has several interconnected components, in particular:
- Human Rights Policy commitment;
- incorporation of commitments into the company's strategy;
- human rights risks and impact assessment;
- stakeholder engagement in connection with human rights issues;
- efficient grievance mechanism;
- training of the company's and contractors' personnel;
- human rights monitoring and reporting.

The company's human rights standards are laid out in the following principal documents to ensure they are implemented on a day-to-day basis:
- Human Rights Policy;
- Code of Conduct, including the Statement of General Business Principles;
- Business Management System;
- Commitment and Policy on Health, Safety, Environment, and Social Performance Policy;
- Security Policy;
- Contracting & Procurement Policy;
- Whistle Blowing / Grievance Procedure;
- Sustainable Development Policy.

The Human Rights Policy (available on the company's website) sets forth the human rights commitments and discusses managing risks associated with potential or actual violations of human rights resulting from the company's activities.

SAKHALIN ENERGY PRESENTED ITS EXPERIENCE AT THE INTERNATIONAL HUMAN RIGHTS FORUM

In November 2018, the 7th United Nations Forum on Business and Human Rights was held at the UN Headquarters in Geneva, bringing together more than two thousand participants — representatives of states, businesses, public organisations, legal institutions, trade unions, UN agencies, etc.

Sakhalin Energy held a session on the monitoring of compliance with human rights standards by contractors and subcontractors. The topic of respecting human rights in supply chains is one of the key issues on the international agenda, and comprises a wide range of aspects.

The session aroused great interest among business representatives, international financial institutions, and public organisations.

Being a regular participant of the Forum, Sakhalin Energy previously presented its successful practices in the support of indigenous minorities, corporate community grievance mechanisms, integrated approach to the observance and promotion of human rights under the Sakhalin-2 project, etc.

In December 2018, the Russian Business and Human Rights Round Table was held in Moscow. The event was organised jointly by the Russian Union of Industrialists and Entrepreneurs (RUIE), Global Compact Network Russia, and Sakhalin Energy, and was dedicated to the 70th anniversary of the Universal Declaration of Human Rights. The round table was attended by representatives of federal authorities, as well as international organisations and companies operating in the territory of the Russian Federation.

The participants of the anniversary round table had an opportunity to learn about the experience of Russian business in respecting and promoting human rights.

Sakhalin Energy has adopted standards for observing human rights in all situations in which there is a potential for violating these rights, namely:
- employee relations;
- working in communities;
- contracting and procurement;
- asset security.

The company holds training courses and information sessions on human rights (see 9.4.4. Human Rights Training). Security contractors in particular are informed about the company's human rights standards.

Company's Human Rights Activities

9.4.2. Grievance Mechanisms

The company's stakeholder engagement strategy is focused on minimising impacts on human rights. It is obvious, however, that it is impossible to eliminate all adverse impacts of a project as large as Sakhalin-2. This is why the company adopted a grievance mechanism right as construction started to effectively address grievances raised in connection with the project. The mechanism includes the following:
- Whistle Blowing Procedure to address violations of the Statement of General Business Principles, Code of Conduct, or other procedures of the company (related to conflict of interest, bribery, corruption, etc.).
- Human Resources Inquiries Procedure to address labour and employment issues raised by the company's personnel (violation of employee rights under the law, regulatory legal acts, and the company's local regulations; violation of labour agreements and the terms of employment contracts concluded with employees; other situations affecting the interests or violating the labour and personal rights of employees in the course of their work for the company).
- Community Grievance Procedure to address grievances from the public and contractors'/subcontractors' employees in connection with the Sakhalin-2 project. In addition to the Community Grievance Procedure, the company established a separate procedure for addressing grievances related to the Sakhalin Indigenous Minorities Development Plan in 2011 (see Section 9.5. Social Investment and Contribution to Sustainable Development of the Host Region).

To ensure maximum efficiency of the community grievances procedure, the company relies on a number of principles to conduct these activities, including:

- *legitimacy, and incorporation into the corporate system;*
- *accessibility;*
- *transparency and openness;*
- *stakeholder engagement and ensuring dialogue during the grievance process;*
- *setting target dates and taking concerted actions to address grievances;*
- *confidentiality;*
- *applicability for both the company and contractors;*
- *using continuous learning, taking preventive measures and proactive steps.*

These mechanisms can help resolve grievances quickly and efficiently, they thoroughly document grievances and corrective measures, and reduce the likelihood that similar situations will reoccur, thereby contributing to building strong, long-term relationships with everyone affected by the company.

9.4.3. Grievance Handling in 2018

In 2018, 75 grievances and requests were received from the company's personnel and external stakeholders as part of various corporate grievance mechanisms, including:

- 36 grievances under the Whistle Blowing Procedure;
- one grievance from an employee of the company under the Human Resources Inquiries Procedure;
- 38 grievances from the public and employees of contractor and subcontractor organisations.

The grievances related to violations of the General Business Principles, the Code of Conduct, or other company's procedures were handled under the Whistle Blowing Procedure. These grievances concerned material and services procurement, conflict of interest, and unethical behaviour.

Each of the 36 grievances received under the Whistle Blowing Procedure had been resolved by the end of 2018. All the grievances were resolved within the time frame established.

Requests of the company's employees regarding matters related to their work in the company and the application of local regulations of the employer were examined in strict accordance with the Human Resources Inquiries Procedure. In 2018, one grievance was received from an employee within the framework of this Procedure. The grievance was resolved within the time frame established in the Procedure.

The grievances from communities and employees of contractor and subcontractor organisations were addressed in compliance with the Community Grievance Procedure. These grievances were related to labour relations (in contractor and subcontractor organisations), impact on settlements, construction camp management, compliance with the Code of Conduct, and the implementation of the Sakhalin Indigenous Minorities Development Plan.

By the end of 2018, 27 grievances out of the 38 received from the public and employees of contractor and subcontractor organisations had been resolved. In addition, one grievance received at the end of 2017 had been resolved. All 27 grievances were addressed within the time frame established in the Grievance Procedure (less than 45 business days). At the end of 2018, 11 grievances remained unresolved. Information on the status of these grievances will be presented in the 2019 Sustainable Development Report.

Categories of Public Grievances in 2018

Grievance category	Number of registered grievances	%
Labour relations / labour safety	17	44
Construction camp management	5	13
Code of Conduct	5	13
SIMDP implementation	6	16
Impact on settlements	4	11
Other (contractual relationships)	1	3
Total	38	100

9.4.4. Human Rights Training

A certain level of employee awareness is required to incorporate human rights standards into the daily operations of the company and its contractors. Therefore, the company offers systematic training and awareness sessions for the personnel of Sakhalin Energy, its contractors, and other stakeholders.

The company's requirements in the area of human rights are included in a number of educational instructions and courses that all company's employees and contractors are required to take.

Examples of this training are:

- general instruction;
- Code of Conduct training;
- health, safety, environmental, and social performance training.

The company conducts personalized courses for specific personnel that have a higher risk of violating human rights. The process of appropriate training selection is shown in the Appropriate Training Selection chart.

Appropriate Training Selection

The Community Grievance Procedure training course is offered to employees whose scope of work includes receiving or resolving grievances from the population (e.g. subdivision heads, reception desk employees, and the company's representatives who directly supervise the work of contractor organisations).

9.4.5. Monitoring Human Rights

Monitoring is important for ensuring human rights are observed. Both monitoring and reporting of human rights are done not only internally, but also externally.

As a rule, monitoring includes:

- visiting communities;
- surveying the personnel of the company and external stakeholders;
- meeting with internal and external stakeholders, including local community, and representatives of contractor organisations, for receiving feedback;
- reviewing contracts to make sure they contain human rights provisions.

Internal monitoring is done at the subdivision level as well as by the Internal Monitoring Department. External monitoring includes regular audits by lenders, shareholders, and independent experts.

The Business Integrity Committee, which includes the Chief Executive Officer and a number of other directors, oversees compliance with the established Grievance Procedure.

Conclusions on the application of human rights standards are included in regular internal reports for the senior management and shareholders of Sakhalin Energy, as well as in the company's annual Sustainable Development Reports.

9.5. Social Investment and Contribution to the Sustainable Development of the Host Region

9.5.1. Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches

Since its establishment in 1994, the company has paid close attention to implementation of social programmes in the territory of the Sakhalin Oblast. The significant and consistent investments in social sphere, as well as the long-term policy focused on addressing the social issues are the core of Sakhalin Energy's commitment to sustainable development principles. Sakhalin Energy pursues a policy of mutual investments of resources for the benefit of all stakeholders.

In 2018, the company invested about 72 mln roubles in the implementation of external social programmes in the Sakhalin Oblast.

In accordance with the company's Social Investments Strategy, Sakhalin Energy is implementing projects that:

- result from consultations with the public and meet the identified needs of the communities impacted by the company's activities;
- relate to issues that affect the company's reputation;
- may not directly relate to the company's activity, while contributing to economic, environmental, and social development of Sakhalin Island;
- contribute to sustainable social, economic, and environmental development of Sakhalin and demonstrate the company's commitment to sustainable development to stakeholders.

Sakhalin Energy's social investment programmes are aligned with the company's long-term goals in its host region, Sakhalin.

The company focuses on implementing strategic long-term partnership projects with external stakeholders, and on using various tools and techniques to implement social programmes, including competitive funding. Governing bodies and expert councils have been established to make decisions under the key programmes. These are collegial coordinating and advisory bodies that involve the company's representatives, partners, and members of non-governmental organisations in the territory where the company operates.

While striving to achieve lasting social changes in the region, the company has implemented a number of projects within priority areas defined through public consultations. These are:

- environmental protection and biodiversity conservation;
- safety;
- education;
- culture and arts;
- healthcare;
- promoting the development of the Sakhalin indigenous minorities.

The company's approach to the development of the host region is a targeted policy of participating in the life of the community. This includes support for relevant projects and programmes aimed at the development of the region (funds for this activity are allocated by shareholders), as well as the involvement of the company's employees in corporate social programmes, development of charity and volunteer activities in the region, and participation of the company in discussing issues that are vital to the territory where it operates.

Over the years that it has been developing the social investment programme, Sakhalin Energy has built its own model for managing external social programmes that is based on the company's policies and the best international charity practices. Not only does the company seek to adapt and use the best international practices, but it has become an example of corporate philanthropy.

The company performs its social investment activities in line with a number of documents. They identify the objects and principles of the charity activities and social investments, and outline how to manage these issues, e.g. planning, decision making, and financing procedures. These documents include the Social Investment Strategy as a part of the Social Performance Management Standard. Pursuant to the Strategy and in accordance with the company's internal audit requirements, Sakhalin Energy conducts continuous internal monitoring and a biennial independent external evaluation of social investment projects.

The company's objectives in social investments for 2019 include:

- Develop and implement programmes to support the company's development strategy and to enhance the effectiveness of its contribution to solving the regional tasks.
- Maintain and further the dialogue with stakeholders aimed at creation of a sustainable social basis for the company's initiatives.
- Improve social programmes efficiency by:
- involving the stakeholders in the development and implementation of external social programmes;
- expanding collaboration with state authorities, business partners, expert and public organisations while implementing social projects;
- replicating effective models of social programmes in the region and at the federal level;
- ensuring knowledge management in the field of corporate social responsibility (CSR) and developing advanced training system to improve skills of employees engaged in social investment programmes, and ensuring high-level information visibility and transparency.

Sakhalin Energy finished second in the Corporate Charity Leaders 2018 Ranking, which was joined by 47 Russian and international companies. The Corporate Charity Ranking sponsors — Vedomosti, PWC and Donors Forum — have declared identification of best corporate charity practices and their promotion to business communities and general public as their principal goal. According to experts, the company succeeded in getting top ranking due to the continuity and consistency of its social policy, commitment to high social responsibility standards and use of innovative approaches to create a better social climate in the host region.

9.5.2. The Energy Social Initiatives Fund

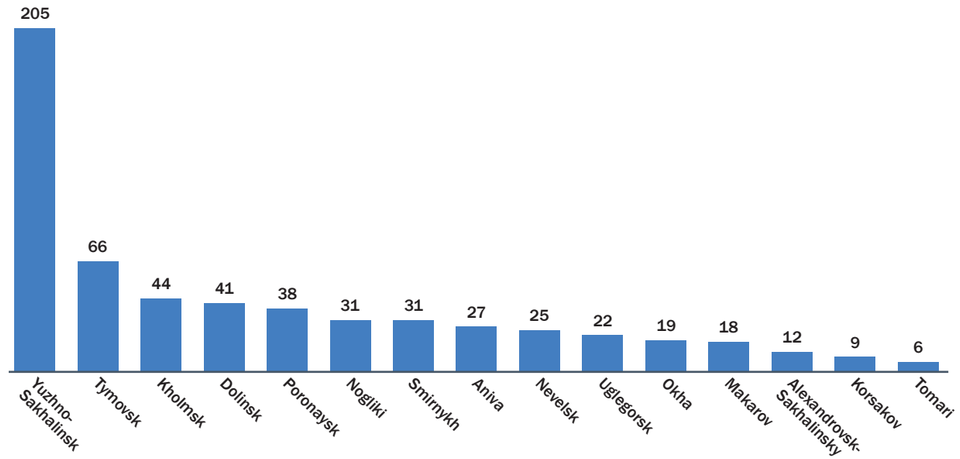
The Energy Social Initiatives Fund finished second in the Corporate Charity Leaders project under the Best Grant Competition category. The category was established by the Presidential Grants Foundation.

The Energy Social Initiatives Fund is one of Sakhalin Energy's charitable programmes that demonstrates the comprehensive and consistent approach to promoting social transformation in the host region and its commitment to solving important problems of local communities. The grant programme, launched in 2003, allows the company to support the most interesting and effective solutions to community problems. When selecting projects, the company is guided by the principle of openness and transparency. The Expert Council consisting of representatives of the company, NGOs and government authorities evaluates proposals and selects the winning projects. Information on the terms and conditions for participation in the contests and the selection criteria is available on the website of the Energy Social Initiatives Fund (www.fondenergy.ru).

Financing is provided for projects in several focal areas, including education, environmental protection, art, culture, social support, sports, and healthy lifestyle promotion.

Since 2003, 302 non-profit organisations and social institutions in 64 settlements of Sakhalin have received financial support as part of the Energy Social Initiatives Fund. In total, 594 projects have been implemented in the years of the programme. The company's investments have amounted to over 84.97 mln roubles.

Number of Projects that Received Funding in 2003–2018 (by districts)



In 2018, funding was granted to 47 projects, including:

- As part of the Avatar in the Library. New Technologies in Servicing Readers project, there is a new employee in the Okha City Library No. 13 — a robot librarian who acts as a guide to readers in the world of literature: introduces readers to recently published books, tells them about the library, conducts quizzes, acts as a host in educational and gaming activities. The robot librarian is able to work not only indoors, but also outdoors, that is why a number of activities are held outside the walls of the library. As a result, children and young people get more and more interested in visiting the library, and the number of its users increases.
- The implementation of the Young Meteorologist project resulted in the installation of a meteorological station in the territory of Vasilek Kindergarten No. 29 (Sanatornoye village), which gives teachers an opportunity to acquaint children with the main standard meteorological instruments, the methods and techniques of observation and processing obtained results, makes it possible to conduct systematic observation of the weather and seasonal phenomena in the surrounding nature, as well as to study the microclimate of the territory around the kindergarten. The project is intended for children, parents, teachers, residents of Sanatornoye village, and includes a set of activities aimed at improving the environmental awareness of project participants.

9.5.3. The Safety Is Important Programme

Safety is one of Sakhalin Energy's top priorities. Since it regards safety to be among the most topical issues in Sakhalin, in 2005 the company initiated The Safety Is Important programme, and has been implementing it in partnership with the Sakhalin Emercom and the Ministry of Education of the Sakhalin Oblast ever since.

Projects under the programme are implemented with the participation of public organisations and state institutions such as V.A. Polyakov Search and Rescue Team of the Russian Emercom, the Department of the State Road Safety Inspectorate of the RF Ministry of Internal Affairs for the Sakhalin Oblast, the Sakhalin Branch of the All-Russian Voluntary Fire Organisation, the Rossoyuzspas Sakhalin Regional Public Organisation, the Regional Extracurricular Educational Centre, and others.

The programme is developing in several key areas, one of which is the creation of educational cartoons about safe behaviour in various situations. Senya, the main character of the cartoons, has become the symbol of the programme. The subjects of the cartoons are later used as the basis for comic books, published for educational purposes.

The comic book titled Safe Way to the School was published just before the beginning of the new school year. Now this book is used in educational activities throughout the island.

In May 2018, the presentation of a new cartoon was held in the Dalnee village school. The cartoon, devoted to the safe use of gas in everyday life, was released in time for the beginning of active gasification of residential buildings in the settlement. The event was attended by employees of Sakhalin Energy and Gazprom Gas Distribution Far East — the operator of the village gasification project.

In October 2018, the traditional Children's Safety Holiday was held, which brought together children's teams from 15 districts of the island. This year, two stages of the competition dedicated to Internet security and transport safety were held in a new format and with the participation of new partners. For the first stage, the organisers together with MTS staff equipped a room in which each participant was to conduct an online broadcast in compliance with the information security rules. At the Transport Safety stage, employees of the Yuzhno-Sakhalinsk Children's Railway checked how the young participants knew the railway safety rules.

The target audience of the programme also includes adults — teachers and parents. Engagement with these stakeholders is carried out through the organisation of competitions for Life Safety teachers and the support of work in the dedicated Life Safety classrooms at schools and preschool institutions.

During the skiing season, Senya was an active participant in the events held at the Mountain Air Sports and Tourist Complex. In April 2018, during the end of the season holiday, a separate session was devoted to skiing safety issues. The opening of the new 2018/2019 season was also held with the participation of the main character of The Safety Is Important programme.

Detailed information about the programme and related materials are available on the website www.senya-spasatel.ru. Since 2018, Senya has also had an Instagram account senya_spasatel.

9.5.4. Hurry Up for Good Deeds Programme (Support for Charitable Initiatives of Employees)

Corporate volunteering is one of the forms of CSR implementation, which not only expands the scope and range of the company's charitable programmes, but also unites the personnel. Sakhalin Energy involves employees in charitable programmes and supports their volunteer initiatives in every possible way. The programme was launched in 2003 as a grant competition to support employees' charitable initiatives, and has undergone a number of changes since.

Currently, the programme offers employees various opportunities:

- Participation as a volunteer in the preparation and holding of corporate campaigns to raise funds for social institutions selected by employees during a survey via the Intranet (three times a year).
- Participation in Volunteer Days (Voluntary Community Work Days) (twice a year).

- Initiation and implementation of their own charitable projects with the participation of colleagues.
- Provision of professional assistance (pro bono) on their own initiative, or participation in the company's projects aimed at developing the potential of the company's charitable programmes participants (NGOs and state-funded institutions).

The various formats of participation in the programme make it possible to involve in volunteering those who are ready to act as initiators and organisers, as well as those who are willing to join them during a charity event. According to the evaluation of the social programmes, almost 30% of the company's employees participate in the programme. Employees can also invite the members of their families, including children.

In 2018, there were two Voluntary Community Work Days in the territories of the rehabilitation centres for the disabled. Two corporate campaigns were organised to raise funds for the Golden Mustang Equestrian Club, the Kirovskoe Boarding School for Mentally Retarded Children, and the Makarov Social Rehabilitation Centre for Children. These institutions are actively implementing innovative programmes for the rehabilitation of children through sports activities. Sakhalin Energy organised the annual New Year Miracles charity event: on the eve of the most popular winter holiday, the company's employees granted the wishes of 169 young Sakhalin residents with disabilities or in difficult family circumstances. Employees donated about 2.95 mln roubles during the year, and, according to the Hurry Up for Good Deeds Programme rules, this amount was doubled by the company.

The company's employees increasingly use their professional knowledge and skills to contribute to the development of partner organisations. In particular, in 2018 they organised and held a number of seminars on occupational safety and health issues for employees of the Mountain Air Sports and Tourist Complex and teachers of Yuzhno-Sakhalinsk schools, delivered lectures for students and schoolchildren, worked as members of the examination boards at the local universities, etc.

9.5.5. Korsakov Partnership Council for Sustainable Development

The Korsakov Partnership Council for Sustainable Development, a social investment and sustainable development programme implemented in the Korsakov Municipal District of the Sakhalin Oblast, was initiated by Sakhalin Energy in 2003. As part of this programme, the company provides financial assistance to social projects.

The programme is managed by the Korsakov Partnership Council for Sustainable Development. The Council consists of 9 members, three representatives of each party: Sakhalin Energy, the government authorities, and the community of the Korsakov Municipal District.

In addition to being a stakeholder engagement tool and an expert council to review projects for social investments, the Korsakov Partnership Council also plays a role in monitoring of the population's social activity in the district.

Another task solved by this programme is involving as many possible community members of the Korsakov District in discussions of projects. To do this, a project fair has been held twice a year as part of the Korsakov Initiatives Contest. This is both a public presentation and a competition of ideas. These fairs are open to participation of all residents, and they choose the most relevant projects and prioritise the proposals submitted that need to be implemented first to further the district advancement.

In 2018, public consultations on the Korsakov Sustainable Development Partnership Council activities were held in 10 settlements of the Korsakov District. 53 residents were provided with information on the results of the work of the Partnership Council, its achievements, implemented projects, and plans for the future.

During public consultations, an assessment of the Korsakov Municipal District population's attitude towards the work of the Korsakov Partnership Council is made, and the residents' awareness of the projects implemented in the Korsakov Municipal District under the support of Sakhalin Energy. In addition, proposals are collected regarding further development of the programme.

The Korsakov Partnership Council for Sustainable Development has performed competitive selection of projects since 2004. In 2018, the Council supported 17 projects proposed by local non-profit organisations.

Materials on the Korsakov Partnership Council are available at www.korsakovsovet.ru

9.5.6. Sakhalin Indigenous Minorities Development Plan

The Sakhalin Indigenous Minorities Development Plan (hereinafter referred to as SIMDP or the Plan) is a partnership programme that has been jointly implemented by Sakhalin Energy, the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities, and the Sakhalin Oblast Government since 2006. The programme has been divided into five-year phases, with the period of 2016–2020 being SIMDP 3.

Every year, consultations are held as part of the Plan in all areas of SIM traditional residence. In 2018, 13 public meetings, attended by 187 people, were held in 11 communities. The main objectives of the consultations were to inform the public about the results of the 2017 Plan and the competitive programmes for 2018, as well as to discuss issues related to the management and implementation of the Plan as a whole and its individual programmes in particular.

9.5.6.1. Goals and Structure of the SIMDP

In 2016–2020, the Sakhalin Indigenous Minorities Development Plan aims to achieve the following key objectives:

- Capacity building: to perfect leadership qualities and technical skills (including those in accounting, budgeting, business planning, economic activity, preparation of reports), and to support the aspiration for further development of ethnic self-awareness.
- Social, cultural and economic development: the targeted areas for support are cultural revival, economic viability of traditional enterprises, and to improve social conditions. Focus is made on long-term strategic planning in line with the principles of sustainable development.
- Independent fund preparation: assistance in the preparation for the eventual establishment of an independent SIM development fund.
- Disclosure of the environmental effects of the Sakhalin-2 project: to ensure timely provision of objective and complete information about the existing and/or potential impacts, and about the measures taken to prevent and/or minimise any potential negative effects.

Decisions on the allocation of funds under SIMDP are made by the programme committees that consist exclusively of SIM representatives, specially elected at meetings in the districts. The programme committees are supported in their work by the Expert Groups and District Committees.

Independent monitoring of the Development Plan is conducted on an annual basis. This gives the SIMDP partners and Sakhalin indigenous minorities an opportunity to get an independent assessment of the Plan and the results of its programmes, and also to identify the problems to promptly develop appropriate corrective measures. The monitoring is conducted by a social work specialist with extensive international experience in the development and monitoring of indigenous minorities projects. In 2018, after half of the SIMDP 3 implementation period, a midterm evaluation of the programme implementation was made. Two different methodological approaches were used for this purpose: a survey of public opinion and quality surveys and observations conducted by the midterm evaluation team, which included Gregory E. Guldin, Independent Expert, L.V. Passar, Indigenous Peoples representative from Khabarovsk Region, and A.T. Konkov, Head of Sociology Department at SSU.

Governance Structure (2016–2020)

GOVERNING BOARD

- Regional Council of the Authorised Representatives of the Sakhalin Indigenous Minorities (RCAR) — 3 representatives
- Sakhalin Energy — 2 representatives
- Sakhalin Oblast Government — 2 representatives
- Russian Association of Indigenous Peoples of the North, Siberia and the Russian Far East (RAIPON) — 1 representative
- SIM representative to the Oblast Duma — 1 representative
- SIM representatives (who are not members of RCAR) — 2 representatives
- Public Chamber of Sakhalin Oblast — 1 representative

INTERNAL MONITORING

EXTERNAL MONITORING

EXECUTIVE COMMITTEE

- RCAR — 2 representatives
- Sakhalin Energy — 2 representatives
- Sakhalin Oblast Government — 2 representatives

COORDINATOR

SOCIAL DEVELOPMENT FUND

Seven SIM representatives elected at public meetings in each of seven districts of traditional residence

- Capacity building
- Culture
- Healthcare
- Sports
- Education

TRADITIONAL ECONOMIC ACTIVITIES SUPPORT PROGRAMME

Seven SIM representatives elected at public meetings in each of seven districts of traditional residence

- Capacity building
- Self-sufficiency grants
- Business planning
- Micro-loans

Experts group

Experts group

DISTRICT COMMITTEES

Okha | Nogliki | Tymovsk | Aleksandrovsk-Sakhalinsky | Smirnykh | Poronaysk | Yuzhno-Sakhalinsk

- Local Councils of Authorised SIM Representatives — 2 SIM representatives
- District Administration – 1 representative (assigned by local mayor)

9.5.6.2. Traditional Economic Activities Support Programme of the SIMDP

The funds of the Traditional Economic Activities Support Programme were distributed among its components such as business planning, self-sufficiency, and capacity building.

In 2018, the Programme Committee approved 32 projects aimed to support clan and family enterprises, communities and other associations of the Sakhalin Indigenous Minorities, to provide aid to SIM representatives and to conduct workshops. In the framework of the projects, boat motors, nets and fishing gears, snowmobiles, consumables, and certain types of electrical appliances were purchased for conducting traditional economic activities.

In 2018, the Second Sakhalin Oblast Traditional Sports Competition among SIM Children was held in Poronaysk. The key participants of the event were the combined teams from seven districts of the island — Aleksandrovsk-Sakhalinsky, Nogliki, Okha, Poronaysk, Smirnykh, Tymovsk and Yuzhno-Sakhalinsk. The competition programme included shooting from the traditional bow, the triple jump, throwing tujiang on the trochee, and other events, which show the peculiarities of the national sports of Sakhalin indigenous ethnic groups. The event was organised by the Sakhalin Oblast Government and Sakhalin Energy under the Sakhalin Indigenous Minorities Development Plan.

9.5.6.3. Social Development Fund of the SIMDP

The resources of the Social Development Fund were distributed among its components, namely Education, Healthcare, Capacity Building, Culture, and Sports. In 2018, the Social Development Fund Committee approved 28 projects. The Nivkh ('Man') Territorial-Neighbourhood Community of the Indigenous Minorities of the North participated in the implementation of the SDF projects as a partner organisation. As part of educational projects, 58 students of specialised secondary and higher education institutions received financial support, and 9 people were provided aid for medical reasons.

For more details about the implemented projects, please visit the website of the Development Plan www.simdp.ru.

According to the Corporate Charity Leaders 2018 Ranking, the Sakhalin Indigenous Minorities Development Plan is the best programme that significantly contributes to the implementation of the UN Sustainable Development Goals (the category was sponsored by the UN in Russia).

9.5.7. Silhouette Magic by Semyon Nadein (a Cultural Project)

The Silhouette Magic by Semyon Nadein exhibition was opened in the Literary and Art Museum of Anton Chekhov's Book Sakhalin Island. It worked in Yuzhno-Sakhalinsk until 21 January 2018. In February 2018, the exhibition was transferred to Okha, and then it toured the local history museums of Nogliki, Tymovsk, Poronaysk, Korsakov, where everyone willing could admire the literary and decorative-applied works of the Evenki artist, who embodied the traditions of the Sakhalin Indigenous Minorities in his masterpieces. The exhibition was accompanied by a series of events under the general title Around the Exhibition: excursions, workshops, a shadow performance based on Semyon Nadein's works, and a street laser show with images created by the artist. In addition, the residents of each town participating in the project had an opportunity to take part in an appliquéd ornament contest. The project will be completed in February 2019. The closing ceremony will include the presentation of a home shadow theatre — a set for arranging an amateur shadow performance at home.

In total, the exhibition and its accompanying events were visited by more than 10,000 people, most of which — as a part of charity events.

9.5.8. Special Projects Dedicated to the Year of Volunteers in the Russian Federation

9.5.8.1. My Contribution to the Development of the Island Project

During the Eastern Economic Forum held in September 2018, Sakhalin Energy and the Sakhalin Oblast Government signed a Memorandum of Intent, which serves as a basis for partnership in the field of socio-economic development of the region within the framework of the Mountain Air Sports and Tourist Complex project. The document provides for cooperation in the development and support of the My Contribution to the Development of the Island volunteer movement project and the improvement of safety culture at the Mountain Air Sports and Tourist Complex. The memorandum was signed to continue cooperation after the pilot phase of the project, launched in late 2017, and is aimed at the development of volunteering at the Mountain Air Sports and Tourist Complex.

Being one of the fastest growing ski resorts in the Far East and also the island's signature attraction, Mountain Air will be the main venue for the Children of Asia 2019 international competition. Today, Sakhalin youth have a splendid opportunity to personally take part in the development of their city and region. The company provided not only financial, but also methodological and organisational support to the project throughout the year, thus promoting volunteering on the island. Involving young people in social practice through the development of volunteering creates a solid foundation for the personal self-fulfilment of volunteers, and helps them to make a significant contribution to the future of Sakhalin.

9.5.8.2. #I'M A VOLUNTEER Media Project

This is Russia's first cinematographic interpretation of volunteering in Russia. The presentation of the film took place in December 2018 in almost 1,500 Russian cities and villages. The 'film of the year' created by Third Sector Social Films Laboratory depicts volunteering as a major social movement and as heroic acts performed by each volunteer. Sakhalin Energy was one of the first partners of the project, providing support in the film making and promoting its screenings on Sakhalin.

#I'MAVOLUNTEER was filmed in different regions of the country. It tells amazing real-life stories of ordinary people who, at some point of their lives, felt a desire to help others. The Sakhalin story, included in the picture, is about the participants of the first Russian project for training volunteer rescuers of marine mammals. The Sakhalin: Man and the Sea project, implemented by the Boomerang Club with the support of Sakhalin Energy, subsequently received the support of the Presidential Grants Foundation and was recognised as one of the best social projects in Russia.

9.5.8.3. Volunteering: Present and Future. Development Prospects Conference

The conference, held in Yuzhno-Sakhalinsk in October 2018, brought together more than 150 well-known representatives of the volunteer movement in Russia. The participants spent two days discussing technologies for the development of volunteering, modern approaches and best practices, legal and financial aspects of the movement. There were separate sessions devoted to corporate volunteering and volunteering in the field of culture and sports. Representatives of the National Council for Corporate Volunteering, the Mosvolonter Resource Centre for the Development and Support of the Volunteer Movement, the V. Potanin Charitable Foundation, the State Hermitage Museum and the Darwin Museum shared their experience with the conference participants. Sakhalin volunteers also told their colleagues about their practices.

The event helped not only to summarise the experience, but also became a platform for effective exchange of views, dialogue and search for partners to implement the best volunteering practices on Sakhalin.

10

2019 PLANS
DEVELOPMENT STRATEGY UP TO 2023

In 2019, Sakhalin Energy celebrates its 25th anniversary. Over the 25 years, the company has not only emerged as a world leading oil and gas producer, but has also succeeded in becoming a premier energy supplier for Asia-Pacific. Sakhalin Energy will continue to build on its positions in accordance with its mission and vision.

FROM 2019 ONWARD, THE COMPANY'S DEVELOPMENT WILL BE BASED ON THE GROWTH STRATEGY, WHICH IS FOCUSED ON THREE KEY AREAS:

- reserve base expansion;
- operational excellence;
- good corporate governance.

Safety, health and environmental issues remain front and centre in the company's agenda. To that end, Sakhalin Energy will pay special attention to the development of the company's and contractors' employees as part of the Goal Zero programme. As part of the HSE strategy, the company has adopted and included in the 2019–2023 plans the following main objectives:

LEAD AND ENGAGE

- To work safely not because we are forced to but because we want to. Safety is our way of life, a deeply held value.
- To support the development of leaders at all levels to make the right decisions, particularly in challenging circumstances, and to build safety and continuous improvement culture.
- To work as one team within our company, and with customers, suppliers, contractors and subcontractors.
- To treat people with care and respect. At all levels, to demonstrate leadership and commitment to HSE, and develop trusted relationships.
- To inspire and support our people to be proactive, to recognise personal examples of effective intervention and responsibility.
- To sustain a culture of conscientious accountability and fairness.

PEOPLE

- To inspire and support the health and fitness of employees for a long and healthy life.
- To assure the HSE/IS competence of our people to support safe implementation of major projects, contracts, operations.
- Major hazards.
- To bring significant risks down to as low as reasonably practicable (ALARP) — "Our assets are safe and we know it".

HSE HAZARDS AND CONTROLS

- To focus on controls to save lives and prevent injuries.
- To focus on transport and worksite hazards in major projects and operations.
- To apply a systematic approach to HSE management to ensure compliance with the regulatory and international requirements, and promote industry best practices.

IN 2019 AND SUBSEQUENT YEARS, SAKHALIN ENERGY'S MAIN PRODUCTION ACTIVITIES WILL BE:

- To optimise production levels of oil and LNG and improve performance from existing assets.
- To enhance production potential.
- To develop and implement key critical projects.
- To support further development of the Sakhalin Industrial Park.

THE COMPANY ATTACHES SPECIAL IMPORTANCE TO BUILDING AN INTELLECTUAL PROPERTY PORTFOLIO. TO THIS END, IN 2019 AND SUBSEQUENT YEARS, SAKHALIN ENERGY WILL CONTINUE:

- To formalise unique engineering, organisational and IT solutions developed by the company's employees through their registration and protection in the Russian Federation, and through patenting abroad, if necessary.
- To expand and strengthen cooperation with contractors to gain competitive advantages from new engineering, organisational and IT solutions developed under the Sakhalin-2 project.

IN 2019, THE COMPANY WILL CONTINUE TO WORK WITH CUSTOMERS TO ACHIEVE THE MOST BENEFICIAL OIL AND LNG SALES.

AS PART OF THE HR MANAGEMENT STRATEGY IMPLEMENTATION, IN 2019 AND SUBSEQUENT YEARS, SAKHALIN ENERGY WILL CONTINUE:

- To employ and develop best qualified specialists, including Sakhalin residents.
- To meet manpower requirements for technical roles in major projects utilising internal and shareholder resourcing.
- In line with succession planning to invest in professional training and development of Russian employees capable of taking technical authority and leadership roles in the company.
- To deliver an attractive and competitive employee value proposition (EVP).
- To digitise HR technologies and deliver cost-effective HR processes in continuous improvement environment.
- To maintain the company's unique corporate culture and strengthen the brand of an employer of choice.

REGULAR AND MEANINGFUL STAKEHOLDER ENGAGEMENT REMAINS AN IMPORTANT COMPONENT OF SAKHALIN ENERGY'S SUCCESSFUL PERFORMANCE.

The strategy and plans for engaging the general public for 2019 have been included in the Public Consultation and Disclosure Plan (see the company's website www.sakhalinenergy.ru).

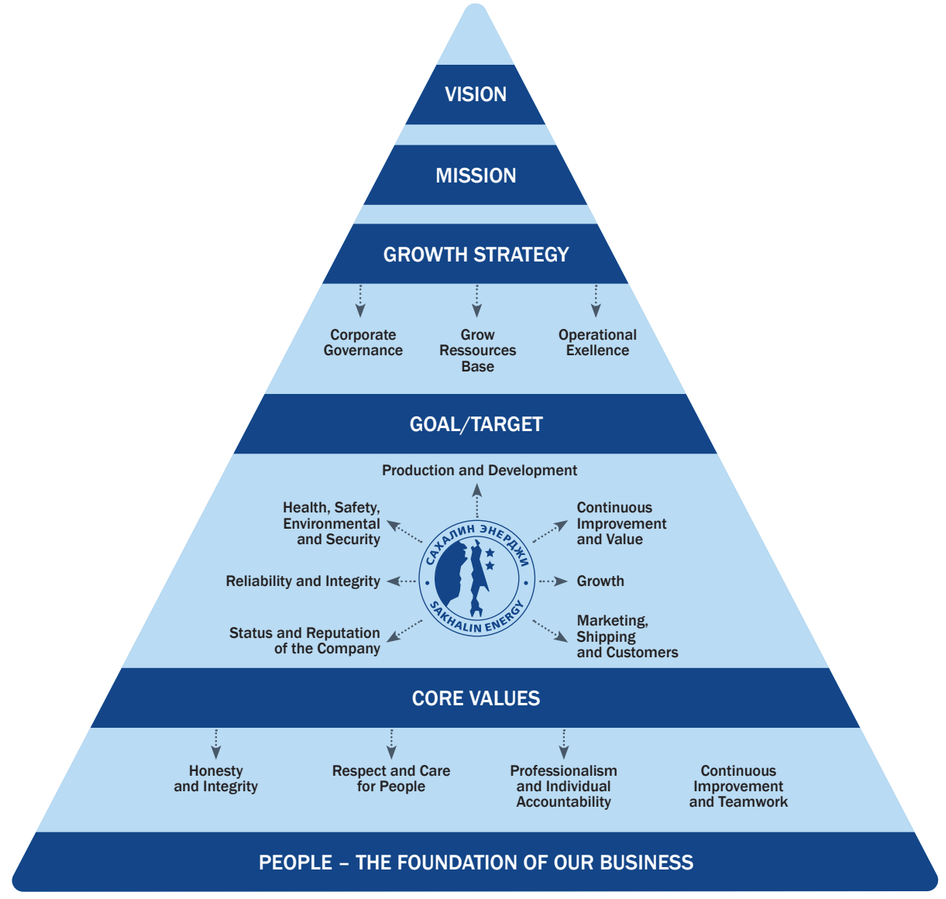
IN ITS SOCIAL INVESTMENT AND SUSTAINABLE DEVELOPMENT PROGRAMMES, SAKHALIN ENERGY WILL CONTINUE TO GIVE PRIORITY TO PARTNERSHIPS WITH EXTERNAL STAKEHOLDERS AND TO LONG-TERM SOCIAL PROGRAMMES.

Sakhalin Energy will continue to conduct its business in compliance with the adopted General Business Principles, Code of Conduct, Sustainable Development Policy, and CSR related standards.

Sakhalin Energy will make every effort to further improve its work and conduct its business on the basis of efficient, reliable, and safe production, as well as a responsible attitude toward social and environmental issues.

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

MISSION: Sakhalin Energy is committed to being a premier energy supplier in the global market. We conduct our business in an ethically, socially, and environmentally responsible manner.



APPENDIX

Appendix 1. GRI Standards Compliance Table

For explanation of the material topics and their boundaries, see Section 2.

General Standard Disclosures

GRI index	GRI disclosure	Report section and/*or* *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
1. Organisational Profile				
102-1	Name of the organisation	About the Company	38	
102-2	Primary brands, products, and services	About the Company	47-49	
102-3	Location of organisation's headquarters	*http://www.sakhalinenergy.ru/ru/contactus.asp*	On the outside rear cover	
102-4	Number of countries where the organisation operates, and the names of countries where it has significant operations and/or that are relevant to the topics covered in the report.	About the Company	38-49	
102-5	Nature of ownership and legal form	Corporate Governance	54	
102-6	Markets where the organisation operates	About the Company	38, 47-49	
102-7	Scale of the organisation	About the Company Economic Impact Management Personnel: Management and Development	38-47 80-82 115	
102-8	Total number of employees by employment type, gender, employment contract and region	General Information	115-116	8
102-9	Organisation's supply chain	Supply Chain Management	83-84	8 12
102-10	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	*No significant changes in 2018*		
102-11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Sakhalin Energy's CSR System Sustainable Development Policy Risk Management System Impact Assessment	21 23 57 34-35	3 6-8 11-16
102-12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	Performance Standards	22	3 6-8 11-16
102-13	Memberships of associations (such as industry associations) and national or international advocacy organisations	Performance Standards *International and Regional Cooperation* *In November 2009, the company joined the UN Global Compact.* *In 2018, the company is a member of:* – *Global Compact LEAD;* – *International Business Congress;* – *RUIE;* – *Donors Forum;* – *Association "Association of organisations performing engineering surveys in the gas and oil industry "Engineer-Surveyor"";* – *Self-regulatory organisation "Association of organizations performing design work in the gas and oil industry "Design Engineer"";* – *Society of Petroleum Engineers SPE*	22 75-77	
2. Strategy				
102-14	Statement from the most senior decision-maker of the organisation	Message from the Chairman of the Committee of Executive Directors and the Chief Executive Officer	7-8	
102-15	Description of key impacts, risks, and opportunities	Message from the Chairman of the Committee of Executive Directors and the Chief Executive Officer Risk Management System HSE and Social Performance Management Economic Impact Management Environmental Impact Management Social Impact Management 2019 Plans and Development Strategy up to 2023	7-8 57-59 32-35 80-82 88-111 114-157 160-161	1-16
3. Ethics and Integrity				
102-16	Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Corporate Social Responsibility and Sustainable Development Corporate Governance	20-31 60-63	16
102-17	Internal and external mechanisms for advice and concerns about ethics and matters related to lack of integrity in the organisation	Corporate Governance System and Structure Corporate Culture Stakeholder Engagement Management Human Rights	53 60-61 66-67	16
4. Governance				
102-18	Governance structure of the organisation, including committees of the highest governance body	Corporate Governance Model	54-56	
102-20	Executive-level position or positions with responsibility for economic, environmental and social topics	Corporate Governance Model	54-56	
102-21	Consulting stakeholders on economic, environmental, and social topics	Impact Assessment Sakhalin Energy's CSR System Stakeholder Engagement Management *Use the link specified in Appendix 4. Public Consultation and Disclosure Report - 2018.*	34-35 21 66-77	16
102-22	Composition of the highest governance body and its committees	Corporate Governance Model	54-56	5 16
102-23	Whether the Chair of the highest governance body is also an executive officer	*The chairperson of the highest governance body is not an executive officer*		16

GRI index	GRI disclosure	Report section and/or *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
102-26	Highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	Corporate Social Responsibility and Sustainable Development Corporate Governance	21 52-56	
102-30	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	Risk Management System	57-59	
102-32	Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered	About the Report	11	
5. Stakeholder Engagement				
102-40	List of stakeholder groups engaged	About the Report Stakeholder Engagement Management	12 66	12 16
102-42	Basis for identification and selection of stakeholders with whom to engage	Stakeholder Engagement Management	66	12 16
102-43	Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the Report preparation process	About the Report Stakeholder Engagement Management	66-67	12 16
102-44	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. Stakeholder groups that raised each of the key topics and concerns	About the Report Stakeholder Engagement Management Grievance Handling in 2018 Appendix 2 *Use the link specified in Appendix 4. Public Consultation and Disclosure Report - 2018*	12-16 66-74 146-147 175-179	12 16
6. Reporting Practice				
102-45	Entities included in the organisation's consolidated financial statements or equivalent documents	About the Report Economic Impact Management	17 80	12 16
102-46	Process for defining the Report content and the Aspect Boundaries. Reporting Principles for Defining Report Content	About the Report	11-16	12 16
102-47	List of all the material Aspects identified in the process for defining the Report content	About the Report	13t-16	12 16
103-1	Material topic and its boundary	About the Report	15-17	12 16
102-48	Restatements of information provided in previous reports, and the reasons for such restatements	*No restatements of information*		12 16
102-49	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	*No significant changes in the scope and aspect boundaries*		12 16
102-50	Reporting period (such as fiscal or calendar year) for information provided	*2018*		12 16

GRI index	GRI disclosure	Report section and/or *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
102-51	Date of most recent previous report (if any)	*April 2018*		12 16
102-52	Reporting cycle (such as annual, biennial)	About the Report *Annual*	10	12 16
102-53	Contact point for questions regarding the Report or its contents	Appendices 5–6	183–186	12 16
102-54	Claims of reporting in accordance with the GRI Standards	About the Report	11	12 16
102-55	GRI Content Index. Reference to the External Assurance Report	This Appendix Appendices 7-8	164–174 189–192	12 16
102-56	Organisation's policy and current practice with regard to seeking external assurance for the Report	About the Report	17	12 16

Specific Standard Disclosures

GRI index	GRI disclosure	Report section and/*or* *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
Category: Economic				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	About the Company Economic Impact Management Remuneration and Bonus System Grievance Handling in 2018 Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	38 80-85 123 146-147 148-149	1 16
GRI 201: Economic Performance (2016)				
201-1	Direct economic value generated and distributed	About the Company Economic Impact Management Remuneration and Bonus System	38 80-84 123	2 5 8 9 13
201-3	Coverage of the organisation's defined benefit plan obligations and other retirement plans	Social Guarantees, Benefits and Compensations	124	
201-4	Financial assistance received from government	*The company received no financial assistance from the government in 2018*		
GRI 202: Market Presence (2016)				
202-1	Ratio of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Remuneration and Bonus System	123	1 5 8
202-2	Proportion of senior management hired from the local community at significant locations of operation	General Information Recruiting Personnel and Onboarding New Employees	117-118 121	8
GRI 203: Indirect Economic Impacts (2016)				
203-1	Development and impact of infrastructure investments and services supported	Importance of the Sakhalin-2 Project for the Russian Federation and the Sakhalin Oblast Social Investments and Contributions to Sustainable Development of the Host Region	80 148-149	2 5 7 9 11
203-2	Significant indirect economic impacts, including the extent of impacts	Economic Impact Management	80	1 2 3 8 10 17
GRI 204: Procurement Practices (2016)				
204-1	Proportion of spending on local suppliers at significant locations of operation	Russian Content	82-83	8
GRI 205: Anti-Corruption (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Anti-Bribery and Corruption	62-63	16
205-2	Communication and training on anti-corruption policies and procedures	Anti-Bribery and Corruption	62-63	16
205-3	Confirmed incidents of corruption and actions taken	*No cases of corruption were registered in 2018*		16

GRI index	GRI disclosure	Report section and/*or* *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
Category: Environmental				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	HSE and Social Performance Management System Environmental Impact Management Grievance Handling in 2018 Environmental Protection Costs and Payments for the Negative Impact	21 88-111 146-147 96	12 13 14 15 16
GRI 302: Energy (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Energy Production and Consumption	92-93	7 8 12 13
302-1	Energy consumption within the organisation	Energy Production and Consumption	92-93	7 8 12 13
302-3	Energy intensity	Energy Production and Consumption	92-93	7 8 12 13
GRI 303: Water (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Impact on Water Bodies Environmental Protection Costs and Payments for the Negative Impact	89-90 96	6
303-1	Total water withdrawal by source	Impact on Water Bodies	89-90	6
303-2	Water sources significantly affected by withdrawal of water	Impact on Water Bodies *No water sources are materially affected by the company's withdrawal of water*	89-90	6
GRI 304: Biodiversity (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Environmental Monitoring and Biodiversity Conservation Environmental Protection Costs and Payments for the Negative Impact	97-108 96	6 14 15
304-1	Operational sites on, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Environmental Monitoring and Biodiversity Conservation	97-108	6 14 15
304-2	Significant impacts of activities, products, and services on biodiversity on protected areas and areas of high biodiversity value	Environmental Monitoring and Biodiversity Conservation *There are no significant impacts of activities, products or services on biodiversity*	97-108	6 14 15
304-4	Total number of IUCN red list species and national conservation list species with habitats in areas affected by operations	Environmental Monitoring and Biodiversity Conservation	97-108	6 14 15
GRI 305: Emissions (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Greenhouse Gas and Ozone-Depleting Substance Emissions Environmental Protection Costs and Payments for the Negative Impact	93-95 96	12 14 15

GRI index	GRI disclosure	Report section and/*or* *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
305-1	Direct greenhouse gas (GHG) emissions	Greenhouse Gas and Ozone-Depleting Substance Emissions	93-95	3 12 13 14 15
305-2	Energy indirect greenhouse gas (GHG) emissions	Greenhouse Gas and Ozone-Depleting Substance Emissions	93-95	3 12 13 14 15
305-6	Emissions of ozone-depleting substances (ODS)	Greenhouse Gas and Ozone-Depleting Substance Emissions	93-95	3 12
305-7	Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air emissions	Impact on Atmospheric Air	89	3 12 14 15
GRI 306: Effluents and Waste (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Impact on Water Bodies Waste Management Oil Spill Prevention and Response Preparedness Environmental Protection Costs and Payments for the Negative Impact	89-90 91-92 109-110 96	12 14 15
306-1	Total water discharge by quality and destination	Impact on Water Bodies	89-90	3 6 12 14
306-2	Total weight of waste by type and disposal method	Waste Management	91-92	3 6 12
306-3	Total number and volume of significant spills	Oil Spill Prevention and Response Preparedness	109-110	3 6 12 14 15
GRI 307: Environmental Compliance (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	HSE and Social Performance Management System Environmental Impact Management Grievance Handling in 2018 Environmental Protection Costs and Payments for the Negative Impact	21 88-111 146-147 96	12 14 15
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Environmental Protection Costs and Payments for the Negative Impact	96	16
GRI 308: Supplier Environmental Assessment (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Supply Chain Management	73-74	12
308-1	Supplier Environmental Assessment	*100%*		12

GRI index	GRI disclosure	Report section and/*or* *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
Category: Social				
GRI 401: Employment (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Approaches to HR Management and HR Policy Grievance Handling in 2018	114-115 146-147	
401-1	New employee hires and employee turnover by age group, gender, and region	General Information Recruiting Personnel and Onboarding New Employees	119 121	5 8
401-3	Return to work and retention rates after parental leave, by gender	General Information	117	5 8 10
GRI 402: Labour/Management Relations (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Engagement with Personnel Approaches to HR Management and HR Policy Grievance Handling in 2018	67-68 114-115 146-147	
402-1	Minimum notice periods regarding operational changes	*In accordance with the effective Labour Code of the Russian Federation, federal laws, and other regulatory legal acts containing norms of labour law, agreements and employment contracts*		8
GRI 403: Occupational Health and Safety (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Labour Safety and Protection Occupational Health Grievance Handling in 2018	138-142 143-144 146-147	
403-2	Rates of injury, occupational diseases, and total number of work-related fatalities	Labour Safety and Protection Occupational Health	139 144	3 8
GRI 404: Training and Education (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Learning and Development Grievance Handling in 2018	127-137 146-147	
404-1	Average hours of training per year per employee by gender, and by employee category	Personnel Training	130	4 5 8 10
404-2	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Learning and Development	127-137	8
404-3	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Individual Performance Review	126	5 8 10
GRI 405: Diversity and Equal Opportunity (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Approaches to HR Management and HR Policy Grievance Handling in 2018	114-115 146-147	

GRI index	GRI disclosure	Report section and/*or* *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
405-1	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	General Information	115-119	5 8
405-2	Ratio of basic salary and remuneration of women to men by employee category	*Basic salaries of men and women of all personnel categories do not differ*		5 8 10
GRI 406: Non-discrimination (2016)				
406-1	Total number of incidents of discrimination and corrective actions taken	*No cases of discrimination on any grounds were registered in 2018*		5 8 16
GRI 407: Freedom of Association and Collective Bargaining (2016)				
407-1	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	*No operations in which the right to exercise freedom of association and collective bargaining may be at significant risk*		8
GRI 408: Child Labour (2016)				
408-1	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	*No operations risk of involving child labour*		8 16
GRI 409: Forced or Compulsory Labour (2016)				
409-1	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	*No operations risk of involving forced or compulsory labour*		8
GRI 410: Security Practices (2016)				
410-1	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	*100%*		16
GRI 411: Rights of Indigenous Peoples (2016)				
411-1	Total number of incidents of violations involving rights of indigenous peoples and actions taken	*No registered cases of violation of rights of Indigenous Peoples in 2018*		2
GRI 412: Human Rights Assessment (2016)				
412-2	Employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Human Rights Training	147	
GRI 413: Local Communities (2016)				
103-1 103-2 103-3	Explanation of the material topic and its boundary Management approach Evaluation of the management approach	Corporate Social Responsibility and Sustainable Development Corporate Governance Engagement Strategy, Principles, Mechanisms and Tools Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches Grievance Handling in 2018	21 66-67 148-149 146-147	

GRI index	GRI disclosure	Report section and/*or* *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
413-1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Impact Assessment Engagement Strategy, Principles, Mechanisms and Tools Social Investment and Contribution to the Sustainable Development of the Host Region *100%*	34-35 66-67 148-149	
413-2	Operations with significant actual and potential negative impacts on local communities	Impact Assessment *In 2018, the company did not carry out operations with significant actual or potential negative impacts on local communities*	34-35	1 2
GRI 415: Public Policy (2016)				
415-1	Total value of political contributions by country and recipient/beneficiary	*As per the company's Code of Conduct, Sakhalin Energy does not support any political parties, organisations, or their representatives financially and does not participate in political activities*		16
GRI 416: Customer Health and Safety (2016)				
416-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	*No incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services in 2018*		16
GRI 417: Marketing and Labelling (2016)				
417-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	*No incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling in 2018*		16

Sector Disclosures (in Addition to General and Specific Standard Disclosures)

GRI index	GRI disclosure	Report section and/*or* *comments or references to other sources*	Page in the Report	UN Sustainable Development Goals
Category: Environmental				
OG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	Environmental Monitoring and Biodiversity Conservation	98-108	6 14 15
OG5	Volume and disposal of formation or produced water	Impact on Water Bodies	90	3 6 8 12 14
OG6	Volume of flared and vented hydrocarbon	Impact on Atmospheric Air Greenhouse Gas and Ozone-Depleting Substance Emissions Utilisation of Associated Gas in Production	89 93-94 95	3 7 8 12 13 14
OG7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	Waste Management	91-92	3 6 12
Category: Social				
OG9	Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place	Engagement with the Sakhalin Indigenous Minorities (SIM) Sakhalin Indigenous Minorities Development Plan *www.simdp.ru*	70-71 153-156	1 2
OG10	Number and description of significant disputes with local communities and indigenous peoples	*In 2018, there were no significant disputes with local communities and indigenous minorities*		1 2
OG12	Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process	*In 2018, there was no activity due to which involuntary resettlement took place*		1 2 11

Appendix 2. Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and The Company's Response and Commitments

Detailed information on the results of stakeholder engagement work conducted in the preparation of the Report, including dialogue meetings, surveys, etc., is presented in Section 2. About the Report hereof.

In addition to identifying material topics, stakeholders also made comments and suggestions on individual aspects, indicators, and/or programmes of the company for inclusion in the 2018 Report.

In October 2018, Sakhalin Energy held the first dialogue as part of the 2018 Report preparation. At this meeting, the company provided stakeholders with information on its activities and achievements during the reporting period. In February 2019, the second dialogue was held to provide responses to comments, suggestions and questions received during the first dialogue. During this meeting, participants made additional comments. Apart from the dialogue meetings, the company conducted electronic questionnaires, personal interviews, as well as surveys at various events in November and December 2018 (see Section 2.3. Defining Material and Priority Topics to Be Included in the Report).

Stakeholders' comments and suggestions, as well as the relevant responses and commitments of Sakhalin Energy, are listed in the table below.

The left column contains the questions, comments or critical remarks made during the events listed above. If they were expressed at the dialogue meetings, the participant's name, position and organisation are indicated. In other cases, the format of the event in which the stakeholders' opinion was collected (electronic questionnaires, interview, etc.) is specified.

The right column contains the responses that the company provided either at the events or after a period of time (in case a question required additional time to research and/or prepare the answer).

Comment, question, critical remark or suggestion	Company's response and/or commitment
Event: second dialogue meeting. Open statements	
Nadezhda Nikitina, Head of Programme and Estimate Documentation Analysis and PSA Implementation Subdivision, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast	
Thank you for the information provided. We will be waiting for the 2018 final figures. I would like to make three suggestions. The first concerns the contributions to the budgets of the Russian Federation and the Sakhalin Oblast (Section 7.1. of the 2017 Report). Please check the amount of the contribution to the upgrade of the Sakhalin Oblast infrastructure in 2017, which is indicated as US$ 600 mln. According to our data and your data, the amount of the contribution is smaller than that	The company will take this comment into account when preparing the 2019 Sustainable Development Report
The second suggestion regards the Russian content (Section 7.3.). I would like to thank the company for including this information. At the same time, while the value of new contracts and changes in the value of previously concluded contracts is certainly a good indicator, I would like the company to specify, additionally or instead of the above indicators, the actual costs paid to Russian and, in particular, Sakhalin companies	The information is included in Section 7.3
I would like to thank you for the inclusion of information about trainees and the number of personnel involved in the project implementation in the 2017 Report; it was our request	The company appreciates the feedback
Third, it was nice to watch the video about the launch of the LNG plant in 2009. The 2019 Report will be an anniversary one. In this connection, the company might consider the possibility of including a separate page titled "Our records" in the Report. It would be interesting to show all the record achievements made by the company in the 25 years of its operations. I think this page will be of particular interest to schoolchildren and other stakeholders	The company appreciates the feedback

Comment, question, critical remark or suggestion	Company's response and/or commitment
Valery Efanov, Head of Ecology, Geography and Natural Resources Chair at Sakhalin State University, PhD (Biology), Professor	
The first thing I want to draw your attention to is that I know more about Sakhalin Energy's environmental activities than anybody else. I have a lot of students who work in this area, participate in expeditions. Of course, I hear reports during the state test certification, made both by undergraduate and graduate students. Nevertheless, I would like to point out the following: First, the training of Sakhalin Energy's personnel in environment protection and natural resources would be more effective if it was done in the same way as before. The number of your employees I taught earlier was larger; now the number of Sakhalin Energy's employees undergoing training has slightly decreased. Apparently, it is believed that all employees are well-trained. I will not make any comments, but I must say that some of the specialists do need to get some training	As regards the company's personnel training, the company conducts internal trainings, employees take part in workshops and training courses. If any specialists are willing to get a second higher education in Ecology, they have an opportunity to do it. It is quite possible that soon some of our employees will be willing to receive such training; then we will take the offer and send them for training
The second thing that I would like to draw your attention to is that you (Sakhalin Energy) sponsor various publications about various natural complexes. This is great — they are interesting. I suggest the following: let us publish a classic textbook for the general educational process in the field of ecology (as a science — Editor's note), which would present three fundamental aspects of ecology — autecology, deme-ecology and synecology… I, for one, am ready to take responsibility for the preparation (of the textbook — Editor's note), or rather, I have prepared it already. I am ready to hand it over to you within a month for publication. I hope that you and residents of the Sakhalin Oblast and Russia as a whole will find it interesting. I am sorry to say that we can often hear such phrases as "bad ecology", "good ecology", "habitat", etc. How can completely uninformed people be engaged in environmental education? So I suggest that it would be a good idea to publish it (this textbook — Editor's note)	As regards providing support for the publication of the classic textbook, the proposal will be considered
Third, I will mention something that I have noticed (no offence). There are principles that have been enshrined in the Federal Law On Environmental Expert Review. The law mentions "presumption of potential hazard", which implies that any economic activity has an impact on the environment. I understand and repeat that you are doing a good job protecting the environment, but you cannot possibly avoid affecting the environment during your operations completely. Environmental impact can be minimised, its value can approach zero, but, believe me, it will never ever reach a zero value. I wish you all success and well-being	As regards the lack of negative impact, the company has never said that its activities have no impact at all, but the impact is within the established standards. As stated in the Decree of the Government of the Russian Federation and the Order of the Ministry of Natural Resources of Russia, issued in 2016, the company conducts a comprehensive technological and environmental monitoring of the process of drill cuttings re-injection into the deep horizons of the subsoil in order to confirm that no negative environmental impact can be observed around the drilling waste disposal facilities. According to the results of the monitoring, the monitored parameters do not exceed the established standards and background indicator values. In the past two years, Rosprirodnadzor confirmed the absence of negative impact based on the fact that the state of the environmental components had not changed
For you to get a good idea of the Report, I will explain the following: biological diversity can be assessed by two indicators: the Simpson and the Shannon coefficients. It would be amazing if people engaged in studying biological diversity assessed the state of both the animal and plant communities against the backdrop of changes in these indicators. In this case, we would know the change trends of this or that wildlife community. And then it would be possible to clearly see the trends in biodiversity. That is, it was so and so, and now it is so and so — clearly and concrete. Thank you for attention	These coefficients really characterise the state of wildlife communities very well. However, as you know, there are no requirements in Russian legislation for assessing biodiversity in terms of indices of difference, abundance and evenness, as well as regulatory and methodological approaches to such assessment. Therefore, the understanding of the term "biodiversity" is often limited to species diversity and monitoring the number of specific protected species of animals or plants. Given the above, there is much sense in the recommendation, but it will be some time before the corresponding coefficients will be used officially. Carrying out monitoring studies in the preparation of contractors' reports, the company uses these coefficients to substantiate conclusions about the stable state of communities and ecosystems in the vicinity of our production facilities
Did the monitoring of gray whales, Steller's sea eagles, and Sakhalin taimen continue in 2018? Are such observations planned for 2019?	In 2018, in accordance with the relevant programmes, the monitoring of gray whales and Steller's sea eagles continued in the north-east Sakhalin. Information on the results of this monitoring is included in Section 8.3. of the Sustainable Development Report. In 2019, observations under the environmental monitoring programmes will continue

Comment, question, critical remark or suggestion	Company's response and/or commitment
Other activities (electronic questionnaires, personal interviews, etc.)	
I wish you further prosperity and new projects in the area of environmental protection	The company appreciates the feedback
2018 results	The information is included in Section 8.2
Benefits for the Sakhalin Oblast in 2018. What is the amount of funds that the Sakhalin Oblast budget received from the company?	The information is included in Section 7.2
The company's production activity and innovations are highlighted in a very detailed and interesting way	The company appreciates the feedback
It would be very interesting to learn about innovations in production	The information is included in Section 4
What production successes did the company achieve in 2018?	The information is included in Section 4
Provide information about the Sakhalin Industrial Park. Give examples of digitalisation	The information is included in Sections 7.3. and 4
What projects aimed at the training and development of both children and adults are most often supported and stand out from the rest?	Education is one of the priority areas of social investment. The company supports various educational projects, information about which is presented on the websites of the company's programmes. General information on the results in 2018 is included in Section 9.5
Volunteer projects in 2018	The year 2018 was announced the Year of Volunteers in Russia. The company implemented a number of activities and projects aimed at the development of volunteering. General information on the results is included in Section 9.5
The company is successfully implementing the Third Sakhalin Indigenous Minorities Development Plan, especially the Education component under the Social Development Fund (SDF), which gives Sakhalin Indigenous Minorities children an opportunity to receive higher technical education. We are grateful to you for this	The company appreciates the feedback
Will the Report present long-term social projects? There has been no increase in the past 10 years	Information on external social investments will be included in Section 9.5. of the Report
Main local communities engagement activities in 2018	The information is included in Section 6
The results of work of the information centres in 2018	The information is included in Section 6
Training of specialists from among Sakhalin Indigenous Minorities and their employment at Sakhalin Energy (include such information in plans systematically, on a regular basis)	Workplace quotas are set in accordance with applicable Russian laws. Currently, Russian legislation does not provide for the allocation of quotas on a national ethnic basis. At the same time, the company seeks to maximise the engagement of Russian citizens, mainly residents of the Sakhalin Oblast, in its operations. This approach is the basis of the company's personnel policy and complies with the terms of the Sakhalin-2 project Production Sharing Agreement. Educational projects are being implemented as part of the Sakhalin Indigenous Minorities Development Plan. In 2018, for example, 58 SIM students of specialised secondary and higher educational institutions received financial support
Safety (innovations)	The information is included in Section 9.2
Employee training (local staff). When hiring new employees, priority is given to local residents	The information is included in Section 9.1
The main production results in 2018 and their comparison with the results of the previous years	The information is included in Section 4
Comparison of indicators for 2018 with the results of the previous years (this question concerns the "Corporate Social Responsibility (CSR) and Sustainable Development" section — Editor's note)	The information is included in Section 3
General information about the engagement with government authorities	The information is included in Section 6.9

Comment, question, critical remark or suggestion	Company's response and/or commitment
Financial benefits to the Russian Federation and the Sakhalin Oblast. If possible, compare them with those provided by other companies	The report includes only Sakhalin Energy's indicators
The company's contribution to the improvement of the overall environmental situation in the host cities and towns	**Gasification of Yuzhno-Sakhalinsk HPP-1** Sakhalin Energy makes every effort to improve the environmental situation in the host cities and towns. For example, the company has been transporting natural gas via the Southern GTT to Yuzhno-Sakhalinsk Heat and Power Plant-1 and other Sakhalin infrastructure facilities since 2011. **Landfill upgrades** The company has upgraded three landfills for waste disposal in Korsakov, Nogliki and Smirnykh. This was due to the need to improve the existing infrastructure of the island for the period of the Sakhalin-2 Phase II construction work and further operation of the company's facilities. The landfills were upgraded to meet the requirements of Russian legislation, aimed at minimising the impact on the environment, as well as international standards. The company made sure that the conditions for the disposal of its waste did not cause a deterioration of the environment in the region, and, on the contrary, met high environmental standards
Information about the environmental campaigns with the participation of the company's employees	This information is included in Section 9.5.4. For more details, see 2018 July and November issues of the Vesti newsletter on the Sakhalin Energy's website (Media Centre section, News page) http://www.sakhalinenergy.ru/ru/media/vesti/
Information on changes in the number of employees — citizens of the Russian Federation and foreign citizens — in 2018 and the previous years	Information is included in Section 9.1.2
A brief presentation of general information: the results of activities in one-page infographic	The information is included in the Report
Only improvements and achievements made in the reporting period	In the recommendations given by RUIE experts as part of public endorsement of the Report, special emphasis is put on the disclosure of information about the company's activities over several years rather than about changes, improvements and achievements made in the reporting period. According to experts, the presentation of information in dynamics (over 3 to 5 years) allows stakeholders to draw well-informed conclusions about the systematic nature and effectiveness of the company's management approaches in various areas of activity. Also, this approach to disclosing information complies with the principles of non-financial reporting based on GRI standards
The development of the HR management system in general	The information is included in Section 9.1
Staff reduction planned for the next two years	It is not planned to reduce the number of employees of the company in the next one or two years
The impact of sanctions and the challenges we face	The risk of adverse effects of current and potential sanctions is considered to be one of the most serious risks faced by the company. To control this risk, an interdisciplinary sanctions task group has been formed in the company. It is responsible for monitoring and developing situation management plans
Major achievements made by the company in the past year, and plans for the next 3–5 years	Information on Sakhalin Energy's main achievements is included in Section 1, production and technical achievements in the reporting period — in Section 4, achievements in the area of environmental impact management — in Section 8, achievements in the area of social impact management — in Section 9, and the company's plans — in Section 10
It makes sense not to describe some of the company's standards and policies if they have remained unchanged; instead, you can make a reference to the previous reports or give a link to the web resource where they have already been covered. This will save space in the Report, which can be used to tell more about the important positive results of activities related to the implementation of these standards and policies	The discussions of the Report's content with stakeholders show that experts in the area of CSR, environmental protection, charitable activities, etc., representatives of various authorities, NGOs, residents of the Sakhalin Oblast are interested in the disclosure of detailed information about the company's management approaches in all areas of activity. This requires listing the company's key policies and procedures in the field of CSR and sustainable development, and giving a brief description of the most important ones. In the opinion of stakeholders, this makes it easier to understand information about the company's activities in the reporting period, and it is also convenient, since there is no need to search for additional information

Comment, question, critical remark or suggestion	Company's response and/or commitment
Volunteering, including skill-based volunteering	The information is included in Section 9.5.4. For more details, see December 2018 issue of the Vesti newsletter on the Sakhalin Energy website (Media Centre section, News page http://www.sakhalinenergy.ru/ru/media/vesti/)
Development projects (first of all, production development projects), the Sakhalin Industrial Park, examples of digitalisation, the Russian content	The information is included in Section 4
Social projects and initiatives	The information is included in Section 9.5
Local specialists	The information is included in Section 9.1
Environmental projects, local community projects, all Good Deeds	The information is included in Sections 8 and 9.5

Appendix 3. List of Participants of the Stakeholder Engagement Meetings Held during Preparation of the 2018 Sustainable Development Report

1. Korsakov City District Administration, O.I. Manukhin, Deputy Head of Social Development Department.
2. Yuzhno-Sakhalinsk Municipal District Administration, N. N. Angarskaya, Deputy Director of Economic Development Department.
3. Yuzhno-Sakhalinsk Municipal District Administration, P. V. Volovik, Principal Advisor of Public Relations Subdivision of Internal Policy Division.
4. Yuzhno-Sakhalinsk Municipal District Administration, T. A. Kononenko, Head of Public Relations Subdivision of Internal Policy Division.
5. Yuzhno-Sakhalinsk Municipal District Administration, O. N. Nastich, Deputy Director of Economic Development Department.
6. Sakhalin Governor's and Government Office, N. V. Mizinin, Head of Indigenous Minorities Division.
7. Sakhalin School of Industry and Economics, A. A. Oleynik, Deputy Director for Academic and On-the-Job Training.
8. Sakhalin Regional Children's Library, I. M. Kalinovskaya, Chief Librarian.
9. Sakhalin Regional Children's Library, T. I. Novikova, Director.
10. Sakhalin Regional History Museum, T. P. Chaychenko, Subdivision Head.
11. Sakhalin Regional Art Museum, A. V. Buryka, Director.
12. Sakhalin Regional Art Museum, A. V. Lomteva, Head of Science and Education Subdivision.
13. Sakhalin Regional Art Museum, I. G. Malkova, Deputy Director.
14. Sakhalin Regional Art Museum, E. S. Nitkuk, Head of Regional Art Projects Subdivision.
15. Sakhalin Regional Art Museum, Z. V. Turmanova, Head of Educational Programmes Subdivision.
16. Preodoleniye Centre, V. M. Golovko, Department Head.
17. Yuzhno-Sakhalinsk City Duma, S. V. Dubov, Deputy.
18. Chief Directorate of the EMERCOM for the Sakhalin Oblast, N. P. Sharukhina, Lead Expert.
19. Aniva Centralised Library System, Troitskoye rural library, A. A. Korzh, Head of the Library.
20. Makarov Centralised Library System, branch library No. 2, Vostochnoye village, M. Ye. Sokolova, Head of the Library.
21. Makarov Centralised Library System, branch library No. 4, Novoye village, E. Yu. Egorova, Head of the Library.
22. Makarov Centralised Library System, Makarov Central Library, N. S. Merzlikina, Librarian.
23. Korsakov Centre for Youth Initiatives of the Sakhalin Oblast, L. M. Khrustaleva, Director.
24. Korsakov District Centralised Library System, Korsakov City Library No. 13, A.P. Kovaldina, Head of the Library.
25. Dolinsk Centralised Library System, Vzmorye rural library No. 6, V. N. Sledyuk, Head of the Library.
26. Dolinsk Centralised Library System, E. D. Lebkov Model Central City Library, M.F. Kazimirskaya, Librarian.
27. Dolinsk Centralised Library System, Sovetskoye rural library No. 10, M. Yu. Chakurova, Head of the Library.
28. Dolinsk Centralised Library System, Sokol rural library No. 5, L. Yu. Tsarkova, Chief Librarian.
29. Poronaysk Centralised Library System, Poronaysk Model Central Library, I. A. Motorina, Department Head.
30. Smirnykh Centralised Library System, Library-and-Reading Centre, Branch No. 3, Onor village, E. N. Ivoyzha, Head of the Library.
31. Smirnykh Centralised Library System, Library-and-Museum, branch No. 4, Pobedino village, N. V. Novokshanova, Head of the Library.
32. Smirnykh Centralised Library System, branch library No. 6, Roschino village, T. D. Plokhonina, Head of the Library.
33. Smirnykh Centralised Library System, Library-and-Public Access Centre, Branch No. 7, Buyukly village, E. A. Yamalova, Head of the Library.
34. Smirnykh Centralised Library System, Smirnykh Central Model Library, V. V. Chernova, Head of the Children's Library.
35. Tymovsk Centralised Library System, A. A. Spiridonova, Director.
36. Tymovsk Centralised Library System, Kirovskoye rural library (branch No. 8), Z. N. Titenkova, Head of the Library.
37. Tymovsk Centralised Library System, Molodezhnoye rural library (branch No. 17), T. V. Isaeva, Librarian.
38. Tymovsk Centralised Library System, Yasnoye rural library (branch No. 13), N. V. Gornostaeva, Head of the Library.
39. Kholmsk Centralised Library System, Yuri Nikolaev Central District Library, N. N. Bochkareva, Section Head.
40. Ministry of Forestry and Hunting of Sakhalin Oblast, A. F. Khaliulova, State Inspector of the Yuzhno-Sakhalinsk Forestry.
41. Ministry of Forestry and Hunting of Sakhalin Oblast, Department for Specially Protected Natural Areas, Wildlife and Hunting, E. G. Chernyavskaya, Head of Subdivision for Organisation of Specially Protected Natural Areas and Biodiversity.
42. Ministry of Education of Sakhalin Oblast, E. F. Babina, Deputy Minister.
43. Ministry of Education of Sakhalin Oblast, E. V. Klinova, Lead Consultant.
44. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, A. O. Maksimova, Advisor of Environmental Protection, Regulation and Licensing Subdivision.
45. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, N. V. Nikitina, Head of Cost Estimate Analysis and PSA Implementation Subdivision.
46. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, F. S. Ogienko, Assistant.
47. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, Yu. A. Shiryaeva, Senior Advisor.
48. Ministry of Sport, Tourism and Youth Policy of Sakhalin Oblast, E. E. Umnov, Deputy Minister.
49. Ministry of Economic Development of Sakhalin Oblast, A. A. Uspensky, Minister.
50. Ministry of Economic Development of Sakhalin Oblast, A. V. Butukhanov, Deputy Minister.
51. Nogliki Centralised Library System, Nogliki Central Library, D. V. Ivlieva, Librarian.
52. Representative of the Indigenous Peoples of the North, E. P. Dzyapi.
53. Representative of the Indigenous Peoples of the North, M. V. Kragina, Sakhalin Indigenous Minorities Development Plan Coordinator
54. Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities, S. N. Sangi, Council Member.
55. Rodnik Environmental Centre (Sakhalin Regional Public Organisation), A. S. Zatsarinnaya, Chairman.
56. Sakhalin State University, V. N. Efanov, Head of Ecology, Geography and Natural Resources Department, PhD (Biology), Professor.
57. Sakhalin State University, D. V. Dorofeeva, Lead Specialist.
58. Sakhalin State University, E. N. Lisitsina, Head of Sustainable Development Department.
59. Indigenous Minorities Council of Yuzhno-Sakhalinsk, A. Ya. Nachetkina, Deputy Chairman.
60. Indigenous Minorities Council of Yuzhno-Sakhalinsk, G. N. Egorova, Council Member.
61. Human Rights Commissioner for Sakhalin Oblast, S. B. Sedov.
62. Sakhalin Oblast Division of the Federal Service for Supervision of Natural Resources, O. Yu. Deeva, Lead Expert of the Water and Land Resources Supervision Department.

Appendix 4.
Useful Links

About the company	www.sakhalinenergy.com (section About the Company)
Company public website	www.sakhalinenergy.com
Contracting with us	www.sakhalinenergy.com (section Contracting with Us)
Energy TV programme	www.sakhalinenergy.com (section Media Center)
Job and Career	www.sakhalinenergy.com (section Job and Career)
Media centre	www.sakhalinenergy.com (section Media Center)
Sustainable Development Principles	www.sakhalinenergy.com (section Social Performance)
Vesti newsletter	www.sakhalinenergy.com (section Media Center)
Whistle blowing procedure	www.sakhalinenergy.com (section About the Company – Our Principles)
Company documents and material referred to in the Report	
Biodiversity Action Plan	www.sakhalinenergy.com (section Media Center – Library – Environmental Documents)
Code of Conduct;	www.sakhalinenergy.com (section About the Company – Our Principles)
Company social performance management standard	www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Contracting and Procurement Policy	www.sakhalinenergy.com (section Contracting with Us)
Health Safety Environmental and Social Action Plan, Policies and Standards on Health, Safety, Environment and Social Performance (note: complex of documents)	www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Human Rights Policy	www.sakhalinenergy.com (section About the Company – Our Principles)
Lenders' Independent Environmental Consultant Reports on Conducted Monitoring	www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Oil Spill Response Documentation	www.sakhalinenergy.com (section Media Center – Library – Oil Spill Response Documentation)
Public Consultations and Disclosure Reports	www.sakhalinenergy.com (section Social Performance – Community Awareness)
Public Consultations and Information Disclosure Plan (updated annually)	www.sakhalinenergy.com (section Social Performance – Community Awareness)
Sakhalin Energy Commitment and Policy on Health, Safety, Environment and Social Performance	www.sakhalinenergy.com (section Safety and Environment – HSE and Social Performance Management System)
Statement on application of ISO 26000:2010 Guidance on Social Responsibility	www.sakhalinenergy.com (section Social Performance – Sustainable Development Principles)
Sustainable Development Policy	www.sakhalinenergy.com (section About the Company – Our Principles)
Sustainable Development Reports	www.sakhalinenergy.com (section Media Center)
Projects and Programmes websites	
Korsakov Partnership Council for Sustainable Development	www.korsakovsovet.ru/
Sakhalin Indigenous Minority Development Plan	www.simdp.ru
The Energy Social Initiatives Fund	www.fondenergy.ru
The Safety is Important Programme	www.senya-spasatel.ru
Printed Materials	
ABC–book of the Uilta language	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Archaeological heritage of Sakhalin Island	www.sakhalinenergy.ru (section Media Center – Library – Published editions)
Birds of Sakhalin Island (photo album)	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Calendar 2017 – Safety is priority!	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Calendar 2019 – Sakhalin Energy: 25 years of energy for growth	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Comics	www.senya-spasatel.ru
EA. Best Practices Book Vol.1	www.sakhalinenergy.com (section Media Center – Library – Published editions)
EA. Best Practices Book. Vol.2	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Environmental protection at nothern assets of Sakhalin Energy	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Environmental protection at the Prigorodnoye Production Complex	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Gray Whales. The Sakhalin Story	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Human Rights: Experience of Sakhalin Energy	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Liquefied natural gas (collection of interesting facts)	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Nivkh Myths and Fairy Tales	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Photo album 'the World through a lens'	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Poisonous Plants and Fungi	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Resettlement: experience of Sakhalin Energy	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Rivers of Sakhalin Island	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Russian Content: Success Stories and New Opportunities	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Sakhalin-2 Encyclopedia	www.sakhalinenergy.com (section Media Center – Library – Published editions)
Steller's Sea Eagle	www.sakhalinenergy.com (section Media Center – Library – Published editions)
The Universal Declaration of Human Rights in the Nivkh language	www.simdp.ru (section Multimedia – Other Materials)
The Universal Declaration of Human Rights in the Uilta language	www.simdp.ru (section Multimedia – Other Materials)
The Universal Declaration of Human Rights into the Nanai Language	www.simdp.ru (section Multimedia – Other Materials)
Vladimir Sangi the book for 80th anniversary of the writer	www.simdp.ru (section Multimedia – Other Materials

Reference Material and Other	
Global Initiative Sustainability Reporting Guidelines	www.globalreporting.org
IUCN Western Gray Whale Advisory Panel (WGWAP)	www.iucn.org/western-gray-whale-advisory-panel
Mapping the Oil and Gas Industry to the Sustainable Development Goals: an Atlas	www.ipieca.org/our-work/sustainable-development-goals/
SDG Compass	sdgcompass.org/
Sustainable Development Goals	www.un.org/sustainabledevelopment/ru/sustainable-development-goals/
UN Global Compact	www.unglobalcompact.org/
UN Sustainable Development Goals	www.sakhalinenergy.ru/en/social_responsibility/sdg.wbp

Appendix 5.
Company's 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 St.
Dolinsk	Vzmorye	Rural library, Branch No.6, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	22, Pionerskaya St.
	Sovetskoye	Rural library, Branch No.10, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	127a, Tsentralnaya St.
	Dolinsk	Dolinsk Central City Library, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	31, Lenina St.
	Sokol	Rural library, Branch No.5, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	14, Shirokay St.
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 St.
Makarov	Vostochnoye	Rural library, Branch No.2, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	8, Privokzalnaya St.
	Makarov	Makarov Central Library, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	9a, 50 Let Oktyabrya St.
	Novoye	Rural library, Branch No.4, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	11a -7, Tsentralnaya St.
Poronaysk	Poronaysk	Poronaysk Central Library, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	45, Gagarina St.
	Gastello	Rural library, Branch No.4, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	42-2, Tsentralnaya St.
	Vostok	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Poronaysk Central Library System	10a, Gagarina St.
Smirnykh	Onor	Rural library, Branch No.3, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	21, Sovetskaya St.
	Pobedino	Pobedino Rural Library-Museum, Branch No.4, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	60, Tsentralnaya St.
	Smirnykh	Smirnykh Central Library, Sub-division of Municipal Institution of Culture Smirnykh Centralised Library System	12, Lenina St.
	Roschino	Rural library, Branch No.6, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	4, Komsomolskaya St.
	Buyukly	Rural library, Branch No.7, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	1, Kosmonavtov St.

District	Locality	Organisation	Address
Tymovsk	Molodezh-noye	Rural library, Branch No.17, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	14a, Sovetskaya St.
	Tymovskoye	Central District Library, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	68a, Kirovskaya St.
	Yasnoye	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	2, Titova St.
	Kirovskoye	Rural library, Branch No.8, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	70, Tsentralnaya St.
Nogliki	Nogliki	Nogliki District Central Library, Sub-division of the Municipal Institution of Culture Nogliki Centralised Library System	5a, Pogranichnaya St.
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.
Feedback Form

DEAR READERS,

You have just read 2018 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 the 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 impartially 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 is 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 2019 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 to?

- ☐ Company's employee
- ☐ Investor
- ☐ Shareholder
- ☐ Customer (Buyer)
- ☐ Partner (Contractor)
- ☐ Representative of authorities
- ☐ Representative of a public organisation
- ☐ Mass media
- ☐ Other group of persons concerned

_____

Please indicate your contact information below:

Name: _____

Job title: _____

Telephone: _____

Organisation: _____

Fax: _____

Address: _____

E-mail: _____

What type of communication is preferable?

- ☐ By mail
- ☐ By E-Mail

Please return the completed Form on the 2018 Sustainable Development Report to:

35 Dzerzhinskogo St., Yuzhno-Sakhalinsk, Sakhalin Region, Russian Federation, 693020

You may also send this Form by e-mail: ask@sakhalinenergy.ru or leave it at a Company's Information Centre. Addresses of Information Centres are given in Appendix 5 to the Report.

THANK YOU FOR YOUR FEEDBACK!

Appendix 7.
Certificate of Public Endorsement

Russian Union of Industrialists and Entrepreneurs

CERTIFICATE

of Public Endorsement of Corporate Non-Financial Report

Sustainable Development Report of Sakhalin Energy 2018

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

The detailed RUIE Council conclusion regarding public endorsement of 2018 Sustainable Development Report of Sakhalin Energy has been provided to the Company, which may publish it without any amendments and use it for in-house purposes as well as in engagements with stakeholders.

Registration No. 134.01.004.01.18

RUIE President /signature/ A. Shokhin

Moscow, 2019

Appendix 8.
Conclusion on the Results of the Review of Sakhalin Energy 2018 Sustainable Development Report by the RUIE Non-Financial Reporting Council for the Purpose of Public Endorsement

The Non-Financial Reporting Council (the Council) of the RUIE (Russian Union of Industrialists and Entrepreneurs), established by the Bureau of the Board (Resolution dated 28 June 2007), has reviewed the 2018 Sustainable Development Report (the Report) at the request of Sakhalin Energy Investment Company Ltd. (Sakhalin Energy, or the company).

The company requested the RUIE to arrange a public endorsement process by the Council. The Council issues its opinion on the relevance and completeness of information provided in the company's report in accordance with responsible business principles which are contained in the Social Charter of Russian Business and comply with the UN Global Compact, Russian and international social responsibility standards.

During the period from 25 February to 15 March 2019, the Council's members reviewed the company's Report and prepared this Conclusion based on the Council-approved Rules for Public Endorsement of Non-Financial Reports. The Council's members possess required competencies in the areas of corporate responsibility, sustainable development, and non-financial reporting; they abide by ethical requirements for making independent and objective assessments; and they express their personal opinions as experts, but not the opinions of their respective organisations.

The relevance and completeness of the Report were assessed based on the following criteria:

The information is relevant, since it demonstrates the company's compliance with responsible business principles as set forth in the Social Charter of Russian Business (www.rspp.ru).

Complete information means that the company's Report provides integrated information on all main aspects of the company's activities — the underlying values and strategic goals, management systems and structures, major achievements and key performance indicators, stakeholder engagement processes.

The fact that the company has applied international reporting principles is taken into account as part of the public endorsement process. However, it is outside the scope of this Conclusion to assess the extent of the compliance of the Report with international reporting principles.

Sakhalin Energy bears all responsibility for the information and announcements in the Report. The authenticity of the factual data provided in the Report is outside the scope of the public endorsement process.

This Conclusion is issued for Sakhalin Energy. The company may use this Conclusion for internal purposes, as well as for its engagements with stakeholders, provided the Conclusion is published as is, without any changes.

FINAL OPINION

Based on the review of the Report and the public information published on the company's website, and followed by a discussion of the independent review of the Report by the RUIE Non-Financial Reporting Council, the Council confirms the following:

The 2018 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. contains material information and covers key areas of responsible business practices in accordance with the Social Charter of Russian Business. It provides sufficiently detailed information on the company's activities in these areas.

The 2018 Report addresses the RUIE Council's recommendations for the 2017 Sakhalin Energy's Sustainable Development Report. The information about the correlation of the company's goals and objectives in specific areas of activity with the UN Sustainable Development Goals until 2030 was supplemented by indicators that could be used to track the contribution of the company's activities to the achievement of these global goals.

The company's 2018 Report contains material information regarding the following aspects of responsible business practices:

Economic Freedom and Responsibility. The Report specifies financial and economic indicators of the company for the reporting year and confirms the importance of the Sakhalin-2 project for the Russian Federation and Sakhalin Oblast. The Report describes the results of the Enhanced Oil Recovery and Continuous Improvement programmes. It also provides information about the largest data center opened in the Russian Far East. The Report describes the main innovations implemented at the company's production assets, as well as its growth projects. It also contains information about the company's plans for the coming year, and highlights the key elements of the Growth Strategy up to 2023. The document shows the correlation of the company's goals and objectives with the UN SDGs-2030. It characterises the system and structure of corporate governance, its basic principles and elements, and outlines the organisational structure of the company, which ensures the fulfilment of functional tasks. It is stressed that the HSE and quality management system of the Prigorodnoye production complex complies with ISO 9001, 14001:2015, and OHSAS 1800 international standards. The Report provides information on the risk management and assurance systems. It also gives an account of the company's anti-bribery and corruption activities. The document describes the corporate social responsibility management system and the sustainable development policy of Sakhalin Energy.

Business Partnership. The Report lists the company's stakeholders, shows the process of stakeholder engagement, including during the preparation of the Report. It provides information on HR policy, tools and results of employee learning and development, paying remuneration and providing social protection, measures to ensure occupational safety and health of personnel. It is reported that a regular Goal Zero Survey was conducted. The Report informs about the participation of employees in the annual strategic workshop, the results of which serve as the basis of the company's Journey Book. Information about conducting annual forums with buyers is also included in the Report. It is underlined that the company extends an essential part of the requirements and business principles set out in CSR documents to its contractors by including special provisions and additional requirements regarding environmental, health and social issues into the contracts. The Report gives an account of the Vendor Development Programme, which provides for training sessions and workshops to ensure that business ethics, social and environmental principles are effectively integrated and to oversee their compliance. The document covers the company's interaction with the Sakhalin Oblast residents through the company's information centers, and provides statistics of applications in the reporting year. The Report informs about the further work of the Coordinating Council for cooperation between the Administration of Yuzhno-Sakhalinsk and Sakhalin Energy, and about the meetings of the Biodiversity Working Group of the Sakhalin Oblast Interdepartmental Environmental Council. It is stated that the company holds regular dialogue with its Japanese stakeholders. The Report highlights the company's participation in a number of important international and regional events on industrial issues and various aspects of sustainable development.

Human Rights. The Report emphasises that Sakhalin Energy has adopted standards for observing human rights in all areas of its activities in which these rights can potentially be violated. The document describes the company's activities aimed at raising the awareness of employees and contractors about human rights through training courses and information sessions. It covers the mechanism of addressing grievances related to violations of the General Business Principles, the Code of Conduct, and other procedures of the company, labour relations between employees and the company, as well as community grievances, including the Sakhalin indigenous minorities, employees of contractor and subcontractor organisations. The Report presents the results of work with grievances in the reporting year. The document includes information about the company's activities aimed at disseminating its experience in respecting human rights at the national and international levels.

Environmental Preservation. The Report outlines the company's environmental policy as part of its Sustainable Development Policy. It presents information about environmental impact management system and tools including industrial environmental control, environmental risk management, programmes to enhance competencies of company and contractor staff, environmental monitoring, and biodiversity conservation programmes. It is stated that in 2018, the company was certified according to the new edition of ISO 14001:2015. The gross and specific environmental impact indicators are given in dynamics. The document describes the company's work to increase energy saving and energy efficiency as part of the Continuous Improvement Programme and process optimisation. The results of this work are reflected in energy consumption indicators. The Report discloses information about annual record keeping and control of direct and indirect greenhouse gas emissions from the company's production and non-production assets. It provides indicators of gross and specific emissions, and outlines the structure of the sources of greenhouse gas emissions by areas of activities. The document contains data on environmental costs and adverse impact fees. Particular attention is given to environmental monitoring in different areas and biodiversity conservation measures. General information is presented about the company's activities aimed at preventing oil spills and ensuring preparedness for accidental spills. The document contains information on maintaining the sanitary protection zones of the pipelines.

Local Community Development. The Report outlines the company's current regulations and practices in the area of social investment in the host region and its sustainable development, as well as social programmes and projects management. It specifies the key areas of projects implementation defined as the result of public consultations. The information on regular internal monitoring of social investment projects and independent external assessment is presented in the Report. The document describes key projects which involve public organisations and state institutions. It gives an account of special projects dedicated to the Year of Volunteers in the Russian Federation. The Report contains data on the number of participants and costs of a range of programmes and projects, the total costs of external social programmes in the reporting year as well as social investment targets for 2019.

CONCLUDING STATEMENTS

Overall, the Sakhalin Energy's Report provides sufficient information on the business practice of the company which is based on the principles of corporate social responsibility and sustainable development, presents data supporting the integration of these principles into the strategy and management systems. It contains detailed information on corporate policies, regulations, standards, and control procedures that ensure the implementation of these principles in the company's activities. The Report provides a considerable amount of data reflecting the results of the economic, social, and environmental performance in the reporting period, and company's impacts on society and the environment.

The Report was prepared using the GRI standards (Core), which ensures the continuity of information across reporting cycles, as well as comparability with other companies' reports. The Report contains information on company's specific contributions to the achievement of the UN Sustainable Development Goals most relevant to the company.

The 2018 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. is its tenth annual report of this kind, which confirms continuity in the development of non-financial reporting process and the company's adherence to transparency and openness principles. Evidence is provided that the material subjects to be included in the Report were defined taking into account stakeholders' opinions.

RECOMMENDATIONS

Recognising the merits of the Sakhalin Energy's 2018 Sustainable Development Report, the Council would like to bring to the company's attention a number of aspects related to the informational relevance and completeness of disclosure that are essential for the stakeholders.

We recommend the company to consider these recommendations in subsequent reporting cycles.

The Report contains information about the plans and objectives of the company for the coming year and its growth strategy up to 2023. It is recommended that the subsequent report includes specific information describing the achievement of the set objectives in order to correlate the plans, targets and performance results as fully as possible.

Based on best practices of disclosing reporting information, it is recommended to present indicators in the key areas of corporate responsibility, sustainable development and the company's SDGs in the dynamics of not less than three years with simultaneous presentation of measurable benchmarks for the upcoming reporting period.

It should be noted that it is important to accompany data presented in dynamics with analytical comments that give a clear idea of the factors which influenced the significant changes in corresponding indicators, their decrease or increase. This applies, in particular, to the data on the dynamics of registered cases of occupational diseases provided in the Report. Such explanations will allow a better understanding of the processes occurring in the company.

The key theme of the Report — innovations — is worth a more complete disclosure and further development in subsequent non-financial reports. It would be useful to pay special attention to key areas in which the company implements innovative solutions, and the role of innovation in the implementation of Sakhalin Energy's strategy.

Long-term partnership projects with the participation of external stakeholders and the use of various mechanisms and technologies to implement social programmes are characteristic features of the Sakhalin Energy`s social policy. In view of the experience gained by the company in managing long-term projects and stakeholders' need for information about the company's social performance efficiency, it is recommended to provide further data on the assessment of social effects, in particular grant projects, to include indicators that show the impact of the company's social investments on the formation and improvement of the social environment, the well-being of residents, and building the economic capacity of the territories.

It should be noted that in order to confirm correct application of the international documents for preparation of the Report, namely, non-financial reporting recommendations of the European Commission, it would be useful to specify, which recommendations and which provisions are used for company's reporting.

It is advisable to confirm the level of anti-corruption compliance stated in the Report by disclosing, in the subsequent reports, information on the internal control actions taken and/or the audit of targeted spending and the effectiveness of charitable and sponsor payments made by the company.

It is recommended to pay attention to possibly enhance the positive perception of reporting information by stakeholders by including examples of feedback containing their opinions of the company's performance in different areas of activity, significant for particular stakeholder groups, as well as material topics and topical issues on the public agenda relating to the company.

The RUIE Non-Financial Reporting Council expresses a positive opinion on the Report, and, supporting the company in its adherence to responsible business principles and noting the consistency of the reporting process development, confirms that the 2018 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has received public endorsement.

RUIE Non-Financial Reporting Council

Appendix 9. Abbreviations

ALARP	As Low As Reasonably Practicable
BAP	Biodiversity Action Plan
BoD	Board of Directors
BS-2	Booster Station 2
CED	Committee of Executive Directors
CSR	Corporate social responsibility.
ESHIA	Environmental, Social, and Health Impact Assessment
GRI	Global Reporting Initiative
HSE	Health, Safety, and Environment
HSES	Health, Safety, Environment, and Security
HSESAP	Health, Safety, Environment and Social Action Plan
IFC	International Finance Corporation
ISMS	Industrial Safety Management System
ISO	International Organisation for Standardisation
ISO	International Organisation for Standardisation
IUCN	International Union for Conservation of Nature
IVMS	In-Vehicle Monitoring System
LNG	Liquefied Natural Gas
LUN-A	Lunskoye-A platform
MNR	Ministry of Natural Resources
MPC	Maximum Permissible Concentration
MPE	Maximum Permissible Emission
NGO	Non-Governmental Organisation
OET	Oil Export Terminal
OPF	Onshore Processing Facility
OSR	Oil Spill Response
PA-A	Molikpaq platform (Piltun-Astokhskoye-A platform)
PA-B	Piltun-Astokhskoye-B platform
PMD	Pipeline Maintenance Depot
PSA	Production Sharing Agreement
RAS	Russian Academy of Science
RUIE	Russian Union of Industrialists and Entrepreneurs
SCM	Supply Chain Management
SDGs	Sustainable Development Goals

SIM	Sakhalin Indigenous Minorities
SPZ	Sanitary protection zone
TLU	Tanker Loading Unit
UNDP	United Nations Development Programme
UNGC	UN Global Compact
WGWAP	Western Gray Whale Advisory Panel
WWF	World Wildlife Fund

Sakhalin Energy Investment Company Ltd.

Head Office:
35 Dzerzhinskogo St., Yuzhno-Sakhalinsk, 693020, Russia
Tel.: +7 4242 66 2000; Fax: +7 4242 66 2801

Moscow Office:
31 Novinskiy Blvd, Moscow, 123242, Russia
Tel.: +7 495 956 1750; Fax: +7 495 956 1760

www.sakhalinenergy.com