SUSTAINABLE DEVELOPMENT REPORT 2017

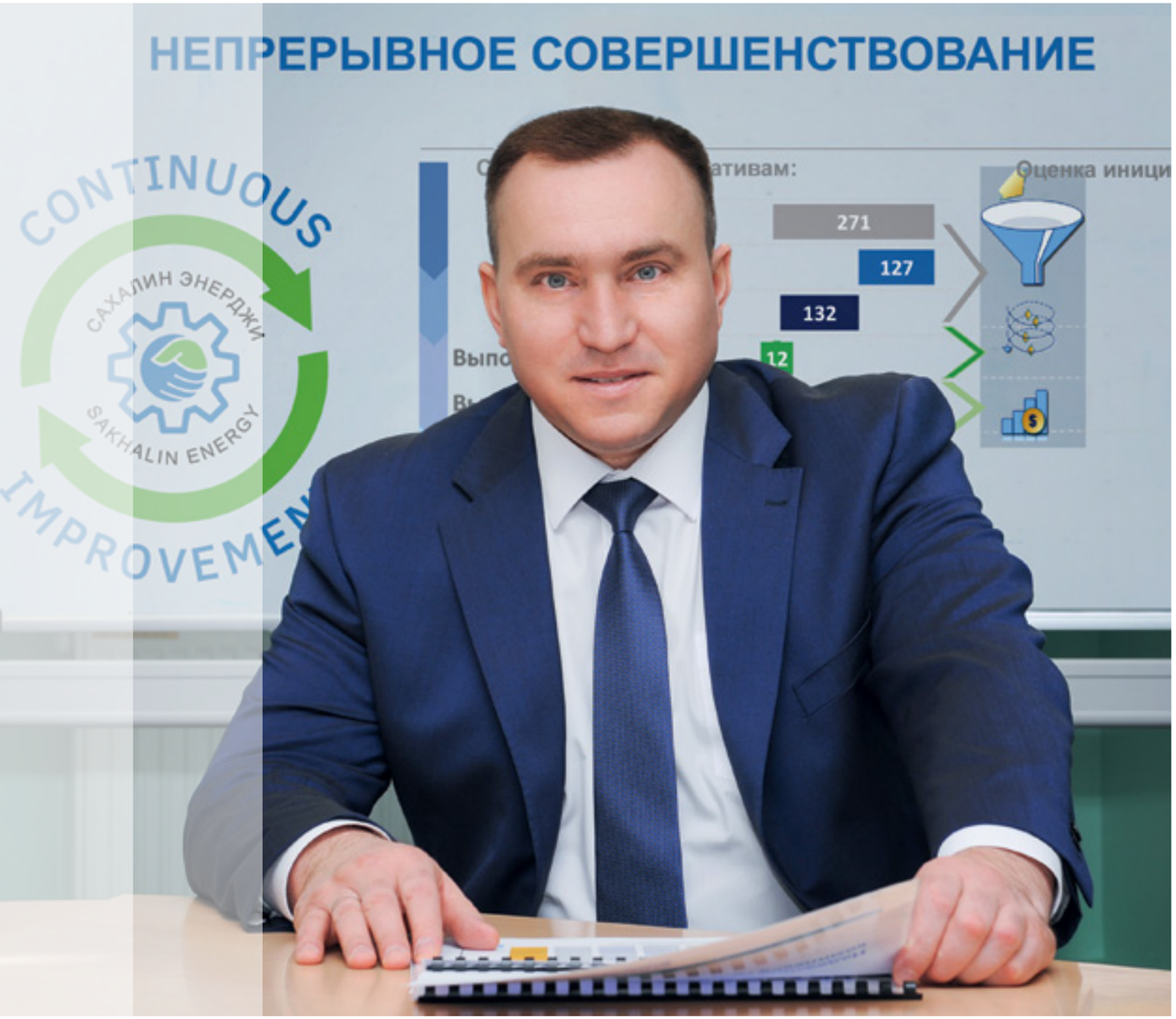
Sakhalin Energy respects and supports Human Rights, relying on:

- The Universal Declaration of Human Rights;
- Main conventions of the International Labour Organisation;
- Leading international standards on business and human rights;
- Principles of the United Nations Global Compact;
- The Guideline on Social Responsibility ISO 26000;
- The Voluntary Principles on Security and Human Rights.

TO BE THE PREMIER ENERGY SOURCE FOR ASIA-PACIFIC

CONTENT

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



Dear colleagues and friends,

This is Sakhalin Energy's 2017 Sustainable Development report (SDR). As with previous reports, it was prepared in compliance with Global Reporting Initiative (GRI) standards.

The Report reflects comments and recommendations voiced during public meetings, consultations and via opinion polls. This SDR is not a goal in and of itself, but a means to establish constructive dialogue with our key stakeholders, the Russian Party, our customers and the public.

Sakhalin Energy's openness both stems from and demonstrates our active engagement with the community, our contractors, NGOs, Sakhalin regional and municipal authorities and allows us to effectively address multiple issues.

The company has been communicating information to its stakeholders in the Sustainable Development Report format since 2009. This is the third SDR with a focus on a specific theme. Our previous reports were devoted to safety and environmental protection while our 2017 report highlights human rights.

Respect for people and strict adherence to human rights standards are the cornerstones of ethical business conduct in our company. It is no accident that Sakhalin Energy became the only Russian company that was invited, along with four other companies from around the world, to participate in the development and testing of the UN Guiding Principles on Business and Human Rights, the first UN standard in this area.

We have been running one of the largest and most innovative projects in the global oil and gas sector in compliance with the best industrial, environmental and social performance standards. We paved the way for offshore oil and gas development in Russia in a challenging natural environment. We built Russia's first liquefied natural gas plant and introduced Russian LNG to the global market. We continue to increase our production capacity by using cutting-edge technology, improve our existing processes and develop our personnel.

Sakhalin Energy managed to set a number of records in 2017. Our LNG production reached 11.49 mln t, almost 20% above the 9.6 mln t design capacity. The company exceeded its crude oil and LNG production targets and shipped 67 oil cargoes (vs the target of 62) and 177 LNG cargoes (vs the target of 170) to its customers.

Sakhalin Energy operates on Sakhalin Island and therefore ensures compliance, first and foremost, with Russian laws, and as well as with international regulations, including the Universal Declaration of Human Rights, the UN Global Compact Principles, and others. In addition to employee protection guarantees mandated by Russian Law, the company has been providing a wide range of benefits to its employees and their family members. We have been focusing on occupational safety and promoting our employees' professional development. It is worth noting that a significant number of Sakhalin Energy's business principles are aligned with Sustainable Development Goals (SDG) adopted by the UN General Assembly in 2015.

Our company respects the human right to a clean and healthy environment. Acting in line with SDG6 (Clean Water and Sanitation), SDG7 (Affordable and Clean Energy), SDG13 (Climate Action), SDG14 (Life Below Water) and SDG15 (Life on Land), we take various measures aimed at reducing our environmental impact and strive to prevent any emergencies. We are convinced it is better to avoid such events rather than mitigate their impact. In this, we are guided by our most important principle stated as Goal Zero – No Harm to People, No Damage to Environment. We have had no events that could be classified as emergencies since the start of Sakhalin-2 operations. In 2017, we did not have a single oil spill at our assets.

Our environmental performance has been recognised by the Russian and international business community. For a second year in a row, Sakhalin Energy tops the Russian Oil and Gas Sector Environmental Responsibility Ranking List. This demonstrates our excellent HSE performance and serves as proof of Sakhalin Energy's transparency and responsibility.

Focus on engagement and giving our people an opportunity to freely speak their minds is one of our fundamental HR principles. Sakhalin Energy uses a number of effective tools to solicit feedback from our employees, including our annual People Survey. We use the survey results to build working relationships within our team or to make adjustments to our processes and the workplace environment.

When dealing with external stakeholders, we also use an integrated approach. Effective external stakeholder engagement remains an important element of Sakhalin Energy's success story. The company continues to run regular public meetings and consultations. In 2017, in addition to our annual events, we had several public meetings specifically related to our LNG Train 3 project.

In addition to active community engagement, our company has implemented its Grievance Procedure, another important tool to protect human rights and freedoms. This document complies with the best international standards, including the UN Guiding Principles on Business and Human Rights, and has been recognised both in Russia and internationally.

Anti-bribery and anti-corruption efforts remain at the top of the company's agenda. By continuously monitoring and re-

viewing these issues, Sakhalin Energy takes steps to reduce the likelihood of bribery and corruption-related risks. Whilst pursuing the highest business ethics standards, our company has been developing a corporate culture based on mutual respect and trust. Over many years, we have been taking systematic efforts to combat bribery and corruption, demonstrating our commitment to SDG16 (Peace, Justice and Strong Institutions).

Striving to ensure respect for and promotion of human rights, we pay special attention to community and social development programmes. By investing in socially important projects, we continue to give preference to partnership programmes. This is fully aligned with SDG17 (Partnership for the Goals). We promote community activities and public responsibility and thus help to develop the region where we operate.

Sakhalin Energy not only observes human rights and recognises their importance, but also promotes them jointly with our partners and shareholders. In 2017, the company received the Shell CEO Special Merit Award for its Strengthening Sustainable Business Through Managing Human Rights Risks Project.

Over the years, our company has achieved a lot, but we keep moving on. We continue to optimise our processes while staying focused on safety and reliability. We will pay special attention to our growth projects and further process improvement in all areas of activity.

The year 2018 has been declared the Year of Civic Participation and Volunteering. The Universal Declaration of Human Rights was signed 70 years ago. In this special year, we will continue to operate in strict compliance with Russian and international human rights principles and standards. We realise that business can only be successful while operating in a prosperous society; thus, we will continue to uphold our commitment to addressing sustainable development issues and challenges.

Roman Dashkov

ABOUT THE REPORT

• Right to information

2.1. General Information

Sakhalin Energy treats sustainable development reporting as a corporate governance 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 regularly analyses national trends and new requirements in the field of non-financial reporting. In May 2017, the Government of the Russian Federation approved the Public Non-Financial Reporting Concept and the Action Plan for the Implementation of the Public Non-Financial Reporting Concept. These are the first regulatory documents in the Russian Federation which define approaches to non-financial reporting at the state level. Sakhalin Energy actively participated in the discussion of this concept during the expanded meeting of the RUIE Committee on Corporate Social Responsibility and Demographic Policy, dedicated to the topic "Responsible Business Practices and Public Non-Financial Reporting: Focus on the Sustainable Development Goals".

The company monitors global trends and progress in the area of non-financial reporting. In 2017 the European Commission adopted its recommendations on non-financial reporting including the methodology and indicators for disclosure prepared in accordance with the EU Council Directive on Non-Financial Disclosure. When preparing the 2017 Report, the company took note of all these recommendations.

In 2016 Sakhalin Energy began to include information on its contribution to achieving the Sustainable Developments Goals (SDGs) in the annual Sustainable Development Reports. This work continues in the 2017 Report (see Section 3 Corporate Social Responsibility and Sustainable Development and Appendix 1 GRI Standards Compliance Table).

Each of Sakhalin Energy's three latest Sustainable Development Reports is devoted to a specific theme. The 2017 Report is dedicated to human rights. There was a strong basis to select this topic for the Report:

- The company's Report will be released in the lead-up to the 70th Anniversary of the Universal Declaration of Human Rights;
- As part of the public endorsement process, the company received recommendations from the RUIE Non-Financial Reporting Council to include in the subsequent Reports a description of specific practices for the application of corporate documents and management procedures that take into account various aspects of social and economic human rights in stakeholder engagement;
- Respect for human rights is one of the key values and principles of doing business by Sakhalin Energy. The company strives to comply with the most advanced standards regarding human rights implementation. Moreover, Sakhalin Energy is involved in the development and promotion of new human rights standards and policies.

The Report reflects the company's approaches and practices in various areas of its activities with respect to human rights. The Report also 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 comprises 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.

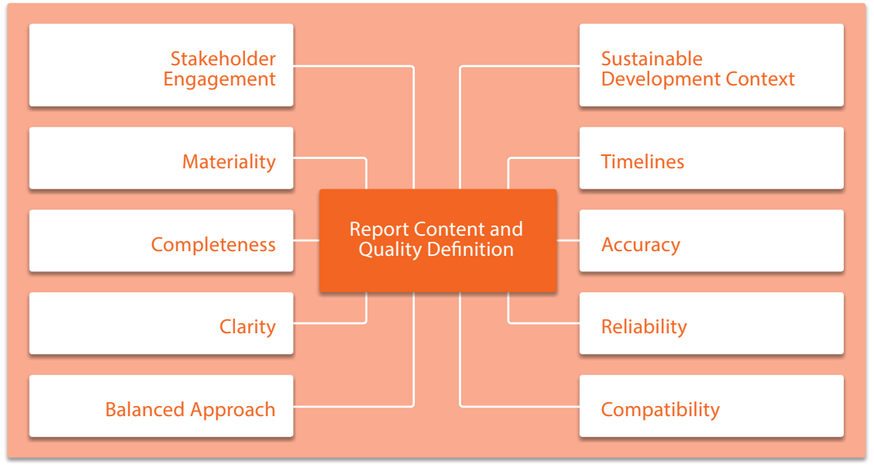
The Report is posted on the company's website and distributed in Sakhalin communities (through the company's information centres and district libraries), and among key stakeholders through targeted mailing.

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.com);
- fill out the Feedback Form at one of the company's information centres (see Appendix 5 Company's Information Centres List).

2.2. Principles of the Report Content and Quality Definition

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



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

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).

Material topics of the company's activities reflected in the 2017 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 and other non-profit organisations;
- 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 2017 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;
- dialogue meetings with external stakeholders;
- discussions with the company personnel.

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

- results of regular media monitoring;
- results of annual public opinion survey and analysis of the subjects of the grievances submitted to the company (see Section 6 Stakeholder Engagement Management);
- recommendations and comments regarding the 2016 Sustainable Development Report and recommendations of the RUIE Non-Financial Reporting Council that conducted its public endorsement.

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 the best international practices.

Detailed information on the results of stakeholder engagement conducted in the preparation of the Report including dialogues, surveys, etc. is presented in the Most Priority Topics to Be Included in the 2017 Report Based on Stakeholders' Opinions table.

Most Priority Topics to Be Included in the 2017 Report Based on Stakeholders' Opinions

Topics	Number of answers	Included in the Report (sections of the Report)
Results of activity: assets and development projects	**161**	4.2
Environmental, health, and social impact assessment of the Sakhalin-2 project	**137**	3.5.2
Importance of the Sakhalin-2 project for the Russian Federation and the Sakhalin Oblast	**130**	7.1
Financial benefits to the Russian Federation and the Sakhalin Oblast	**127**	7.2
Stakeholder engagement in 2017	**123**	6
General information about Sakhalin Energy and the Sakhalin-2 project	**122**	4.1
Mission, vision, values and principles of the company	**121**	5.1
Health, safety, environmental and social performance management system	**116**	3.5
Waste management	**112**	8.1.3
Russian content, contracting and procurement management, vendor development programme	**109**	7.3–7.5
Impact on water bodies	**107**	8.1.2
Labour safety and protection	**107**	9.2
Impact on the atmospheric air	**104**	8.1.1
Learning and development	**104**	9.1.7
Oil spill prevention and response preparedness	**102**	8.4
Risk management system	**100**	5.6
Environmental protection costs and payments for the negative impact	**97**	8.1.7
Anti-bribery and corruption	**94**	5.7
Sakhalin Energy's CSR system, Sustainable Development Policy, and performance standards	**92**	3.2–3.4
Engagement strategy, principles, and mechanisms	**92**	6.1

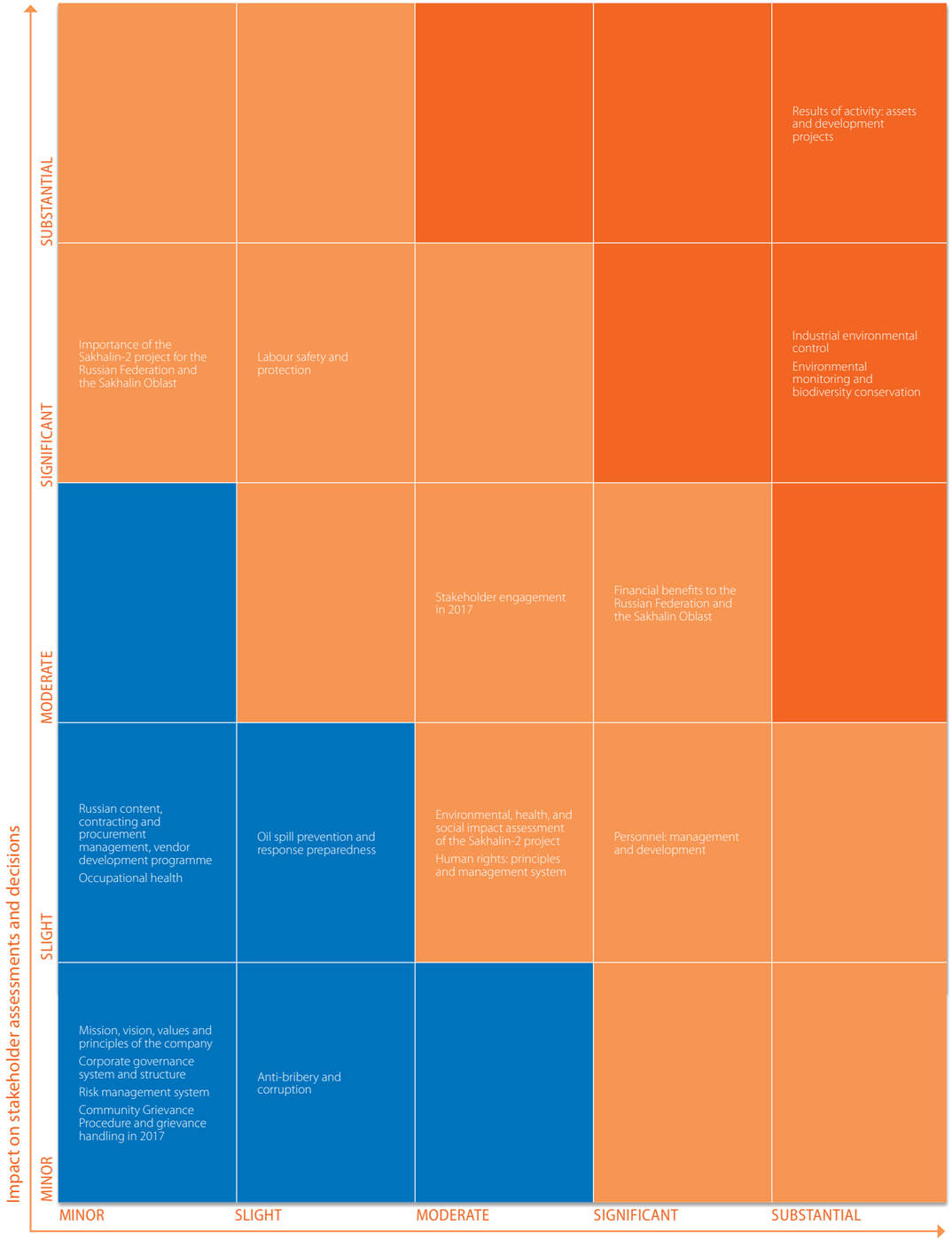
Comments and suggestions of the stakeholders concerning specific aspects, indicators, and/or programmes of the company to be included in the 2017 Report as well as corresponding response and commitments of Sakhalin Energy are listed in Appendix 2 Comments and Suggestions of Stakeholders on Individual Aspects, Indicators and/or Programmes and Company Response and Commitments.

2. Evaluation of the topic materiality based on two impact criteria:

- impact on assessments and decisions of stakeholders;
- 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.

Topic Materiality Evaluation Matrix



Substantiation of Significant Topics

Topics	Substantiation	Stakeholders for whom the topic is the most priority	Section of the report
Results of activity: assets and development projects	Sakhalin Energy aims to be the premier 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, government authorities, customers, personnel, contractors, community	4.2
Mission, vision, values and principles of the company	Sakhalin Energy is guided by general business principles. These principles are based on values such as honesty and integrity, respect and care for people, professionalism and individual accountability, continuous improvement and teamwork , and are characterised by responsibility towards the shareholders, the Russian party, customers, personnel, business partners, that is, all those with whom the company maintains business relations, as well as towards the community as a whole	Shareholders, government authorities, customers, 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, government authorities, customers, personnel	5.2
Risk management system	Sakhalin Energy believes that effective risk management is of great 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, government authorities, customers, personnel, community	5.6
Anti-bribery and corruption	Sakhalin Energy assists its employees, business partners, contractors and suppliers in fulfilling requirements for counteracting bribery and corruption	Shareholders, government authorities, customers, personnel, community	5.7
Impact assessment of the company's activities	The company is committed to making an impact assessment prior to 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 eliminate or reduce the impact to the lowest possible level or to compensate for it by taking appropriate measures	Shareholders, government authorities, customers, 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 and SP management system defines the controls used by Sakhalin Energy to handle hazardous situations and risks	Shareholders, government authorities, customers, personnel	3.5
Russian content, contracting and procurement management, 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 successful	Shareholders, customers, personnel, contractors	7.3–7.5
Stakeholder engagement in 2017	The company considers regular and meaningful engagement with stakeholders an important component of its successful business operations	Shareholders, government authorities, customers, 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, government authorities, customers, 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. Arrangement and implementation of industrial environmental control and monitoring, as well as conservation of biodiversity are essential components of the environmental impact management system	Shareholders, government authorities, customers, personnel, contractors, community	8.1 and 8.2
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, government authorities, customers, personnel	8.4
Personnel: management and development Labour safety and protection Occupational health Human rights: principles and management system Community Grievance Procedure and grievance handling in 2017	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, government authorities, customers, personnel	9.1, 9.2, 9.3, 9.4

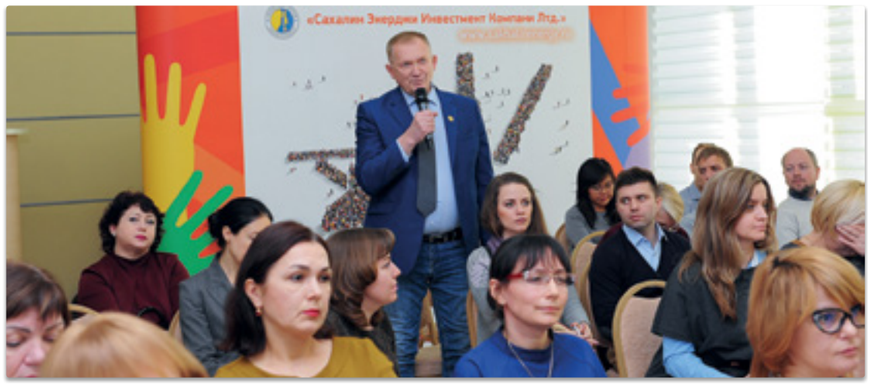
2.4. Definition of the Report Scope

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.

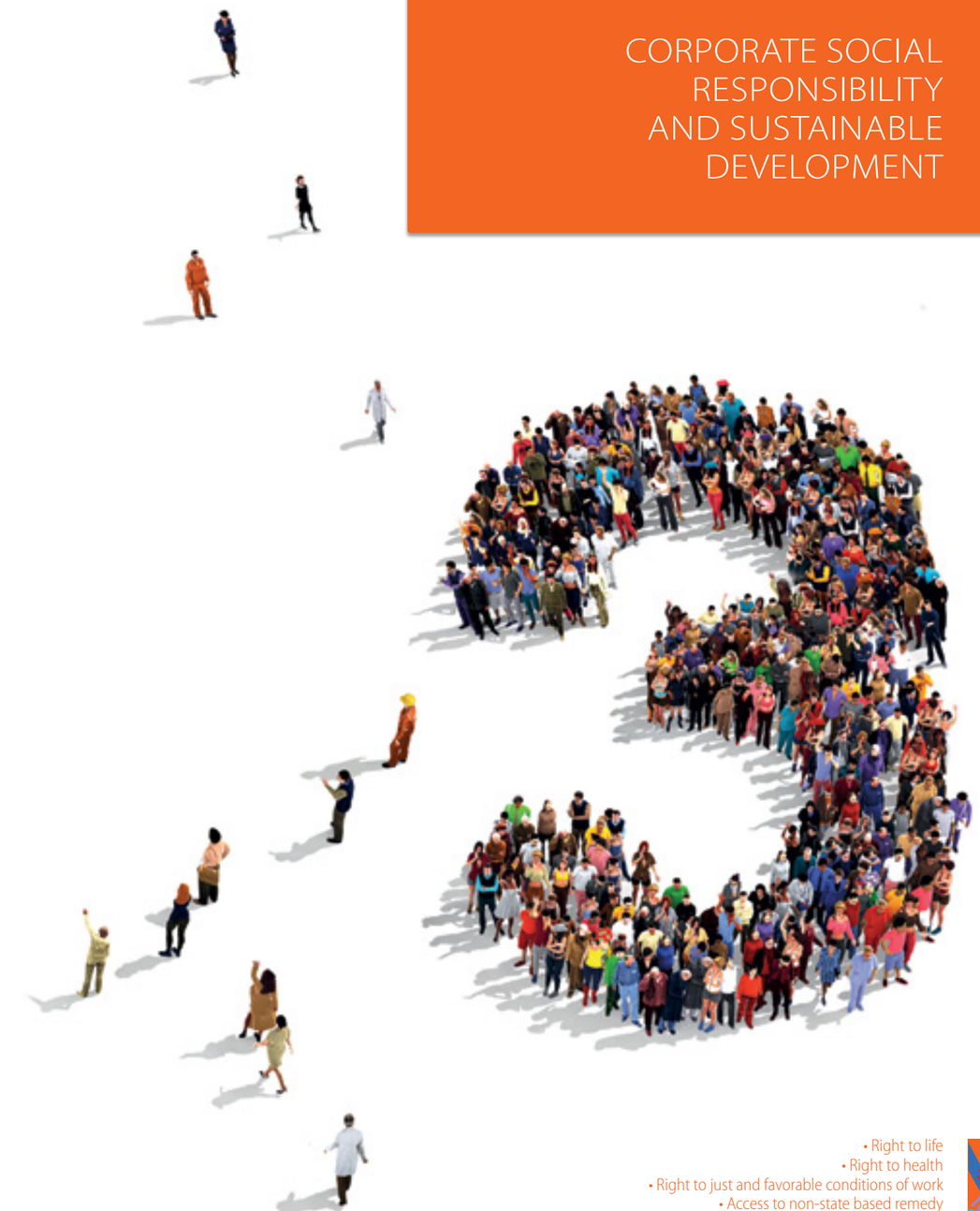
2.5. Public Endorsement of the Report

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. 2017 Sustainable Development Report for the Purpose of Public Endorsement (See Appendix 7 Certificate of Public Endorsement and Appendix 8 Conclusion on the Results of the Review of Sakhalin Energy 2017 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



- Right to life
- Right to health
- Right to just and favorable conditions of work
- Access to non-state based remedy
- Right to healthy environment

3.1. Introduction

In 2017, for the second 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.

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, demonstrate a generally positive dynamics in the area of sustainable development.

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 plan.

Due to high transparency and active stakeholder engagement, corporate governance at Sakhalin Energy has gradually progressed to managing the company as an open system. Sakhalin Energy has developed a system for accounting and controlling internal and external 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 5.6 Risk Management).

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), 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.

CSR Management System

- 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

- Defining the Standards: Russian and International
- Risk and impacts Assessment
- Health, Safety, Environment and Social Performance Action Plan (HSESAP)
- HSE and SP standards
- HSE and SP plans

- Monitoring
- Audits and Checks
- Reporting
- Tracking though Fountain – an Automated Tracking and Monitoring System
- Public Opinion Survey

Implementation Mechanisms in accordance with:
- Public Consultations and Information
- Disclosure Plan
- Grievance Procedure
- HSE and SP plans

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 are due to come into effect in July 2018. In addition to special contractual provisions and specific requirements including the results of environmental, health and social impact assessment (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. Assessments are also done through stakeholder engagements:

- public consultations;
- workshops and focus meetings;
- opinion surveys;
- consultation in the information centres established by the company in the communities located along the trans-Sakhalin pipeline system 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".

3.3. Performance Standards

Russian companies refer to CSR 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 no exception. 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. In 2011, Sakhalin Energy became the first (and the only among 43 LEAD companies, as of late 2017) Russian company participating in Sustainable Corporate Leadership platform — the 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. Starting from 2018, the UN Global Compact will be implementing the LEAD programme using new criteria, and Sakhalin Energy will continue to participate in the programme 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 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, public health, cultural heritage, indigenous peoples, involuntary resettlement, stakeholder engagement, grievance mechanisms, etc.);
- GRI standards (non-financial reporting, stakeholder engagement).

In 2017, the company developed the corporate procedure on ISO 26000:2010 "Guidance for Social Responsibility" Self-Assessment, taking into account the experience of two self-assessments completed in 2012 and 2016, as well as the Guidelines for CSR Self-Assessment for Companies based on the Provisions of ISO 26000:2010 Guidance for Social Responsibility published by the Russian Union of Industrialists and Entrepreneurs in 2011. The procedure extends to employees of all divisions of the company involved in the self-assessment process, and defines the areas of responsibility, the process of self-assessment, the methodology, the criteria for the determination of self-assessment boundaries, and much more.

The self-assessments of 2012 and 2016 showed that the company applied the principles and provisions of this standard to the full extent. The self-assessment statements, as well as a brochure with an overview of ISO 26000:2010, the stages of self-assessment of its application including the relevant experience of Sakhalin Energy are available on the company's website (www.sakhalinenergy.com).

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 2017, 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 revision of the document in 2016 includes the company's commitment to the United Nations Sustainable Development Goals, see Section 3.4.2 UN Sustainable Development Goals).

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

- Sakhalin Energy will carry out its business responsibly and efficiently so as to deliver a robust project that will maximise benefits to the Russian Federation, the Sakhalin Oblast and the shareholders;
- Sakhalin Energy will contribute to the present and future needs of the society on the Sakhalin Island, keeping a balance between economic development, environmental protection and social responsibility, and considering 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 Commitment and Policy on HSE and Social Performance, as well as standards specified in the Health, Safety, Environmental and Social management systems and Action Plan (HSE and SP management system and HSESAP);
- inform and engage with our stakeholders on the company's SD performance and seek 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;
- focus on developing strategic partnerships with external stakeholders to enhance positive impact of community development programmes;
- 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 demonstrating sustainability leadership.

3.4.2. UN Sustainable Development Goals

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, the stakeholders identified SDGs 3, 4, 7, 8, 12, 14 and 15 as the most significant for the company.

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, that includes 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 businesses, civil society, and all individuals. The universal character of the SDGs allows companies to adopt a set of Goals that best correspond to their activities and existing CSR programmes.

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 a lead on 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 (since 2016).
- 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) and relevant global indicators (in total, 230 indicators) to determine specific processes and practices of the company, as well as corporate indicators that correspond to each target and global SDG indicator. The analysis showed that not all SDG targets were applicable or relevant to the company's activities. In 2018, Sakhalin Energy will continue to define targets and indicators (including its own) with respect to the SDGs;
- 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 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.

The table below presents the company's goals and objectives with examples of activities, projects, programmes or measures related to specific SDGs. In addition, Appendix 1 GRI Standards Compliance Table contains SDGs that correspond to specific topics / targets of GRI standards.

In 2017, 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. At the same time, 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

SDG	Company's goals and objectives	Focus areas, programmes, projects (examples)	Sections of the Report and/or other references
1 NO POVERTY 2 ZERO HUNGER 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	Provision of an attractive and competitive Employee Value Proposition. 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 regions (Sakhalin Oblast). Effective management of grievances from stakeholders, paying special attention to vulnerable groups. Timely and efficient social impact assessment	Remuneration and bonus system. Social guarantees, benefits and compensations system. Vendor management. Vendor Development Programme. Local business contracts. Revenues generated for the RF and the Sakhalin Oblast. Sakhalin Island infrastructure upgrade programme. Grievance mechanisms. Social impact management. Resettlement Action Plan. Sakhalin Indigenous Minorities engagement practices (in accordance with the Human Rights Policy, indigenous peoples are a vulnerable group)	6, 7, 9.1, 9.4, 9.5, references in Appendix 4: Sakhalin Oblast infrastructure upgrade; brochure Resettlement: Experience of Sakhalin Energy; website of the Sakhalin Indigenous Minorities Development Plan
3 GOOD HEALTH AND WELL-BEING	Goal Zero: No Injuries, No Spills. Occupational health provision	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	9.2, 9.3, 8.1
4 QUALITY EDUCATION 8 DECENT WORK AND ECONOMIC GROWTH	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 regions (Sakhalin Oblast)	Personnel development and learning programmes. Vendor management, Vendor Development Programme. Local business contracts. Revenues generated for the RF and the Sakhalin Oblast. Remuneration and bonus system. Social guarantees, benefits and compensations system. Measures to ensure occupational safety and health	7, 9.1, 9.2, 9.3
5 GENDER EQUALITY	Compliance with Russian legislation and international standards for the respect for, 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, learning and development, compensation, and termination of employment contracts	9.1
6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Implementation of efficient and lean production methods. Protection of water bodies against pollution, sustainable use of water resources. Sustainable use of energy resources	Using gas turbines equipped with Low-NOx burners. Using increased gas turbulence units, which facilitates gas flaring in a soot-free mode. Drilling waste disposal via dedicated reinjection wells into deep subsurface horizons with the necessary insulating layers. Enhanced operational reliability and smooth operation of equipment. Industrial environmental control of the impact on atmospheric air and water bodies; waste management. Energy saving and energy efficiency activities. Public reporting on sustainable development	2, 4, 8.1
14 LIFE BELOW WATER 15 LIFE ON LAND	Goal Zero: No Injuries, No Spills	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	8
16 PEACE AND JUSTICE STRONG INSTITUTIONS	Compliance with all applicable laws and regulations of the countries in which the company operates. Provision of all stakeholders with safe and confidential ways of expressing concerns and grievances, or reporting non-compliances	Availability of the General Business Principles, values, norms and standards of the Code of Conduct. Anti-bribery and corruption 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	2, 5, 6, 9.4, reference in Appendix 4: brochure Human Rights: Experience of Sakhalin Energy

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

One of the prerequisites for achieving the SDGs, which is also formulated as separately in Goal 17, is uniting efforts in global, regional, or local partnerships, bringing together 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 8.2 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).

Sakhalin Energy is making efforts to promote the SDGs in the business community. In particular, in 2017:

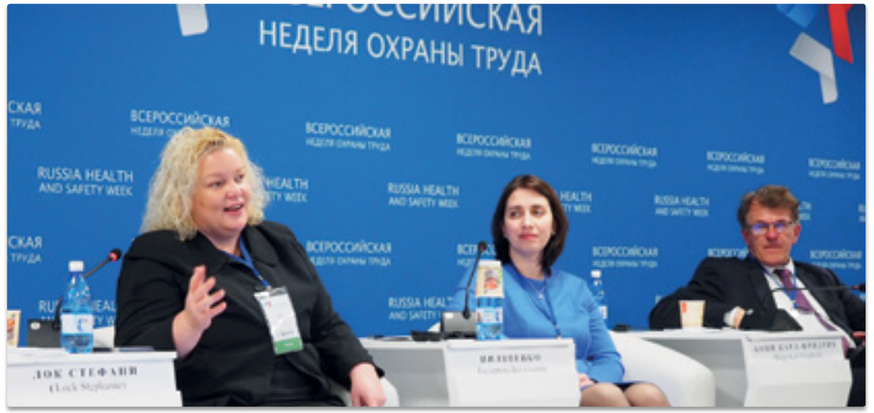
– the company translated into Russian and distributed The Guide for Business Action on the SDGs, or the SDG Compass, which is a practical tool that provides guidance for organising SDG work in any organisation, regardless of industry, size, and form of ownership. The SDG Compass was developed by the Global Reporting Initiative, the United Nations Global Compact, and the World Business Council for Sustainable Development (WBCSD), taking into account the results of consultations with companies, government agencies, academic institutions and civil society organisations around the world. The text of the SDG Compass in Russian is available on the company's website, on the sites of the RUIE and the UN Global Compact Network Russia;

– the company participated in a series of events dedicated to the issues of CSR, sustainable development, human rights, interaction with indigenous peoples, where it covered its activities with respect to 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 5.6 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;

– Health, Safety, Environment and Social Performance Management System;

– Health, Safety, Environment and Social Action Plan;

– Flaring Commitment;

– Statement of Industrial Safety Policy;

– Policy on the Industrial Safety Management System;

– 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 facilities, 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 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 facilities. 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

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 facilities, 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 facilities 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 CEO. 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.

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 2017, the company (with contractor involvement) continued to develop project documentation development including integrated impact assessment in accordance with Russian and International requirements for the LNG Train 3 Construction project (see Section 4.2.2.3 LNG Train 3 Construction Project).

In accordance with Russian legislation, in 2017 the company completed the environmental impact assessment of temporary landing facility construction in Lunskoye Bay, planned as part of the OPF Compression project (see Section 4.2.2.1 OPF Compression Project). Corresponding public hearings were held in Nogliki and Nysh. The impact assessment report is available on the company's website.

Stages of Impact Assessment

DESIGN AND DECISION-MAKING

- Impact scope and borders
- Baseline information gathering and description
- Impact identification and assessment. Mitigation measures identification
- Impact management and monitoring

STAKEHOLDER ENGAGEMENT

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 and incorporated into plans for managing the impact of the company and contractors. The validity and completeness of the assessments are monitored by government authorities and project lenders.

In April 2017, a public hearing was held in Korsakov to discuss the design documentation for the LNG plant reconstruction. Sakhalin-2 project. LNG loading jetty, including materials on environmental impact assessment (EIA) in the framework of the LNG Train 3 Construction project. Materials and minutes of the hearing are available on the company's website.

In October 2017, Glavgosexpertiza of Russia approved the project to modernise the gas transportation system as part of the LNG Train 3 Construction project.

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 2017, six HSE and SP management system audits were conducted, five of which were external and one — internal (see the Inspections and Audits of the HSE and SP Management System in 2017 table).

Inspections and Audits of the HSE and SP Management System in 2017

Audit level	Number of audits	Content
External	5	Control over the compliance with HSE and SP standards issued by the representative of lenders — by the independent environmental consultant *
		OHSAS 18001:2007 and ISO 14001:2004 surveillance audit
		Audit of flight operations (helicopters and charters) with the participation of Shell auditors
		Monitoring of the Sakhalin Indigenous Minorities Development Plan implementation — by the external monitor of the Plan*
		Independent evaluation of social investment / sustainable development (SI / SD) programmes / projects
Internal	1	HSE audit of diving operations

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

ABOUT THE COMPANY

- Right to life
- Right to health
- Right to healthy environment
- Right to use of scientific and technological progress

4.1. Sakhalin Energy

Mitigation of all potential risks to health and life is one of the crucial conditions for the company's successful operation and implementation of fundamental human rights: right to life, right to favourable working conditions and others.

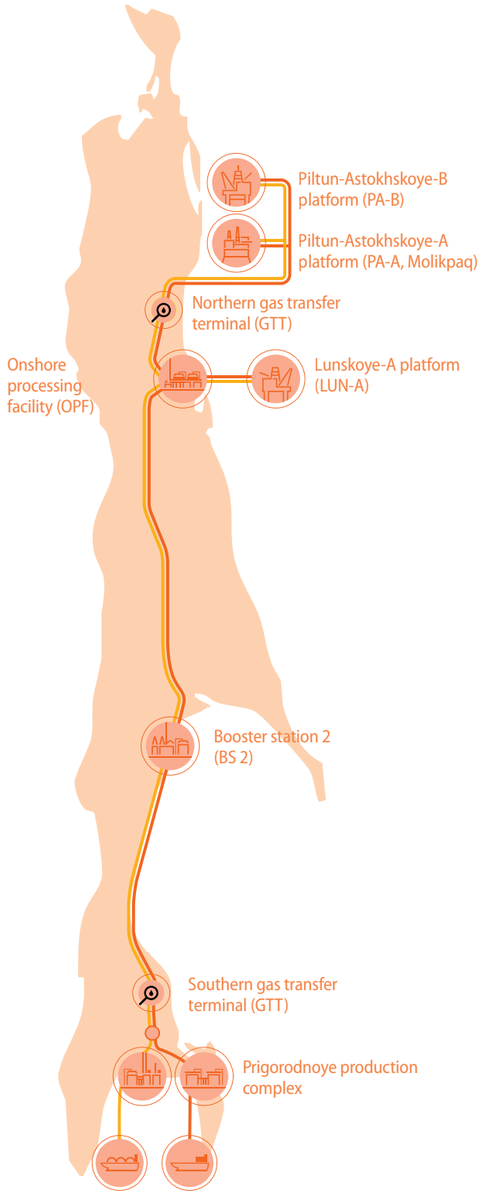
Sakhalin Energy Investment Company Ltd. ("Sakhalin Energy" or "the company") was founded in 1994 to develop the Piltun-Astokhskoye and Lunskoye oil and gas fields in the Sea of Okhotsk offshore Sakhalin Island.

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), Mitsui (12.5%) and Mitsubishi (10%).

To develop these two fields, the company constructed a large-scale infrastructure for extracting, transporting, processing and marketing of 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 LNG export terminal, and gas transfer terminals. This has been one of the most technically complex projects carried out over the last few decades in the global oil and gas industry.

Sakhalin Energy's Production Assets



4.2. Main Production Results in 2017

4.2.1. Assets

February 2017 marked eight 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 global supply of LNG comes from the Prigorodnoye production complex.

PA-B won the overall Drilling Rig of the year award with Molikpaq in the runner's up and LUN-A in the 5th place in the Shell Rig League table in 2017, which ranks on the performance, HSE and People scores.

4.2.1.1. Molikpaq (PA-A) Platform

In July 2017, it was 18 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 2017, the operating well stock of the Molikpaq platform included 16 production wells, six water injection wells, and one well for re-injecting drill cuttings back into the reservoir. The average daily production rate in 2017 was 6.91 thousand t (50.87 thousand bbl) of oil and 0.82 mln m^3 of associated gas.

Since the commencement of oil field development at PA-A platform, more than 35 mln t (over 260 mln bbl) of oil have been produced.

In 2017, the company continued development drilling to maintain production plateau.

In February 2017, oil well targeted the central part of the area with open hole gravel pack completion.

In May 2017, side track was drilled in the oil well and completed using Frac and Pack technology to prevent sand production. The well was shut in due to low reservoir pressure and casing integrity issue.

Alongside with that the company drilled a water injection well in June 2017 with the purpose to maintain pressure in the central part of the reservoir.

Apart from drilling activities, the company continued to monitor reservoir and well performance, injected water quality and cutting re-injection (CRI) well performance. Continuous sand, water and well integrity monitoring is performed on all wells.

In Q3 and Q4, essential rig refurbishment projects (BOP control panel, cement unit and air compressor replacement) were successfully completed.

In November 2017, seven conductors were installed.

In 2017, Addendum to CRI Technical Project for Astokh area, Piltun-Astokhskoye oil, gas and condensate field was developed.

In 2017, Addendum to Reservoir Management Plan and Operational Reserves Update for Astokh area, Piltin-Astokhskoye field were developed. At the end of 2017, these materials were submitted for approval to SRC Rosnedra.

In 2017, the company won the first place in the All-Russian competition "Labour productivity: Leaders of Russian Industry" with labour productivity rate of 132.63 mln roubles per person per annum. As the result of the competition, Sakhalin Energy is the leader in labour productivity in Sakhalin Region, leader of Russian oil and gas industry and ranks among the top three winners of the competition for the third consecutive year.

In 2017, the company delivered crude oil / LNG production targets ahead of schedule. This was achieved due to elimination and optimisation of limitations in operation of onshore equipment, improvement of well operation modes and reliability of all process equipment of the company. The above targets have been achieved in compliance with all safety requirements.

PA-B celebrated the 10-year anniversary in 2017 – the upper platform structures were erected in 2007.

In June 2017, the company completed a one-of-a-kind crane boom replacement operation at PA-B platform. A 48-metre-long, 18-tonne boom was installed at an operating platform in challenging weather conditions for the first time in the history of oil and gas industry.

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

As of the end of 2017, PA-B platform had 15 production wells, seven water injection wells and two cutting re-injection wells.

The platform's average daily production rate in 2017 was 4.52 thousand t (33.26 thousand bbl) of oil and 1.28 mln m^3 of gas. Since the commencement of oil field development at PA-B platform, about 15 mln t (almost 110 mln bbl) of oil have been produced.

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

In 2017, two oil producers were drilled at Piltun area.

Pilot and main horizontal holes were drilled in the well completed in May 2017. The pilot hole was drilled to revise layer stratigraphy in the northern part of the field, optimize the horizontal part of the well trajectory and to revise geological structure of other layers.

The data obtained from the pilot hole will be used to optimise location of another oil well and to revise the whole field development strategy. After the survey, the lower part of the pilot hole was abandoned. The well was completed with sand screen installation.

In July 2017, the second oil well was drilled, it was completed using Cased Hole Frac and Pack technology.

In August 2017, an appraisal pilot hole was drilled to realise a planned geological survey of layer properties and identification of saturation type to make a decision on further area development and wells sequence. All surveys were conducted, the pilot hole was abandoned, the development strategy was revised.

In May 2017, the following well stimulation activities were performed in one of the oil-producers: tubing acidising and salting inhibitor injection. As a result, the well was successfully put back into operation after being idle.

In Q4 2017, 11 conductors were hammered at the Piltun platform.

4.2.1.3. Lunskoye-A (LUN-A) Platform

In 2017, the 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 47.93 mln m^3. Since the commencement of this field development gas production achieved 136 bln m^3.

In 2017, two gas wells were drilled from the LUN-A platform.

A pilot hole was drilled during construction of the first gas well with the purpose of further appraisal of a Lunskoye block.

The purpose of the appraisal was to confirm oil rim and revise the geological structure.

In 2017, the upper master gate valves, production wing valves and swab valves were replaced on three gas wells to restore their integrity.

Alongside with drilling and repair works, open hole logging was executed, continuous monitoring of reservoir pressure, cutting re-injection and produced water re-injection monitoring were performed as well as core studies and downhole water samples analysis.

In 2017, Addendum to CRI Technical Project for the Lunskoye Field was developed.

In 2017, in accordance with appraisal results, Addendum to Reservoir Management Plan and Operational Reserves Update for Lunskoye Oil, Gas and Condensate Field were developed. At the end of 2017, these materials were submitted for approval to SRC Rosnedra.

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 2017, OPF daily average capacity was 50 mln m^3 of gas and 15.9 thousand t (123 thousand bbl) of oil and condensate.

4.2.1.5. Trans-Sakhalin Pipeline System, Booster Stations and Gas Transfer Terminals

The trans-Sakhalin pipeline system comprises about 280 km of offshore pipelines and onshore multiphase pipelines, over 1,600 km of oil and gas pipelines, as well as 104 block valve stations, five Pipeline Maintenance Depots, two Booster Stations (BS) and two Gas Transfer Terminals (North and South).

Sakhalin Energy and Gazprom transgaz Tomsk (contracted by Sakhalin Energy to maintain the trans-Sakhalin Pipeline System) 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 systems 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 RoW 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 RoW is walked every twelve months;
- space technologies are also used to monitor the vegetation growing on the RoW.

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 how to identify the pipeline system and its importance. Local authorities, contractors and land users are regularly informed about land use limitations within the RoW and are provided with the contact information and telephone numbers of the company. Additionally, special notice boards are located along the RoW 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 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.

4.2.1.6. The 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 420 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 2017, the Prigorodnoye production complex operated safely throughout the year with zero recordable injury (TRC) and no significant process safety incidents. HSE Goal Zero programme was formally rolled out in the asset and provided strong foundation in creating a Culture of Care towards staff and contractor partners. The Prigorodnoye production complex also successfully maintains ISO 9001 for its overall Quality Management System (QMS).

The reliability performance has been outstanding where the overall time based reliability performance for the LNG asset stands at more than 99% for both LNG trains.

The asset successfully carried out a major Maintenance Turnaround event in June in conjunction with the planned shutdown of the Sakhalin-2 integrated gas chain system. The major shutdown event was completed safely with zero injury and no significant incidents. The event was executed within the allocated budget and was completed ahead of the business plan.

In 2017, a set of initiatives were implemented targeting increase in LNG production by improving liquefaction efficiency without any impact on greenhouse gas (GHG) emissions. Prominent initiatives to name are precool mixed refrigerant (PMR) advanced process control (APC) system, light/heavy mixed refrigerant (LMR/HMR) ratio control, HMR Expander Optimization and installation of windscreens.

The performance achieved in 2017 is by far the best performance of the Prigorodnoye production complex since its inception. Safety will continue to be the asset of utmost priority for our staff and contractor partners.

Since the start of operation in 2009, LNG plant produced over 200 mln m^3 (90 mln t) of liquefied natural gas.

In 2017, the company was listed among finalists of international Platts Global Energy Awards in the nomination "Liquefied Natural Gas. Industry Leaders".

4.2.2. Development Projects

4.2.2.1. OPF Compression Project

OPF compression site preparation activities were continued in 2017 by ZapolyarPromGrazhdanStroy. The work is expected to be completed in 2018.

Manufacturing of equipment including three gas compressor units and vessels was continued in 2017 by Russian and foreign companies. Equipment delivery to construction site is planned for 2019.

In September 2017, a contract was signed with Petrofac Facilities Management Limited for detail design, procurement and construction of the OPF compression. The construction is to be completed at the end of 2021.

4.2.2.2. South Piltun Area Development Project

Sakhalin Energy is updating information on the geological structure and geological and recoverable reserves at Piltun-Astokhskoye field, including South Piltun area, and is planning to submit an integrated reservoir management plan to the State Reserves Committee of Rosnedra.

4.2.2.3. LNG Train 3 Construction Project

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

Shell Global Solutions International and Giprogascentre, a Russian design institute, supported Sakhalin Energy in development of the design, in which a number of other companies, including local, are involved. In addition, a few Sakhalin companies performed engineering and environmental baseline surveys.

A State Environmental Expertisa review was successfully completed for the offshore part of the project (LNG jetty). The project was submitted to State Expert review by Glavgosexpertisa.

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 sea shipment.

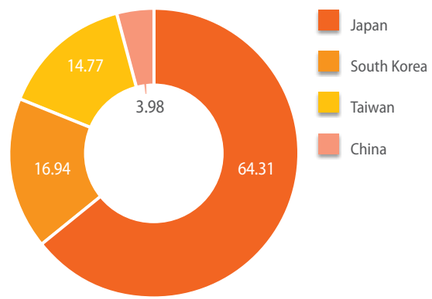
Due to regular debottlenecking and equipment adjustment, the LNG plant exceeds its design output of 9.6 mln t per year. In 2017, Sakhalin Energy produced 11.49 mln t of liquefied natural gas.

Sakhalin LNG is transported in spherical-hold customer vessels and in Grand series LNG tankers (Grand Elena, Grand Aniva and Grand Mereya) that were constructed especially 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 2017.

In 2017, Sakhalin Energy shipped LNG to Japan, South Korea, China, and Taiwan. CPC Corporation (Taiwan) has maintained its share in the consumption of LNG produced under the Sakhalin-2 project due to the increased domestic demand and the shutdown of the nuclear power plants that had been used to produce electricity. LNG buyers also include gas distributing, power generating, and trading affiliates with various volumes of demand.

In 2017, Sakhalin's share in the Asia-Pacific LNG market was over 9%, and in the global LNG market — about 4%.

Sakhalin LNG Sales Market Structure in 2017, %



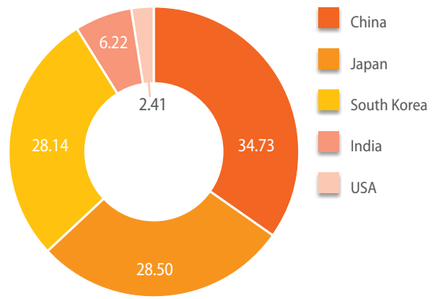
4.2.3.2. Oil

Sakhalin Blend is an oil grade introduced by Sakhalin Energy to the Asia-Pacific region. It is a light, low-sulphur oil blend.

The company has extracted and shipped a mixture of oil and condensate from the oil export terminal in 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 (a project of 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 44–45.5° and a sulphur content of about 0.14%. 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 2017, Sakhalin Energy produced 4.17 mln t (30.71 mln bbl) of oil and 1.64 mln t (14.46 mln bbl) of condensate, and received 0.1 mln t (0.83 mln bbl) of condensate produced under the Sakhalin-3 project.

Structure of the Oil Sales Market in 2017, %



The convenient geographical location of Prigorodnoye port and the availability of the company's own oil tank fleet (three specialised ice-class tankers) allow deliveries to the Asia-Pacific region in winter or vessel-to-vessel transshipment in the ports of South Korea and/or Japan for further transportation to other buyers.

In total, 11 companies from five countries purchased Sakhalin Blend in 2017. The blend was delivered through 22 transit and destination ports in Japan, China, South Korea, India, and the USA.

Historically, the main markets for Sakhalin Blend are Japan, South Korea and China. These are strategically important markets because of their geographical proximity and stable demand for light low-sulphur crude oil. In 2017, the shares of these three countries remained high and accounted for approximately 91% of the total supply for the year. Several cargoes were delivered to India and the USA by means of vessel-to-vessel transshipment.

The share of oil blend exported by Sakhalin Energy to the Asia-Pacific region was 0.35%.

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 7.56 bln m^3 of natural gas has been delivered to the Russian party, including more than 3.45 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 683 mln m^3 delivered in 2017). In 2017, over 436 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, about 1.12 bln m^3 of gas was supplied to the Russian party in 2017.

4.3. Continuous Improvement Programme

In 2017, the concept of Sakhalin Industrial Park (SIP) was developed and approved. SIP will allow to enhance the quality of work performed, shorten the supply chain for maintenance operations and improve cost control. Anchor residents, main activities and services to be provided by SIP have been defined.

The objective which Sakhalin Energy is pursuing by Continuous Improvement and Value is to be the premier energy source for Asia-Pacific and to secure long-term future. To meet this objective, the company continuously identifies ways to run business more efficiently every day without compromising safety and reliability.

The company continued implementing improvements of all processes using key success factors:

- leaders and managers are personally committed, involved and engaged with staff;
- improvement activity is linked to strategic imperatives and performance targets, decisions are made on risk based analysis;
- leadership creates an environment where continuous improvement is part of the corporate culture;
- improvements are recognised and rewarded.

In 2017, Sakhalin Energy achieved significant progress in terms of identification and implementation of continuous improvement initiatives in different areas of activity, which resulted in a considerable cost reduction, improved profitability and efficiency and enhanced production.

Sakhalin Energy demonstrated significant progress with continuous improvements identification and execution across the company and in its different areas which lead to substantial cost savings; value, efficiency and production improvements in 2017.

CORPORATE GOVERNANCE

- Right to information
- Access to non-state based remedy
- Right to freedom and personal security

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

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.

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 responsibilities to its shareholders, the Russian party, customers, company 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).

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 Business Management System Manual describes the main principles and approach to managing the company.

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 5.6 Risk Management).

Organisation, Responsibilities, Resources and Competency

The organisation and resources 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 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 the company personnel from all directorates at the annual 100 Workshops (see Section 6.3 Engagement with Personnel).

Corporate Governance System

Contingency and emergency response plans are implemented and regularly evaluated.

The Journey Book, which is published annually, is used to inform all company 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, organisation, 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 5.4 Corporate Culture and Section 6.3 Engagement with Personnel).

5.3. Corporate Governance Model

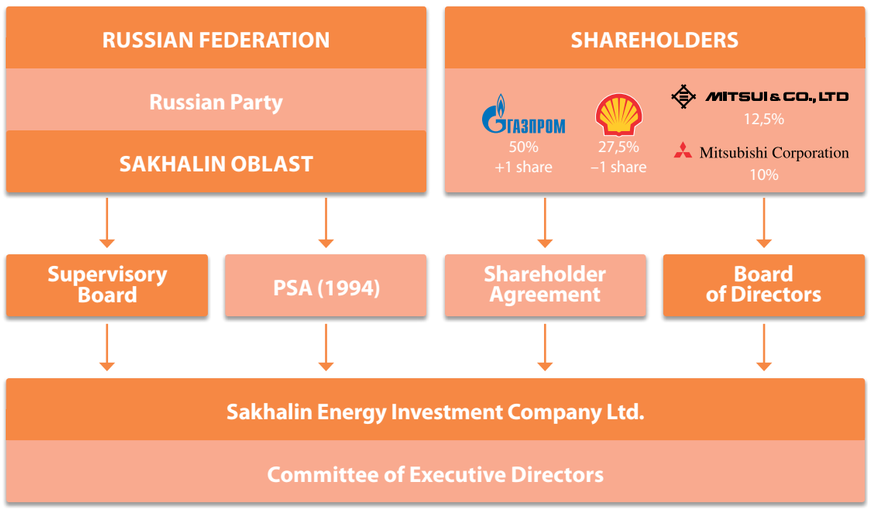
Strategic planning is carried out through engaging the Sakhalin Energy's senior management with the Russian party (representatives of the federal executive authorities and the Sakhalin Oblast Government) and company's shareholders that determine policy directions, establish areas of responsibility and 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 programmes and budgets, LNG sales agreements, procurement procedures, Russian national employment and training plans, etc. The Supervisory Board also reviews the company's annual reports and appoints auditors. The Supervisory Board 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 governance;
- daily management and operation of the company is the prerogative of the Committee of Executive Directors (CED).

Corporate Governance Model



The company governing bodies have the following tasks in the governance model.

Board of Directors (BoD) — appointed by 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 2017 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 2017.

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 plan and strategy, 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 Government, Shareholders and External 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, and 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.

Committee of Executive Directors (CED) — headed by the company's CEO. The CED, which consists of all the executive directors of the company, is responsible for day-to-day management of the company. It 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 2017 are shown below in the Committee of Executive Directors organisational chart.

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 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. Corporate Culture

Respect, support, and promotion of human rights are core principles for Sakhalin Energy, and company employees are fundamental to its success. The basic qualities each company employee should strive for are professionalism, responsibility, initiative, integrity, self-development, improved efficiency, and strict observation of ethical principles and standards of conduct. Strengthening and developing corporate culture is an integral part of reaching operational excellence.

To ensure compliance with professional and business ethical standards, the company's Code of Conduct explains the behaviours which Sakhalin Energy expects from its employees and describes how these behaviours correlate with the company's business principles and core values (see Section 5.5 Code of Conduct). Sakhalin Energy employees share the core values of the company, including:

- honesty and integrity;
- respect and care for people;
- professionalism and individual accountability;
- continuous improvement and team work.

These values are reflected in Sakhalin Energy's standards, policies and procedures, such as:

- 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.

These documents ensure that Sakhalin Energy operates within the framework of applicable laws and in accordance with the ethical requirements set out in the Sakhalin Energy General Business Principles. 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.

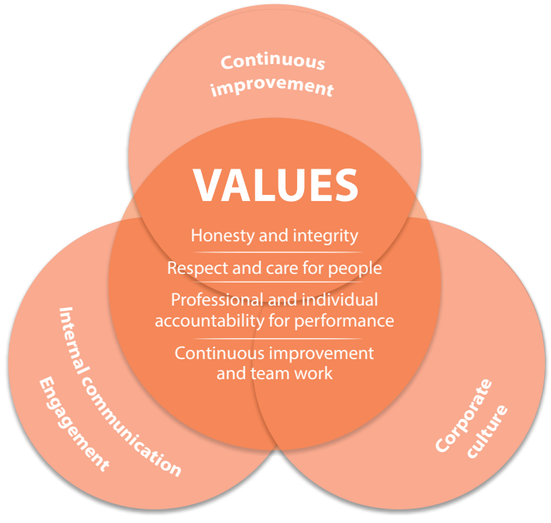
Sakhalin Energy operates in a manner that is intended to complement the core values and provide a way of thinking and behaving that is in the best interests of the overall business. Leadership, accountability, and team work characterise this behaviour.

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, an annual conflict of interest declaration must be completed by all the employees.

The Procedure provides an understanding of the ethical principles of the company's activities and allows the company to 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.

Corporate Values



5.5. Code of Conduct

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

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

The Code of Conduct is the primary document that contains the General Business principles, explains fundamental rules and standards adopted by the company and required to meet the requirements of these principles. It regulates behaviour and spells out requirements and guidance, expressed as clearly, concisely, and consistently as possible in a single, company-wide document for all our employees. The Code of Conduct includes, but is not limited to the following rules:

- Sakhalin Energy endeavours to comply with principles of respect, support, and promotion of human rights in all its activities;
- Sakhalin Energy aims to operate in environmentally and socially responsible ways;
- Sakhalin Energy does not tolerate bribery, insider dealing, market abuse, fraud or money laundering;
- Sakhalin Energy is committed to free, fair and ethical business dealings;
- Intellectual, physical, and financial assets of Sakhalin Energy are valuable and must be preserved, protected and properly managed.

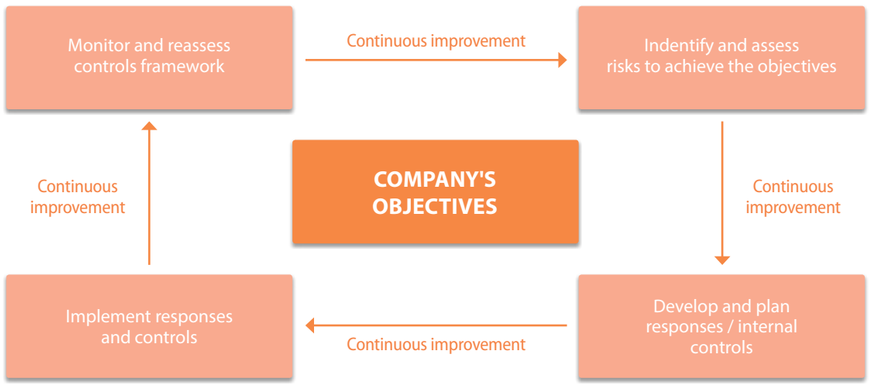
5.6. Risk Management

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.

Risk Management Lifecycle



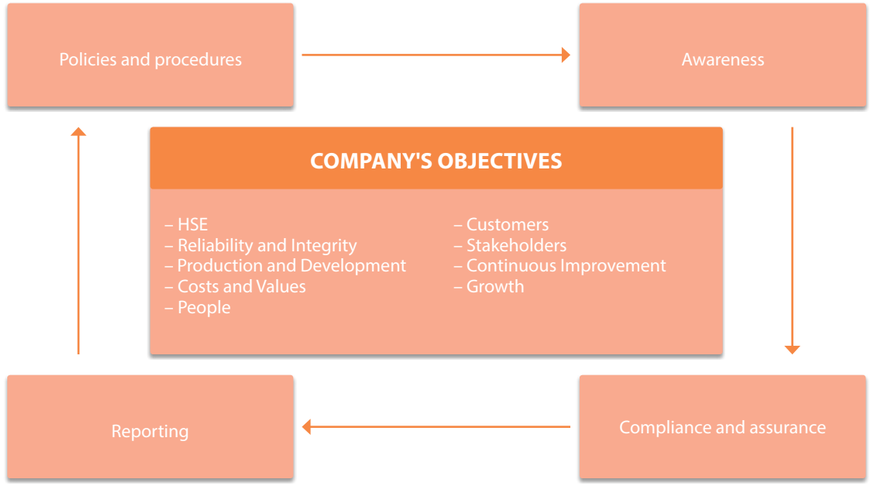
The process for managing risks at Sakhalin Energy involves identifying and assessing risks, planning and implementing a response, monitoring performance, and reassessing risks on an ongoing basis to ensure that areas for improvement are captured, and that such improvements are implemented (see the Risk 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.

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 Controls Framework chart).

One of the most important components of an efficient risk management process is impact assessment. This process must be carried out prior to commencement of any operation which may potentially affect various spheres of activity (see Section 3.5.2 Impact Assessment).

Controls Framework



Risks Identified as Significant by the Company and Ways to Manage Them

Risks	Description / Management	Reference
Continuous improvement (opportunity)	Many Sakhalin Energy's processes can be made more effective and/or more efficient to enable the company to fulfill its vision of becoming the premier energy source for Asia-Pacific. Company developed a strategy to achieve maximum performance indicators, referred to as a continuous improvement programme, which covers the range of cost and business processes optimisation opportunities.	See Section 4.3

Risks	Description / Controls	Reference
Economic risks		
Risk of adverse effect from current and potential sanctions	The EU, US, and a number of other countries have imposed sanctions related to the situation in Ukraine that may affect the company's business. A cross-discipline sanctions working group has been established to monitor this risk	
Social and reputational risks		
Staff retention, competence, and succession plan	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 updated in 2017	See Section 9.1
Risk of occupational diseases	The company applies the following controls 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, monitoring compliance with work instructions, monitoring the use of PPE, and education on the prevention of occupational diseases	See Section 9.3
Environmental risks		
Risks related to adverse environmental impact	The company takes the following actions to reduce the risk of harming or contaminating the environment, thus ensuring full compliance with the environmental legislation and international standards:	See Section 8

Risks	Description / Controls	Reference
	– identifying all environmental aspects and performing an environmental 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	
Safety risks		
Process safety	Process Safety is the management of hazards that can cause major accidents releasing 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 that 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;	See Sections 4 and 9.2

Risks	Description / Controls	Reference
	– 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	
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, 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 traffic violations, the company monitors speed limit violations using IVMS and 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

5.7. Anti-Bribery and Corruption

In order to counteract bribery and corruption, the company:

- does not tolerate bribery, insider dealing, market abuse, fraud, or money laundering (facilitation payments are considered bribes and are not allowed);
- complies with all Russian and applicable international laws and regulatory acts;
- adheres to the principle of integrity and legality in all company's activities.

Sakhalin Energy assists its employees, business partners, contractors and suppliers in counteracting bribery and corruption. 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 company 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 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.

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 which specify the company's anti-bribery and corruption requirements;
- the Supply Chain Manager shall ensure that standard company 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 pays special attention to informing both internal and external parties on channels for reporting violations of anti-bribery and corruption legislation.

For that, various mechanisms have been put in place including posting relevant information on company's internal and external websites, in company's offices and at assets. In addition, an electronic form was developed in 2017 to facilitate anti-bribery and corruption related communications via the company's website.

STAKEHOLDER ENGAGEMENT MANAGEMENT

- Right to information
- Access to non-state based remedy
- Right to freedom and personal security
- Equality and non-discrimination

6.1. Strategy, Principles, Mechanisms and Engagement Tools

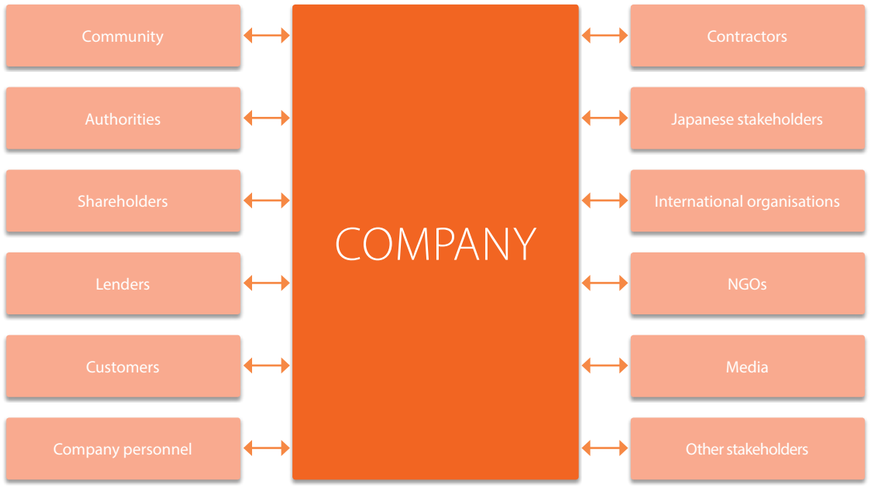
Sakhalin Energy respects the right of all stakeholders to receive information about company's activities, and guarantees an open and direct dialogue with local communities in accordance with the Public Consultation and Disclosure Plan.

Assuming 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



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.

The selection of the most effective mechanisms and tools is determined by the goals and objectives of engagement, and depends on a particular stakeholder group (see the Public Consultation and Disclosure Plan on the company's website www.sakhalinenergy.com).

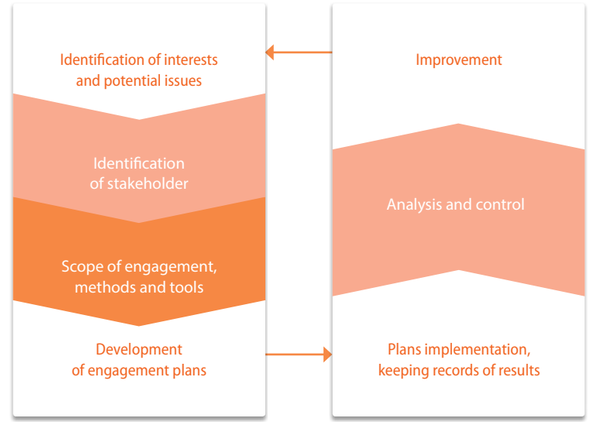
Stakeholder Engagement Process

Strategy

- Regular and constructive engagement
- Open and wide informing

Key principles

- To be constructive and target-oriented
- To be open and transparent
- To hold positive relationships
- To apply efficient mechanisms, opinion exchange regarding issues and ways for solution



6.2. Stakeholder Engagement in 2017

Sakhalin Energy continued systematic and consistent engagement with key stakeholders in 2017.

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, the Energy TV programme broadcast on Sakhalin, 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 2017:

- 13 public meetings held in communities located near the company's assets (100 participants from among residents of the Sakhalin Oblast);
- 4,925 visits to information centres;
- 15 public meetings in 11 communities of the districts of traditional residence of the Sakhalin Indigenous Minorities (276 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 5.4 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 2017, 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, team work, participation in activities held by the company, and respect for national, cultural and individual diversity;
- in 2017, 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 issued 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 to reduce them;
- 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;
- posting advertisements, 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 2017. 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 and 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 2018–2022, with a focus on objectives for the next year.

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

The information centres established at district and village libraries are located in the communities along the trans-Sakhalin pipeline system and in close proximity to other company's assets. They are equipped with required office equipment, computers with Internet access, and information stands. 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.

In December 2017, the librarians participated in the regular workshop to obtain first-hand knowledge of the company's activities.

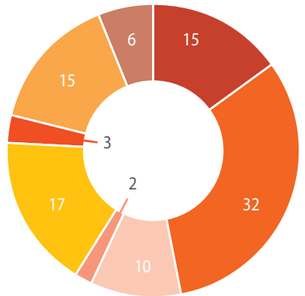
The work of the information centres includes the following activities:

- regularly updating materials of the company's information stands;
- helping people find information on the company's website;
- providing assistance to the community in preparing and submitting complaints in accordance with the Community Grievance Procedure;
- providing requested company's information materials.

Book as a Gift Project

The company donated 27 sets of books dedicated to the Year of Ecology to the libraries of the Sakhalin Oblast. The thematic selection of books in 2017 included encyclopaedias, reference books, illustrated collections of maps and gift editions for readers of different ages. The series of books about rare animals and plants found in Russia and other countries of the world supplemented the set.

Statistics of Applications to the Information Centres in 2017, %



- General information about the project (website, information stands, printed materials)
- Vesti newsletter
- Series of books about the nature of Sakhalin Island
- Social programmes
- Safety is important programme
- Employment opportunities
- Book as a gift project
- Other (environmental protection, the programme for safe behaviour on the pipeline route, etc.)

6.5. Engagement with the Sakhalin Indigenous Minorities (SIM)

Sakhalin Energy protects the rights of indigenous people, promoting their culture, lifestyle, customs and traditions, tribal land ownership, participation in economic development and life-sustaining activities based on the use of natural resources.

The most vivid example of adherence to advanced international standards is the application of the principle of free, prior and informed consent as enshrined in the UN Declaration on the Rights of Indigenous Peoples and Performance Standard 7 on the Indigenous Peoples, adopted by the International Finance Corporation.

The UNESCO Convention for the Safeguarding of the Intangible Cultural Heritage recognises oral traditions and expressions, including language as a vehicle of the intangible cultural heritage.

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 especially care to the needs of vulnerable groups of the population, in particular, of indigenous minorities.

Since 2006, the Sakhalin Indigenous Minorities Development Plan (hereinafter referred to as the SIMDP or the Plan; see Section 9.5.9.1 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 international standards in respect of indigenous peoples, and implemented in strict compliance with them. 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 of the Russian Federation have recommended, over many years, that the experience of the Plan's implementation be extended to the constituent entities of the Russian Federation. In addition, the company has represented the programme three times at the sites of the UN Permanent Forum on Indigenous Issues being invited by the RF Ministry of Foreign Affairs (see Section 6.10 International and Regional Cooperation).

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

The SIMDP is the key document that Sakhalin Energy uses as a basis for its work with the SIM. In 2017, the company also implemented a number of other projects related to indigenous ethnic groups.

- the Silhouette Magic by Semyon Nadein exhibition was opened in the Literary and Art Museum of the A.P. Chekhov's Book "Sakhalin Island". The visitors were the first to see the silhouette cut-out pictures, letters, manuscripts and an album of poems by the original Evenk artist. Some of the works were exhibited for the first time ever. 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 the Silhouette Magic by Semyon Nadein Project (a Cultural Project)). At the exhibition, Elena Bibikova, an Uilta language native speaker and bearer of Uilta traditions, told the visitors about the art of creating silhouette cut-out pictures; the traditional craftswomen Yulia Ivanova and Veronika Osipova revealed the secrets of making birch bark ornaments, while the hereditary reindeer herder Valery Solovyov showed to the audience how to cut out silhouettes of deer from paper. During the interactive part of the exhibition, the visitors had a chance to listen to four tales from the collection Engespal read by three Sakhaliners: Alexander Makovetsky, Maria Korovina, and Ariana Malysh. Another part of the project was a laser show based on the silhouette pictures of Semyon Nadein, which was shown on the central facade of the museum. The breathtaking show was prepared in Moscow specifically for the Sakhalin project. As it had been initially planned by the organisers, the images created by the Evenki artist appeared before the guests of the museum. The Silhouette Magic by Semyon Nadein exhibition displayed exhibits from four museums of the Sakhalin Oblast and the personal collection of Vasily Kurikalov's family, as well as the Literary Fund of Hokkaido. The exhibition worked until the end of January 2018, and then travelled to all districts of Sakhalin Island.
- with the support of Sakhalin Energy, representatives of the Sakhalin Indigenous Minorities took part in The Reality of Ethnicity XVIII International Scientific and Practical Conference and the I Congress of Teachers of the Languages and Literature of Indigenous Peoples of the North, Siberia and the Far East of the Russian Federation;
- the company acted as the general partner of the VIII Congress of the Association in the framework of the Forum of the Indigenous Peoples of the North, Siberia and the Far East of the Russian Federation, and the VIII Congress of the Sakhalin Indigenous Minorities.

Sakhalin Energy won the Keyword All-Russian Public Award for the Preservation of Linguistic Diversity. The award was established by the Federal Agency for Ethnic Affairs in 2017. The Expert Council of the Award selected seven finalists out of more than 500 participants. Sakhalin Energy, the only representative of business and the Far East, was announced one of the winners. Sakhalin Energy's project titled The Preservation and Promotion of Cultural and Linguistic Heritage of Sakhalin Nivkhs, dedicated to the work of Vladimir Sangi, the famous Nivkh writer, received an award in the special Social Entrepreneurship category.

Sakhalin Energy took an active part in the business programme of The Treasures of the North – 2017 International Exhibition, where it presented Sakhalin is the Green Island exhibition, which focused on the company's environmental responsibility, as well as programmes of interaction with indigenous minorities. Sakhalin Energy's exhibition was awarded with a special prize of the jury — For the Preservation of Traditional Culture.

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

In December 2017, Sakhalin Energy and the World Wide Fund for Nature (WWF) Russia signed a Memorandum of Cooperation. The signing ceremony took place in Moscow during the All-Russian Congress on Environmental Protection. The document provides for interaction between the parties to hold joint consultations and working meetings, to exchange information and data on environmental projects implementation and nature protection. Under the Memorandum, the parties also agreed to exchange information on environmental projects, advanced international standards, the requirements of Russian and international environmental legislation with a view to minimising or preventing environmental impacts.

In 2017, 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 2017, 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 Wide Fund for Nature (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 and 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. During 2017, Sakhalin Energy held a number of consultations and meetings with the Japanese stakeholders, including:

- meetings with representatives of the Hokkaido Government (February, Sapporo, Japan);
- participation in 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);
- participation in the meeting of stakeholders on safety and prevention of accidents during the navigation of tankers as part of Sakhalin projects (August, Abashiri, Japan). The meeting was organised by the Japanese Coast Guard.

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 constructive, respectful relationships with customers helps 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 2017, the company held the 8th Annual Forum of Oil Buyers of Sakhalin Blend Oil. Representatives of all major oil buyers in the region arrived in Sakhalin to attend the event. Among the guests were representatives of JXTG, GS Caltex, Fuji Oil, Cosmo Oil, Sinochem, SIETCO, Taiyo Oil, Petro Diamond and other companies. 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 2017, Yuzhno-Sakhalinsk hosted the 12th Annual Conference on Maritime Hydrocarbon Transportation, focusing on the commercial transportation of oil and gas under the Sakhalin-2 project. The participants discussed new trends and changes in the industry's safety practices, the potential changes in Russian legislation regarding navigation under the Russian flag, the results of the completed scheduled docking of Grand Elena, Ob River, and Amur River LNG carriers, the results of the survey of Sakhalin Island and Aniva Bay oil tankers, the possibility of admitting passengers on board of vessels in the Prigorodnoye port, changes in the Process Flowchart for organising passage through the state border of the Russian Federation, and a number of other important issues. The conference was attended by representatives of six 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 2017, 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.

Such forums strengthen the partnership relations of the Sakhalin-2 project participants and give them an opportunity to exchange unique experience gained in the course of the project implementation.

In July 2017, a delegation of high-ranking officials from South Korea, headed by Special Envoy of the President of South Korea to Russia Mr. Song Young-gil, visited the LNG plant.

Ahn Wan-gi, acting CEO of KOGAS, also participated in the visit as a member of the delegation. The meeting participants discussed the prospects for cooperation and the importance of further expansion of the Sakhalin-2 project.

6.9. Engagement with State and Local Government Authorities

Sakhalin Energy actively cooperates with state authorities of the Russian Federation, including legislative and executive bodies of the federal, regional and local levels.

In 2017, like in the previous years, engagement with state authorities was carried out in various formats, with the Supervisory Board (SB) and the SB 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. The Coordinating Council for cooperation between the Administration of Yuzhno-Sakhalinsk and Sakhalin Energy, comprising six working groups responsible for various areas, continued its work.

Representatives of state authorities regularly participate in meetings with communities and stakeholders, held by the company during the preparation of annual reports. The results of the 2017 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 2017, 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 2017, Sakhalin Energy continued to actively promote 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:

LNG Congress of Russia, an annual congress and exhibition, 15–17 March, Moscow

More than 300 Russian and foreign companies took part in the international event dedicated to liquefied natural gas issues. 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.

Oil and Gas Industry Supply Chain (NEFTEGAZSNAB-2017) Annual Conference, 16 March, Moscow

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. The company held a round table titled "Expanding Ties with Russian Suppliers of Equipment and Materials for the Oil and Gas Sector", outlined the organisation of procurement and import substitution and presented a range of opportunities for domestic suppliers of the Sakhalin-2 project.

Gastech International Conference and Exhibition on Natural Gas, Liquefied Natural Gas and Petroleum Gas, 4–7 April, Tokyo

Being one of the most prestigious events in the world gas industry, it was attended by more than 2,000 delegates, and more than 20 speakers made their presentations. The main topics were the exploration of fields and gas production, tankers, shipbuilding, gas equipment and systems, financial foundations and investment companies, labour safety, etc. Sakhalin Energy held a series of business meetings with shareholders and buyers of LNG, to look at the current issues and prospects for further cooperation under the Sakhalin-2 project.

All-Russia Occupational Health and Safety Week, 10–14 April, Sochi

About 150 companies presented their latest developments on the central discussion platform — the site where the best world and domestic practices in the field of occupational health and safety management systems are traditionally demonstrated. Sakhalin Energy took an active part in two round tables — Topical Problems and Best Practices in the Field of Occupational Health and Safety: Experience of European Companies in Russia, and Organisation of Labour Safety at Oil Products Supply Enterprises of Russian and Foreign Companies.

United Nations Permanent Forum on Indigenous Issues, 24 April – 5 May, New York

The highest advisory body on economic and social development, indigenous culture, the state of the environment, education, health and human rights has been working since 2002. The Russian delegation attending the forum in 2017 included members of the Federal Agency for Ethnic Affairs and the Ministry of Foreign Affairs, and representatives of regions where indigenous minority peoples of the North traditionally reside. The company presented a report on the experience of interaction with indigenous minorities at the thematic event titled Corporate Social Responsibility of Companies Carrying Out Industrial Activities in the Areas of Traditional Residence of Indigenous Peoples: Russian Experience.

Annual General Meeting of the International Business Congress (IBC AGM), 25–26 May, Vienna

The IBC includes 129 members representing 28 countries of the world. The Congress deals with practical issues of economic cooperation and development of proposals to remove obstacles and create favourable conditions for an effective and safe business environment. In 2017, the event was attended by more than 350 people. The Congress included the Natural Gas as the Target Fuel of the Future Conference.

Eastern Economic Forum, 6–7 September, Vladivostok

In 2017, the forum was held under the motto "The Far East: Creating a New Reality". The event was attended by over 6,000 people, including 775 business representatives from more than 60 countries. The participants of the forum signed 217 agreements worth RUB 2.5 trillion. Sakhalin Energy held a number of negotiations with buyers and partners and signed an agreement with Petrofac to build a compressor station at the onshore processing facility (OPF).

Sakhalin Oil and Gas International Conference, 27–29 September, Yuzhno-Sakhalinsk

In the Year of Ecology, environmental protection was the key topic of the conference. At the plenary session, Sakhalin Energy shared its experience of work to reduce environmental risks and to conserve biodiversity, presented reports

on the progress of the Sakhalin-2 project implementation, industrial safety, maritime transportation and other topics. The conference participants discussed the issues of oil price decline, decrease in investment by oil and gas companies, economic sanctions, access to financing, optimisation of business processes, technological issues and their solution, as well as strategies for further development of projects in the Far East.

PRO BONO: Russian Practices and Development Vector International Conference, 28–29 September, Moscow

The event was organised by the Association of Managers and the National Council for Corporate Volunteering. More than 100 representatives of large and medium-sized businesses, HR managers, PR specialists and experts in development of corporate social responsibility participated in the conference. Russian and foreign participants exchanged experience in the area of intellectual volunteering in Russia, discussed PRO Bono volunteering models and technologies. Sakhalin Energy shared its experience of implementing projects on skilled volunteering.

St. Petersburg International Gas Forum, 3–6 October, St. Petersburg

This is the leading platform for discussing the current challenges faced by the industry. It is traditionally attended by the heads of states and governments, top managers of international companies and organisations, and the world's renowned experts. More than 10,000 participants of the forum discussed global energy issues and the main areas of fuel and energy sector development. The key event of the forum's official business programme was the plenary session under the title "Energy for Global Growth" with the participation of Russian President Vladimir Putin. The head of the state outlined the most important global energy trends.

Annual Conference of the Association of Specialists in Programme and Policy Evaluation, 3–5 October, Moscow

Representatives of business, the non-profit sector, government organisations and the scientific community discussed the issues related to the evaluation of project implementation in various fields of activity, including education, culture, and charity. Within the framework of the special section dedicated to the role of evaluation in the development of the volunteer movement, participants reviewed various approaches to evaluating volunteer activity and measuring its effectiveness. Sakhalin Energy presented its assessment practices in the implementation of social programmes.

World Resources and Gas Reserves, and Advanced Technologies for their Development (WGRR 2017) International Scientific and Practical Conference, 8–10 November, Moscow

The conference was attended by over 230 specialists from 60 companies, academic and scientific branch institutes and organisations working in the field of geological exploration and gas field development, as well as foreign partners. The participants discussed new opportunities, topical problems, latest developments and new technologies for identification, appraisal, exploration and development of traditional and non-traditional resources and gas reserves around the globe. Sakhalin Energy made a presentation titled "The Construction of the Petrophysical Model of the Lunskoye Field".

United Nations Forum on Business and Human Rights, 27–29 November, Geneva

The forum was established in 2011 by the UN Council on Human Rights, to become one of the largest international platforms for exchanging experience in the implementation of the Guiding Principles on Business and Human Rights among representatives of states, enterprises, civil society, international institutions and expert groups. Sakhalin Energy presented its experience during the Russian-Swiss thematic session Guiding Principles on Business and Human Rights as a Business Transformation Factor for Sustainable Development. Lessons Learnt. Strategies. Partnership.

Corporate Volunteering: Business and Society, VI Moscow Forum, 28 November, Moscow

This is the largest expert platform for corporate volunteering in Russia. The forum is held to analyse modern corporate volunteering in Russia and abroad, to replicate successful practices, to discuss possible ways of developing and strengthening the intersectoral partnership of business, society and the government. The company shared its experience during the work of the Corporate Volunteering in the Information Society section of the Forum.

Environmental Safety in the Gas Industry (ESGI-2017) International Scientific and Technical Conference, 5–6 December, Moscow

The main objectives of the event were to discuss the environmental safety, health and welfare of the country's population, and to summarise the Year of Ecology. Representatives of government agencies, executives, specialists and business partners of oil and gas companies, representatives of Russian science discussed topical issues related to ensuring environmental and industrial safety, energy efficiency, and labour safety.

Environmental Responsibility in the Russian Energy Sector, German-Russian Environmental Conference, 6 December, Berlin

The event was dedicated to the Year of Ecology in Russia. It was organised on the initiative of the head of the CREON Group with the support of the World Wide Fund for Nature (WWF) Russia and the United Nations Development Programme / Global Environmental Facility / the RF Ministry of Natural Resources project. The conference was supported by the Russian-German Foreign Trade Chamber and the Committee on Eastern European Economic Relations in the German Industry. The purpose of the event was to exchange experience and to join efforts of the German and Russian parties in the field of sustainable development. Sakhalin Energy made a presentation on environmental safety in the production of LNG.

Offshore Oil and Gas Contracts: NEFTEGAZSHELF-2017, Annual Conference, 7 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.

PEOPLE INVESTOR 2017: Responsible Investment Forum, 12 December, Moscow

The forum gives the PEOPLE INVESTOR Awards nominees an opportunity to present their best practices in the field of corporate social responsibility and sustainable development. The event brings together top managers of leading Russian and foreign companies operating in various sectors of the economy, government officials, the Russian and foreign expert community, business education institutions, professional service providers, and other stakeholders. At the forum, Sakhalin Energy presented the Oiled Wildlife Response Programme in the Environmental Efficiency category.

ECOTECH International Exhibition and Forum and All-Russian Congress on Environmental Protection, 12–14 December, Moscow

The joint event is the main platform in Russia and the CIS to address the challenges of environmentally sustainable development, to present Russian and foreign innovative environmental ideas, and to exchange experience in the development of green technologies. During the event, representatives of the Government of Russia, federal and regional authorities, managers and specialists of Russian and international companies, experts of the global environmental community, leading scientists and experts discussed topical issues of environmental protection. The company presented its extensive experience and achievements in the field of biodiversity conservation.

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 leadership positions in various areas of activity.

ECONOMIC IMPACT MANAGEMENT

- Right to an adequate standard of living
- Equality and non-discrimination
- Right to just and favorable conditions of work
- Right to use of scientific and technological progress

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 numerous benefits from the Sakhalin-2 project:

- since Sakhalin Energy started its operations, the Russian Federation's proceeds from the Sakhalin Energy activity under Sakhalin-2 project have totalled over US$ 22.6 bln, including US$ 9 bln received by the Sakhalin Oblast;
- US$ 25 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 (over US$ 600 mln was invested by the company);
- 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 have been awarded to Sakhalin companies that took part in the Sakhalin-2 project. Their capacity and competitiveness has been enhanced dramatically;
- with the company's support, extensive social and public initiatives have been carried out on Sakhalin Island.

In 2017, according to the International Accounting Standards (IAS), revenues of Sakhalin Energy amounted to US$ 5.401 mln, and its total net income was US$ 1.503 mln.

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

Production sharing between the company and the state is triggered when the 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 (1995–2017), the Russian party has received US$ 22.6 bln from Sakhalin Energy under the Sakhalin-2 project, taking into account the 2017 amounts.

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$ 1.8 bln (in kind and in cash) to the Russian Federation.

Royalties (in kind and in cash payment) amounted to US$ 377 mln.

The Russian party's production profit share was US$ 474 mln. In addition, the 2016 fiscal year profit tax totalled US$ 860 mln paid by the company in 2017.

Based on the performance results for 2017, a profit tax in the amount of approximately US$ 1.2 bln will be paid to the budget in 2018.

Total Amount of Payments to the Russian Party from Sakhalin Energy under the Project in 1995–2017, US$ mln

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

Taxes and Other Mandatory Payments Made to the Sakhalin Oblast Budget and to Local Budgets from Sakhalin Energy under the Sakhalin-2 Project in 1995–2017, US$ mln

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

7.3. Russian Content

The Russian content means the utilisation of Russian labour, equipment and services. In accordance with the PSA requirements, the 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 2017, the company reached a Russian content level of 87% of labour and 98% of materials and equipment used.

A Winner of the National Import Substitution Award

Sakhalin Energy became a winner of the Priority-2017 Award for achievements in import substitution in the Oil and Gas Industry nomination.

The Priority Award is an annual competition designed to support and recognise Russian manufacturers involved in competitive substitution of imported goods and services. The PRIORITY Award is sponsored by pertinent Federal ministries (Ministry of Industry and Trade, Ministry of Agriculture, Ministry of Energy and Ministry of Telecommunications), as well as by non-profit organisations (e.g. Russian Council of Entrepreneurs and Industrialists, Russian Chamber of Commerce and Industry, Delovaya Rossiya) and Federal Antimonopoly Service (FAS) Russia. The Priority was the first and still remains the only prestigious award that is presented to Russia's best companies demonstrating high achievements in the import substitution. Since its inception three years ago, about 1,000 companies have participated in the Priority Award competition, of which 443 and 137 have become nominees and winners, respectively.

The total value of contracts awarded to Russian companies since the project was launched through the end of 2017 has reached US$ 25 bln. In 2017, the value of new contracts and amendments to existing contracts with Russian companies totalled approximately US$ 830.9 mln, or 67% of the total value of the contracts.

Sakhalin Energy has identified its key activities and mechanisms for maximising 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, providing targeted assistance to Russian companies in order to increase their competitive potential, and developing the workforce and suppliers.

Examples of contracts awarded to Russian companies in 2017:

- Sakhalin Shelf Service for the supply of base oil;
- TMK for the supply of premium oil-country tubular goods;
- SOGAZ for the provision of voluntary medical insurance for RN personnel;
- Aurora Airlines for the provision of fixed wing aviation services;
- Borchimmash for the supply of air cooled heat exchangers.

While participating in the project, Russian companies have a unique opportunity to upgrade their assets, introduce cutting-edge technologies and adopt global 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. For now, it is planned to include a number of Sakhalin companies into the 2018 Prequalification Audit Programme.

7.4. Supply Chain Management

In March 2017, Sakhalin Energy attended the oil and gas procurement services conference, NeftegazSnab-2017, where it hosted a round-table discussion Extension of Engagement with Russian Vendors in the Oil and Gas Sector. Speaking at the conference, Sakhalin Energy provided details of the company's procurement, delivery / acceptance and payment processes, as well as the tendering and contract award procedures. Special attention was given to the engagement with Russian vendors of materials and equipment. The import substitution programme and Russian vendors' involvement in Sakhalin-2 were also discussed.

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 employees and contractors, but primarily to company personnel that are directly engaged in supply chain management. The Policy applies to all activities that involve spending the company's funds on equipment, materials, resources, services and labour.

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

Sakhalin Energy adheres to the following SCM principles:

- 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 contract award and management process uses the following process.

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 the 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;
- submitting 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 the 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 and conducts training in order to ensure compliance with its requirements (including those related to HSE and social performance, anti-corruption and bribery, 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:

Health, Safety and Environmental (HSE) Requirements

Contractors must:

- include compliance with HSE principles in the performance assessment;
- perform checks and investigate any breaches of the HSE rules to ensure the company's HSE policy is properly followed;
- independently evaluate the HSE management system for compliance with generally recognised standards;
- verify that they are in compliance with similar HSE standards and provide necessary advice on these issues, etc.

Requirements for the Quality of Materials, Equipment and Services Supplied

Contractors must:

- develop and comply with the company's 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 Russian content requirements have arisen from the Production Sharing Agreement concluded with the Russian party. The parameters used to measure the Russian content are weights of material and equipment, man-hours and their cost equivalents.

Requirements for a Tender Proposal

A tender proposal shall clearly demonstrate and confirm the following:

- a company is financially stable and solvent;
- a company has the relevant experience;
- services provided, work performed and materials supplied are high-quality and reliable;
- HSE management systems and procedures are in place;
- a quality assurance system and procedure are in place;
- resources are available to meet the work / supply schedule.

7.5. Vendor Development Programme

For over 10 years, Sakhalin Energy has been actively implementing the Vendor Development Programme, the main purpose of which is to offer greater opportunities to Russian businesses and to increase the Russian content in the Sakhalin-2 project.

An important component of the Vendor Development Programme is its training module that provides regular workshops on the following important subjects:

- HSES;
- Quality Management System;
- skills in participating in Sakhalin Energy's tenders;
- business ethics principles.

As part of the Vendor Development Programme, in 2017, the company held four workshops for potential contractors of Sakhalin Energy. The workshops were attended by 117 representatives of 80 Russian companies, including 35 Sakhalin ones.

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

In addition to offering the training module, the company holds activities targeted at particular Russian companies to ensure that they receive the technical qualifications necessary to be added to the approved vendor list of Sakhalin Energy.

The First-Ever Joint Workshop

Sakhalin Energy held its first joint workshop with Gazprom transgaz Tomsk (GTT), a contractor working for Sakhalin-2, in March 2017. This cooperation opened up new opportunities for sharing expertise between the companies and demonstrated Sakhalin Energy's adherence to the continuity principle.

The training workshop was attended by the Sakhalin Government and twenty construction companies based on Sakhalin.

The GTT delegation shared their experience in providing services to Sakhalin-2, as well as information about GTT's tender procedure and the local contractors' opportunities for succeeding in the materials, supply and services tenders.

Qualification Audit Programme for Russian Vendors under the LNG Train 3 project

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 capacity to produce and supply equipment and materials for the LNG Train 3 project. 41 Russian companies were audited during the year, with the total number of lead Russian vendors and manufacturers in the oil and gas sector covered by the audit reaching 137 within the programme duration period (2016-2017).

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

Application for participation in audit programme can be sent to
seic-vendor-development-program@sakhalinenergy.ru.

Extended Workshop to Develop Potential Vendors for Sakhalin-1 and Sakhalin-2 projects

Another workshop for potential vendors was held in Moscow by Sakhalin Energy and Exxon Neftegaz Limited, the operator of Sakhalin-1, in September 2017.

The workshop's focus was traditionally on briefing Russian vendors on the Sakhalin-1 and Sakhalin-2 activities and on the HSE / quality control / tender requirements for the contractors. The workshop agenda also included awareness sessions on individual scopes for the upcoming tenders (e.g. diving operations; structural steel supply; industrial / calibration / high-purity gas supply; haulage; NDT and CUI services).

The workshop was attended by over sixty participants representing 41 Russian companies.

Attendance by the Federal Ministries of Energy and Industry and Trade, as well as by the Sakhalin Ministry of Natural Resources and Environmental Protection contributed to a higher profile of the workshop.

ENVIRONMENTAL IMPACT MANAGEMENT

- Right to life
- Right to health
- Right to healthy environment
- Right to just and favourable conditions of work
- Right to water and sanitation

In 2017, as in the previous year, Sakhalin Energy was ranked first in the annual Environmental Responsibility Rating of Oil and Gas Companies of Russia. The rating is given by the World Wildlife Fund (WWF) of Russia and CREON group, the provider of advisory services to the fuel and energy industries, in partnership with the National Rating Agency and the Project of United Nations Development Programme / Global Environmental Facility and the RF Ministry of Natural Resources - The Objectives of Biodiversity Conservation in the Policy and Development Programmes of the Energy Sector of Russia.

The list of rated companies included 22 leading crude oil and condensate producers (over 1.5 mln t per year).

According to its organisers, the purpose of the project is to gather objective and comparable information on environmental impacts. Additionally, publicity associated with this event also leads to improved quality of environmental risks management and mitigation of environmental impacts by the oil and gas industry.

In its environmental protection activities, the company follows the Russian Federation legislation on environmental protection, taking into account the international standards and best international practices of the oil and gas industry.

The environmental policy of the company is part of the company General Business Principles, Sustainable Development Policy, and HSE and SP Policy and Commitments. These commitments are specifically identified in the HSE and SP Action Plan, standards, procedures and other internal documentation of the company.

The HSE and SP Management System of Sakhalin Energy is certified to comply with the requirements of international standards ISO-14001 and OHSAS-18001 and is described in Section 3.5 HSE and Social Performance Management.

To enhance the system's efficiency, Sakhalin Energy uses an approach based on the pattern: Plan–Do–Check–Act. Internal and external audits are conducted to evaluate the effectiveness of the company's environmental management system. Internal checks of compliance with the requirements of environmental laws and company standards and procedures are regularly conducted at production assets.

Sakhalin Energy also contributes to the development of contractors and suppliers by implementing the We Are One Team principle, sharing its best practices and monitoring contractors' compliance with its environmental requirements.

The company pays special attention to preventive risk management and environmental impact assessment. In order to mitigate the environmental impact and minimise the risk of environmental pollution, the company implements the monitoring and management system presented in the Section 5.6 Risk Management.

The company implements a wide range of organisational and technical measures aimed at consistent minimisation of adverse environmental impacts and improvement of the competencies of the company's and contractor's personnel. In this endeavour, the programmes for in-process environmental monitoring, environmental monitoring and biodiversity conservation are developed and implemented.

8.1. Industrial Environmental Control

Sakhalin Energy exercises industrial environmental control of its assets to ensure the compliance with legislation on environmental protection, to observe 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 discharge;
- waste management.

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

8.1.1. 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 gas flaring in a soot-free mode.

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 and required repair and maintenance using fixed and portable gas analysers. To assess the impact of greenhouse gas and ozone-depleting substances emissions on the atmospheric air, records are kept of the sources of their emission and consumption. The company conducts instrumental 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 in the areas of the company's production assets.

In 2017, total gross emissions remained the same as in the previous year. A slight increase in methane emissions was caused by a scheduled shutdown at the PA-B platform and an unplanned shutdown at the LUN-A platform.

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.

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

Gross Air Emissions in 2014–2017, thousand t

Pollutant	2014	2015	2016	2017
Carbon oxide	4.2	4.1	4.4	4.1
Nitrogen oxide (in NO_2 equivalent)	4.1	4.1	4.3	4.3
Methane	1.1	1.0	1.1	1.2
Sulphur dioxide	0.05	0.04	0.03	0.04
Other pollutants	1.15	1.1	0.97	0.8
Total	**10.6**	**10.3**	**10.8**	**10.4**

Specific Air Emissions in 2015–2017, by areas of activity

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

8.1.2. 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 established standards for maximum allowable discharges of pollutants to water bodies and rational use of water resources, the company carries out monitoring of sewage treatment plants efficiency and quality control of sewage, surface and groundwater, as well as control over compliance with established water use and water discharge limits. Measures are taken to keep water intake and treatment facilities in good order, and monitoring of water protection zones of water bodies is carried out 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 2017, the water use figures remained the same as in the previous year. Reduced water disposal on the surface is due to the company's ongoing activities on redirection of wastewater to water bodies triggered by changes of applicable regulations. The increase in water consumption to maintain reservoir pressure is due to the intensification of field development in order to increase oil recovery.

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

Consolidated Figures of Water Use in 2014–2017, thousand m^3

Parameter	2014	2015	2016	2017
Water intake, including:	27,991.58	29,489.71	30,160.90	30,050.94
– from surface sources	27,094.88	28,225.09	29,260.99	29,228.98
– from underground sources	300.78	310.19	329.32	326.27
Water consumption, including:	27,432.14	28,573.81	29,631.45	29,593.53
– for production needs (not including consumption for reservoir pressure maintenance needs)	22,344.33	22,126.72	22,750.15	22,520.46
– for reservoir pressure maintenance needs	4,765.14	6,104.22	6,505.06	6,689.23
Water discharge, including:	23,003.41	23,212.21	23,439.71	23,163.00
– into surface water bodies	22,803.91	22,988.01	23,317.13	23,047.10
– on the surface	169.72	193.56	92.43	86.54

Specific Water Use in 2015–2017, by areas of activity

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

Specific water consumption indicators remained the same as in the previous year. The increase in the specific discharge of insufficiently treated wastewater is due to intensive flow of natural stormwater into the treatment facilities caused by meteorological conditions.

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.

8.1.3. Waste Management

In 2017, 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.

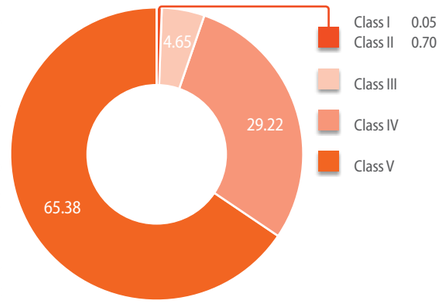
Most of the company's waste is classified as low-hazard (Hazard Class IV and V); it is mainly drilling waste and solid domestic waste.

To prevent an adverse environmental impact, drilling waste was injected through special disposal wells into deep underground horizons with necessary insulating formations to ensure their full containment and safe disposal. This technology was included into engineering manual ITS-17 2016 "Disposal of Industrial and Consumer Waste" as the best available technology for waste disposal associated with oil and gas production. The manual was approved by order of the Federal Agency for Technical Regulation and Metrology No. 1885 of 15 December 2016 and put into effect on 1 July 2017. During the year, 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 of the sea water condition in the bottom layer, sediment and benthic communities.

At the production assets, waste is collected separately for subsequent disposal, treatment and reducing the amount of waste transported to 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 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.

Waste Breakdown by Hazard Class in 2017 (not including drilling waste), %



Waste Management Indicators (including drilling waste) in 2014–2017, thousand t

Parameter	2014	2015	2016	2017
Amount of waste at the beginning of the year (all Hazard Classes)	0	0	0.14	0.11
Waste generated in the reporting year (all Hazard Classes)	95.87	30.52	36.86	36.58
Waste disposed during internal production	0.01	0.02	0	0
Transferred to other organisations for disposal and treatment	2.37	1.81	2.73	3.47
Transferred to other organisations for burial at landfills, including:	2.67	2.01	1.63	1.66
– in the Sakhalin Oblast	2.52	1.82	0	0.21
– outside the Sakhalin Oblast	0.15	0.19	1.63	1.45
Waste disposed at own assets (burial of drilling waste)	90.82	26.54	32.52	31.41
Amount of waste at the end of the year (all Hazard Classes)	0	0.14	0.11	0.15

In general, waste generation volumes remained at the same level as in 2016. A slight reduction in the generation of drilling waste was due to a decreased drilling intensity at the LUN-A platform in comparison with the previous year.

The volume of waste transferred for disposal or treatment increased by 27% as a result of actions taken by the company to minimise waste generation, to segregate and to search for the most effective ways to recycle and treat waste. In 2017, the company resumed waste disposal at the landfills of the Sakhalin Oblast in accordance with the existing capacities.

Sakhalin Energy's LNG plant is the largest energy consumer in the company. The operational improvements and cryogenic heat exchanger modifications at the two liquefaction trains in 2015 and 2016 have enabled an increase of the installed production capacity. Another plant modification project was executed in 2017: wind screens were installed around the air coolers of the LNG trains. This helped reduce the impact of hot air circulation caused by crosswind on the cooling process and enabled additional LNG production capacity improvement while energy consumption grew insignificantly.

8.1.4. Energy Production and Consumption

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

Energy saving and efficiency improvement efforts are organised under the company's Continuous Improvement programme (see Section 4.3 Continuous Improvement Programme).

The design of company's assets incorporates the latest technological advances. All production assets use independent power supplies.

Natural gas has the biggest share in the energy mix of the company. Diesel fuel is used for backup, and low sulphur diesel is preferred. The power supply for the company's infrastructure in Yuzhno-Sakhalinsk and Korsakov comes from the public electrical grid, while the energy for heating is generated independently at the assets. Energy consumption balance is shown in the table below.

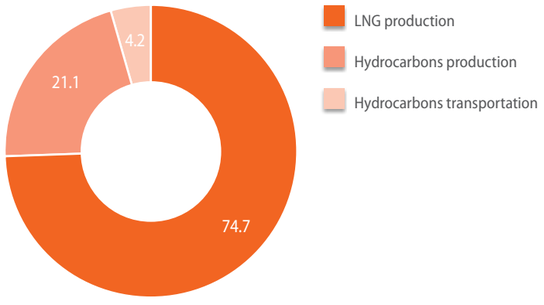
Energy Generated and Consumed in 2014–2017, million GJ

Parameter	2014	2015	2016	2017
Primary energy generated	864.92	846.85	868.06	910.28
Primary energy sold, including:	754.16	790.36	807.92	858.07
– provided to Russian party	53.58	38.61	39.12	39.83
Primary energy consumed, including:	58.45	58.26	58.74	59.29
– direct energy consumed*	56.59	56.45	56.95	57.49
– primary energy purchased	1.86	1.81	1.79	1.80
Indirect energy purchased / consumed	0.12	0.11	0.12	0.12

* Generated from produced natural gas.

The 2017 energy consumption breakdown by activity is shown in the diagram. A slight growth in direct energy consumption is related to increased hydrocarbon and LNG production. However, there is a downward trend in energy intensity of all company's activities, providing proof that energy is used efficiently.

Energy Consumption in 2017, by areas of activity, %



Energy Intensity in 2015–2017, by areas of activity

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

Sakhalin Energy's assets have high energy efficiency compliant with relevant international standards. E.g. in 2016-2017, energy intensity of the company's assets was at 0.64–0.68 GJ/t hydrocarbons produced. The data from the International Association of Oil and Gas Producers indicate that the average 2016 energy intensity among the international oil and gas companies was 1.4 GJ/t hydrocarbons produced.

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

8.1.5. 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.

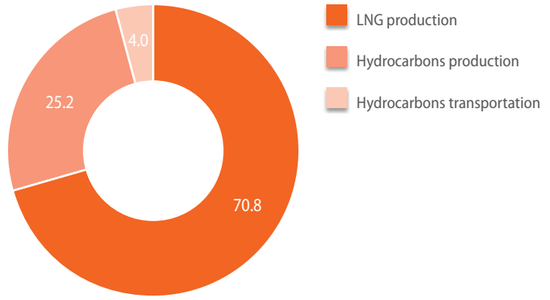
The company shares the concern about the global climate change problem and annually measures and controls GHG emissions. Emissions from both production and non-production assets of the company are taken into account, both direct and indirect emissions associated with the purchase of electric energy.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

In 2017, increased production of hydrocarbons and LNG resulted in a slight growth of greenhouse gas emissions. However, there is a tendency to a reduction in specific greenhouse gas emissions for all areas of the company's activities owing to measures taken to increase production efficiency.

GHG Emissions in 2014–2017, million t of CO_2 equivalent

Parameter	2014	2015	2016	2017
Direct emissions (scope 1)	3.518	3.699	3.708	3.740
Indirect emissions (scope 2)	0.006	0.005	0.008	0.008
Total	**3.524**	**3.704**	**3.716**	**3.748**

GHG Emissions in 2017, by areas of activity, %

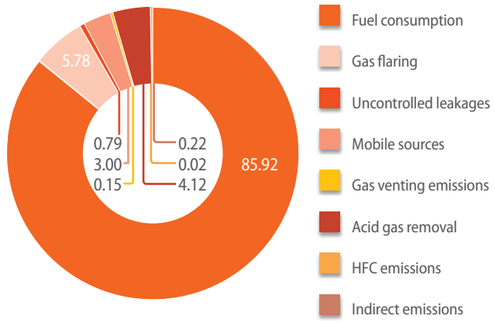


Specific Emissions of GHG in 2015–2017, by areas of activity

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

The company's assets use equipment (air conditioners, refrigerating equipment) containing ozone-depleting substances controlled by the Montreal Protocol. In 2017, the company continued to implement the action plan aimed at the gradual replacement of this equipment with new and cessation of using ozone-depleting substances (ODS) as required by the Protocol.

Structure of GHG Emission Sources in 2017, %



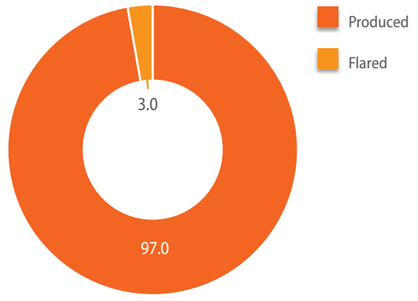
8.1.6. Utilisation of Associated Gas in Production

The company strives to reduce associated gas flaring to a minimum. Associated gas produced at the PA-A and PA-B platforms is transported via offshore pipelines to the shore. PA-A and PA-B gas is transported to the northern gas transfer terminal, and excess gas goes to OPF, where it is mixed with LUN-A gas for further transportation to the LNG plant and the Southern Gas Transfer Terminal. A part 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 the PA-A, PA-B and LUN-A platforms. The actual associated gas utilisation in 2017 was 97.0%.

Utilisation of Associated Gas during Production in 2017, %



8.1.7. 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 2017 was 3,145 mln roubles.

The Sakhalin Energy environmental conservation activities are controlled by the state 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.

In 2017, regional state control authorities conducted no inspections.

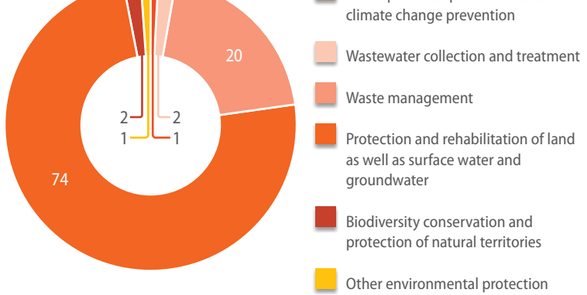
Payments for Adverse Environmental Impact in 2014–2017, thousand roubles

Parameter	2014	2015	2016	2017
Air emissions	11,516.884	4,931.253	987.595	898.409
Discharges into water bodies	166.208	91.602	29.045	72.008
Waste disposal	684.210	13,263.975	1,475.297	180.882
Total	**12,367.302**	**18,286.830**	**2,491.937**	**1,151.299**

A significant decrease in the amounts of payments in 2015–2017 is due to the confirmation of the fact that no adverse impact is caused by the disposal of drilling waste in deep underground horizons, based on the results of environmental monitoring conducted by the company in the areas of waste disposal sites, as well as due to changes in legislation in 2017 regarding the exemption of users of natural resources from paying fees for the disposal of solid municipal waste at landfills.

The share of payments exceeding the standards in the total payment for the adverse impact was 36%, which was mainly due to the absence of disposal limits of Hazard Class IV–V waste at the landfills, as well as the exceeding of discharge limits for some pollutants in the wastewater from OPFC temporary treatment assets.

Current Environmental Costs in 2017, %



8.2. Environmental Monitoring and Biodiversity Conservation

In 2017, the Biodiversity Working Expert Group of the Sakhalin Oblast Interdepartmental Ecological Council, founded at the initiative of the company in 2008, continued its activities. The organisation, which includes representatives of all oil and gas companies operating in Sakhalin, is currently developing the Business and Biodiversity concept in practice. In 2017, two sections were formed within the Biodiversity Working Expert Group in order to ensure the implementation of the Sakhalin Oblast Biodiversity Conservation Strategy. Their tasks are to protect marine mammals and the Sakhalin taimen respectively.

The environmental monitoring and biodiversity conservation 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 current impact, and to develop actions to mitigate it, if necessary. 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, while the implementation of the Biodiversity Action Plan (BAP) fulfils the company's obligations with respect to impact mitigation, development and implementation of measures aimed at protecting both rare and endangered species and environmentally significant and vulnerable biotopes.

In 2017, specialised organisations were involved in environmental monitoring and biodiversity preservation activities, carried out in the following areas:

- soil cover;
- river ecosystems, including habitats, communities, and individual valuable and protected species;
- flora and vegetation;
- wetlands;
- protected species of birds, including the Steller's sea eagle;
- marine environment and biota in the area of impact from the company's offshore production assets;
- ballast water control in the Aniva Bay coastal area near the Prigorodnoye production complex;
- gray whales and other protected species of marine mammals.

The results of the local 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.

8.2.1. Soil Monitoring

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

Soil landscape monitoring includes:

- obtaining data on physicochemical and agrochemical characteristics of soils;
- analysing the content of pollutants in soils in the territories of the Prigorodnoye production complex and OPF.

In 2017, soil cover monitoring was carried out on the territory of the Prigorodnoye production complex and in its potential impact zone (Korsakov District), and in the area around Booster Station 2 (Poronaisk District).

The territory of the Prigorodnoye production complex is characterised by man-made gleic soil with heavy and dense particle-size distribution and occasional rubble, except for the natural meadow-bog soils in the floodplain of the Goluboy Brook. The analysis of soils for the content of a wide group of potential ecotoxicants shows that their condition is satisfactory. The values of petroleum hydrocarbons, heavy metals and detergents in the soils of the production complex are lower than those that are permissible (or indications in baseline soils) by several orders of magnitude, or are below the detection limit using standard methods.

The soils beyond the territory of the Prigorodnoye production complex (in the 4 km potential impact zone) are characterised by an increased content of organic matter for black bog soils, relatively low content for raised bog soils, and low content for brown forest soils.

The soils around BS 2 are acidic, with a low concentration of nitrogen and, in most areas, phosphorus. The high content of potassium is probably due to the proximity of the Sea of Okhotsk, whose salts are brought by the wind and penetrate the soil from the atmosphere (the so-called phenomenon of salt impulverisation).

The content of petroleum hydrocarbons as the main ecotoxicant in the soils (in the 0–25 cm layer) in the potential impact zone of the Prigorodnoye production complex and BS 2 was 26-319 mg/kg and 117-311 mg/kg respectively, which is considerably below the permissible level (1000 mg/kg). Benzo(a)pyrene, a key indicator of potential contamination, was not detected in the 0–25 cm layer at the monitoring sites around the Prigorodnoye production complex and BS 2.

The monitoring in 2017 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 2017, the area of disturbed land was 74.12 ha, including 15.78 ha disturbed during 2017 in connection with the preparatory and exploratory work as part of the development projects.

8.2.2. River Ecosystems Monitoring

During the implementation of the Sakhalin-2 project, the river crossing of more than a thousand water bodies located in the area from Chayvo Bay in the north to Aniva Bay in the south were completed.

While preparing for work execution and during the construction, the company conducted baseline studies and operational monitoring of all crossing areas of water bodies. For the operations phase, a comprehensive observation programme was developed to monitor the most environmentally significant and hydrographically complex water bodies, 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 and bottom sediments, the monitoring of benthos and the monitoring of the ichthyocomplexes in the model watercourses. The monitoring of river ecosystems quality primarily recognises the nature and specifics of potential impact on the aquatic ecosystems during the operation of pipeline and infrastructure facilities operation. In addition, the monitoring allows to identify the possible adverse impact from natural factors on the infrastructure assets within the Sakhalin-2 project.

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;
- assessment of ichthyocomplexes in model watercourse.

In 2017, the monitoring of hydrological and hydrochemical characteristics and condition of bottom sediments was implemented at 24 water bodies crossed by the pipelines, as well as in the area of potential impact from OPF at the Vatung River, and in the area of the Prigorodnoye production complex at the Mereya River and the Goluboy Brook. In the course of work under the special programme, at the request of oversight bodies, a study was conducted of the Nabil River (with a nameless tributary) and the Nayba River, whose under-river crossings were performed using the horizontal directional drilling (HDD) method.

Monitoring was performed during three hydrological seasons: spring floods, summer low water and autumn high 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. Additional surveys were conducted at the sites where river bed deformations had been detected, in order to draw up design documentation for future repairs.

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

Seasonal variations in concentrations were observed for suspended substances. In the autumn period, the amount of suspended matter was higher than in summer, both for the upper and lower cross sections of the watercourses. The oxygen regime of the surface water was within the standard limits during all monitoring periods. The exception was the Gornaya River, where the concentration of dissolved oxygen in the autumn period was the lowest — 2.7 mg/dm^3 at both cross sections.

Of all the biogenic substances analysed (ammonium ions, nitrites, nitrates, phosphates), the content of nitrates varied most significantly: their values were higher in autumn than in summer. During the entire monitoring period, the highest concentration of nitrates was recorded in the Tikhaya River in the autumn period.

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 MAC standards. The highest concentration of petroleum products (0.074 mg/dm^3) was recorded at the upper (baseline) section of the Seredka River in the summer period.

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 2017. 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 2017, ichthyological studies were carried out in the Val River basin. In the course of the work, 29 stations were completed in the main channel, eight — in the tributaries of the river, and two — in the adjoining lakes. In total, 19 species of fish from nine families were identified in the Val River, watercourses and reservoirs in its basin. The family of salmonids was represented by the largest number of species: all four species of the Pacific salmon (genus Oncorhynchus) reproducing in the rivers of Sakhalin, three species of the Arctic salmon of the genus Salvelinus, and the Sakhalin taimen. The family of cyprinids was represented by four species; the remaining families were represented by one species each. The habitat of large specimens of the Sakhalin taimen in the Val River in the feeding period is limited by the main river bed in its upper reaches, where there are suitable biotopes for it: relatively deep areas with a large number of shelters and absence of fishing pressure on the part of amateur fishermen and poachers. The juveniles adhere to the middle course of the river, where they reside on long stretches and pits with aquatic vegetation. When comparing the results of the studies carried out in 2011–2017, it was found that the number of the Sakhalin taimen had been declining in all the monitored watercourses. If the current trend persists, this species will soon be under the threat of extinction.

As the projected number of humpbacked salmon in 2017 was low, commercial fishing in Aniva Bay was not carried out. Despite the total ban on fishing, the number of spawners in all the rivers flowing into Aniva Bay was the lowest since the beginning of monitoring in the 1960s and, according to preliminary estimates, did not exceed 3% of the optimal filling of spawning grounds. In 2015, this value was not high either, and was estimated at 5%. However, spawners coming to Goluboy Brook was in line with average perennial values.

For most of 2017, the estuary zone of the Goluboy Brook was filled with sand deposits as a result of heavy storms, which in turn served as an additional obstacle to the passage of spawners from sea water into the stream. In 2017, the filling of the spawning area in the Goluboy Brook was estimated as "occasional", which, in general, corresponds to the average filling of rivers flowing into Aniva Bay. During the monitoring, no spawning tubercles or other traces of spawning were found in the Goluboy Brook. According to the data obtained in the other watercourses flowing into the Bay, the time of spawning migrations of hunchback salmon spawners was close to the average value for the rivers of Tonino-Anivsky Peninsula.

The outcomes of the River Ecosystems Monitoring in 2017 did not reveal any impact of the Sakhalin Energy assets on the quality of surface waters, their flora and fauna.

8.2.3. 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 2017, vegetation monitoring was conducted in the area of the Prigorodnoye production complex, along the onshore pipelines and around OPF at a distance of 6 km from Lunsky Bay.

The monitoring results show that the species composition at the sample sites around the production assets is stable. Insignificant variations in the number of trees in certain areas are due to natural causes, such as death of old trees and undergrowth ageing. The subordinate layers, i.e., shrub and grass-shrub, are in good condition. The species composition of layers at all the sample sites surveyed has not changed. The natural habitat of Sakhalin Ephippianthus (a protected species), located south-west of OPF, has not been violated.

The vegetation cover along the onshore pipelines in the northern and central parts is preserved in good condition. In 2015–2016, considerable areas of larch forests along the right-of-way in the Korsakov District, which is in the southern part of the pipelines, were exposed to the windfall reaching as far as 100 m into the forest. As a result, the habitats of a number of protected species, such as the Japanese angelica tree, the spikenard and the butterfly orchid were disturbed. At the same time, the plants of the protected species successfully vegetated, and no external signs of oppression were identified. The shrub and grass-shrub layers in these areas remain in good condition.The company has developed and is currently implementing measures to conserve the undergrowth of woody plants on the border of the right-of-way in order to mitigate the effects of marginal impacts.

The vegetation cover at most sites around the Prigorodnoye production complex remains unchanged. The minor fluctuations in the number of trees are due to natural causes. The habitats of 11 protected species in these areas have not been violated. Marked traces of windfall were identified in the area of dark coniferous forest adjacent to the power line north-east of the production complex. Damage had been made to the areas of protected species such as epiphytic lichens, namely menegazzia terebrata and lobaria pulmonaria. The species composition of the shrub and grass-shrub layers in these areas remains unchanged.

Some epiphytic lichens in the area of potential impact of the company assets are still affected to a certain degree by the change in the microclimatic conditions (stronger lighting and wind, dusting caused by soil denudation), which occurred during the construction of the company assets. On the other hand, almost all of the sample sites showed sprouts of thalluses, which suggests the restoration of the lichen cover. More than 85% of the surveyed sites on the right-of-way showed good growth of vegetation, which forms a dense grass canopy on many of them. 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.

8.2.4. 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 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 within the right-of-way and adjacent areas 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.

In 2017, 22 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 has been noted that the degree of grass cover reinstatement on the right-of-way is good. Recovery of natural wetland ecosystems can be observed on the right-of-way in 14 wetland areas, which account for 63% of the territory. In other areas, 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. In some areas of the right-of-way, recovery of moss, lichen and shrub covers is observed. For some parts of the right-of-way, actions were developed to normalise the hydrological regime of adjacent wetland ecosystems.

The natural habitat of Pogonia Japonica (a protected plant species) is not violated, and the plants are in good condition. The 2017 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.

8.2.5. Monitoring of Protected Bird Species

During the pre-construction stage of the Sakhalin-2 project, a detailed study of bird species was conducted along the entire projected pipeline, which made it possible to identify key areas with a high diversity of rare and protected bird species, which are the indicator objects of monitoring. Based on these data in 2017, routine monitoring of rare bird species included in the Red Books of Russia and the Sakhalin Oblast Red Book was carried out at five sections of the overland pipeline with a total length of 219 km, and around OPF in a radius of up to 4 km.

The study covered areas from the south to the north in the Dolinsk, Makarov, Tymovsk and Nogliki districts. In accordance with the research guidelines, the surveys were carried out in the nesting period (May and June), when the birds are easiest to notice. As a result of route surveys, 932 individuals of 23 rare bird species were observed along the pipelines. In the process of the study, a number of factors were assessed, such as the state of their habitats, long-term population dynamics, species composition and abundance, distribution over the territory, and demographic parameters. Thus, 12 species of birds were recorded at the monitoring site in the Dolinsk District, eight species — in the Makarov and Tymovsk districts each, eight and nine species — on two sites in the Nogliki District respectively. In all the years of the monitoring programme, a total of 43 rare and protected bird species have been identified along the pipeline route. For the purposes of the study, the Japanese snipe, the mandarin duck, the Russet sparrow, the rustic bunting, the Siberian spruce grouse, the Japanese quail, the hobby falcon, owls, and sea eagles were selected as key monitoring species. Of the rare migratory species, in 2017 the cattle egret was observed in the northern part of the pipelines for the first time during the monitoring programme, and two Japanese white-eyes were identified in the Dolinsk District.

The monitoring of the Japanese snipe has shown that its number continues to grow in the southern and central parts of the island. The meadow vegetation on the reclaimed right-of-way provided additional nesting opportunities for this species. The settlement of the Japanese snipe in the north of the island (Nogliki District), registered in previous years, was confirmed in 2017.

The number of yellow-breasted bunting in the vicinity of the pipelines in Tymovskaya Valley remains at the level of one-eight pairs; seven breeding pairs were identified in 2017. This site is also the nestling area of the Japanese quail. The Russet sparrow and the mandarin duck are regularly encountered at the sites in the Makarov and Dolinsk Districts. Nesting pairs of the rustic bunting with reduced numbers across all geographical range were registered at the two sites in the Nogliki District. The settlement of the Siberian spruce grouse remains stable along the pipeline segment near the Vazi River.

In the area near OPF, species as the hawk owl and the northern pygmy-owl have been noted to reside. The numbers of owls corresponded to the natural population dynamics. The monitoring of the Siberian spruce grouse and rare owls around OPF showed that the territorial distribution of the species remains the same as in the previous years. According to the results of long-term monitoring until 2014, inter-annual fluctuations in the number of the Siberian spruce grouse (2.2–2.4 pairs per 1 km^2) were insignificant, while the observation in 2016 shows a decrease in the abundance of the species to 1.6–1.8 pairs per 1 km^2. This may have been caused by the fact that the birds were deprived of several lek areas as a result of linear facilities construction by an outside organisation through the habitat of this species.

The results of the 2017 monitoring show that the operation of the Sakhalin Energy production assets had no adverse impact from company's assets on the protected bird species.

8.2.6. Steller's Sea Eagle Monitoring

Steller's Sea Eagle is the world's largest fish-eating bird of prey. It is endemic to the Russian Far East and has a localised habitat and small population. This species is listed in the Red Books of different levels: International Union of Conservation of Nature, (IUCN), Russia and Sakhalin Oblast. This determines the need to develop and implement special protection measures within the framework of the Sakhalin-2 project.

The main objective of the programme for monitoring Steller's sea eagle populations in the north-eastern Sakhalin is to obtain reliable data on the key factors influencing the long-term dynamics of the population of the indicator species (Steller's sea eagles and white-tailed eagles) within the control zone and the potential project impact zone. The human-induced impact and efficiency of measures to mitigate it are assessed based on comparative analysis of the above data.

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 2017, 185 nests were inspected and their status was determined; two individuals of the white-tailed eagle and 106 individuals of Steller's sea eagle were identified. It was also revealed that in 2017 eagles bred in 15 nests located just a few dozen metres from the pipelines: there were two chicks per nest in nine nests, and one chick per nest in another four. This indicates the effectiveness of the measures taken to mitigate the impact and suggests that the species can adapt to living in proximity to man. Two nests were ruined by bears, and the chicks died. All in all, 22 chicks flew the nests in the area near the infrastructure facilities.

In the control zone, three of the 11 active nests were ravaged by bears. In three nests, there were two chicks per nest, and in five nests — one chick per nest. A total of 11 chicks flew the nests. The average size of the brood in the monitored area near the pipelines was 1.7 chicks, and in the control zone — 1.4 chicks.

In 2017, like in previous years, birds did not attempt to breed in the area surrounding OPF, which is due to the remoteness from feed areas and unoccupied breeding grounds near the coast.

The condition of the nesting pool of Steller's sea eagles and white-tailed eagles in the impact zone, as well as in the northern part of the Lunsky Bay (control zone), can be characterised as good and satisfactory. These nests account for: 66% of all nests located in the pipeline impact area, and 74% of all nests in the control zone near Lunsky Bay. In the OPF impact area, 50% of all nests are either in good or in satisfactory condition.

The analysis of variations in nesting site occupancy in the control zone and the pipeline impact area in 2004–2017 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.

8.2.7. Marine Environment and Biota Monitoring

In 2017, the company continued annual expedition surveys under the comprehensive regular marine environment monitoring programme in the areas of potential impact of the Sakhalin-2 offshore production assets.

Survey findings were received for the PA-A, PA-B, and LUN-A offshore platforms areas, the wellheads of abandoned exploration wells and subsurface assets for drilling waste in the Piltun-Astokhskoye and Lunskoye fields, as well as the oil export terminal and the LNG loading jetty in the Prigorodnoye port in Aniva Bay.

Based on the comparative analysis of the 2017 survey results and the long-term data, the following conclusions were made about the current state of the marine environment and biota in the zone of potential impact of production assets.

- The stable state of the marine biota communities (benthos, plankton) and their favourable habitat is confirmed by the presence of dominant species typical for these waters, rich species diversity with high biomass indicators, and the number of species that correspond to the baseline values.

- Benthic communities are characterised by high natural variability of quantitative and qualitative indicators. Their distribution is not related to the location of production assets, but is instead determined by the type of bottom sediments. As it was established, there is no decrease in biomass or change in the dominant species relative to the distance from the facilities. Both in the vicinity of the facilities and in the baseline areas, the structure of benthos included several characteristic faunal groups — sea urchins, bivalves, polychaete worms and crustaceans.

- 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.

- Concentrations of chemicals (phenols, detergents, petroleum hydrocarbons and heavy metals) 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.

- There was no occurrence of petroleum hydrocarbons and methane near the wellheads of abandoned exploration wells.

- 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 structure of benthic communities corresponded to the long-term values.

Overall, the 2017 data indicate that environmental standards are observed at the company project assets, and operational activities do not affect the quality of sea water, bottom sediments and the condition of marine biota inhabiting the offshore field areas of the water areas of Piltun-Astokhskoye and Lunskoye fields of north-eastern shelf of Sakhalin Island, as well as the areas of the Prigorodnoye port in Aniva Bay.

8.2.8. Ballast Water Control

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

The ballast water taken at the port of departure may contain dangerous marine invasive (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 seas. 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. This requirement was enshrined 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 is to be controlled is 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 on board;

- planktonic organisms sampling.

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

The research results indicate that regardless from occasional finding of some species not common to Aniva Bay, no dangerous invasive species in ballast water of ships calling at Prigorodnoye port are present.

The effectiveness of preventive control measures is proven by results of annual offshore environmental monitoring of the flora and fauna of Aniva Bay. Plankton samples are taken every month from April through November; bottom species are sampled in autumn.

As a result of long-term monitoring, scientists have obtained new data on the flora and fauna of Aniva Bay. There have been over 600 species of phytoplankton, over 90 forms of zooplankton, about 40 species of ichthyoplankton and 160 species of benthos identified. Also recorded are new species of seaweed and animals which were never recorded in Aniva Bay, but are local inhabitants in view of biogeographic and environmental characteristics.

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

8.2.9. Gray Whale Monitoring

Gray whales arriving at the shores of Sakhalin for feeding have a high conservation status in the Red Book of the Russian Federation and the IUCN Red List. This species forms feeding aggregations in the area off the north-eastern coast of the island in the immediate vicinity of Sakhalin Energy's offshore production assets. In this regard, the company pays much attention to the monitoring and conservation of gray whales. Other protected cetaceans such as the bowhead whale, the North Pacific right whale, the fin whale, the Curvier's beaked whale, the harbour porpoise, as well as pinnipeds such as the Steller sea lion can also be observed in the vicinity of the company's offshore assets. In accordance with the Marine Mammals Protection Plan, the company takes into consideration risks from industrial activities and takes timely measures to mitigate such risks with regards not only for endangered species, but for all marine inhabitants. In 2017, Sakhalin Energy in close cooperation with Sakhalin-1 operator continued implementing the Integrated Monitoring Programme near the north-eastern coast of Sakhalin Island. During the photographic identification of gray whales, new research methods that provide for the use of modern technical means such as unmanned aerial vehicles (UAVs), or drones, were applied during the field work. Owing to these methods, high-quality photos were obtained, which helped to identify important body parts of whales. The use of drones provides ample opportunities to study the natural behaviour of whales, to make a more accurate estimate of their number in groups, and to determine mother-calf pairs. An important advantage of using drones is the possibility to record animals at a close range without disturbing them.

Following the 2017 field season, nine calves were identified. Updates have been made to the Sakhalin photo catalogue, where the total number of registered individual whales has now increased to 283 individuals.

In addition to field studies, considerable efforts were made to make an interdisciplinary, multicomponent analysis of the data collected over the past years, and to prepare publications about research results in peer-reviewed scientific journals.

The Monitoring Programme is currently the main source of new knowledge about gray whales arriving to the coastal waters of Sakhalin Island for feeding. Much factual data on the biology and ecology of this unique species of marine mammals has been collected over the period of the programme. It vividly shows that the distribution of whales in feeding areas did not vary significantly during the whole period of the study; the number of individuals in the aggregation is increasing, and its reproduction rate is stable. A study was conducted to research the composition, distribution and variability of the communities of gray whale food organisms. In addition, data on the variation of natural and anthropogenic noises in feeding areas was obtained and then used to ensure that production noises do not exceed safe levels. Satellite tagging and comparison of photo catalogues made it possible to prove that 'Sakhalin' or 'western' gray whales migrate to the breeding grounds of the 'eastern' aggregation, which is also confirmed by the data of genetic studies. The findings of the study showed the need for a scientific reassessment of the historically defined general population structure of the Pacific gray whales.

The long-term monitoring clearly demonstrates the successful coexistence of the companies' production facilities and the gray whales feeding aggregation in the waters of the north-eastern Sakhalin and confirms the effectiveness of the mitigation measures.

8.3. Pipeline Right-of-Way Maintenance

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

The list of RoW monitoring actions for 2017 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 soil local monitoring;
- groundwater surveys;
- satellite surveys of the pipeline RoW;
- boggy areas surveys.

Based on outcomes of RoW monitoring, a RoW maintenance plan has been developed.

Repair and maintenance of the RoW were completed in December 2017 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 2017.

For two water crossings and one landslide which became active a special subcontractor completed bank protection repair and right-of-way stabilisation. Under 2017 programme activities design engineers completed required surveying and started to develop plans to mitigate the impact of landslides. It is planned to finalise in 2018 the landslide mitigation activities that were started in 2017, stabilising activities on new landslide site, as well as to repair two existing bank protection sites.

8.4. Oil Spill Prevention and Response Preparedness

8.4.1. General Information

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

The company has established a Crisis Management Team and an Emergency Coordination Team 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 were 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.

Also, own certified Non-Professional Emergency Response Teams (NERTs) have been established at Sakhalin Energy production assets.

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

The number and volume of oil spills have decreased significantly in recent years, with only 24 emergency oil spills totalling 118.5 l reported between 2010 and 2017 versus 21 emergency spills releasing 3504.46 l of oil in 2008–2009.

In 2017, there was no crude oil and/or petroleum products spills from the company's assets. The total hydrocarbons produced is over 496 MMbbl in 1999–2017, the total hydrocarbons spilled is 26.5 bbl, that is less than 0.000006%.

None of the project-to-date crude oil and/or petroleum product spills from the company's assets can be defined as an "emergency situation".

All regular members of Incident Command members receive Level I and II OSR programme as well as Level I (ICS-100) and II (ICS-200) Incident Command System training. Level I of the

Global practices of providing response to large-scale emergencies have proven that an effective response to major oil spills is possible subject to an integrated application of mechanical and non-mechanical technologies. Namely, using dispersants and burning allow to significantly mitigate the environmental damage, reducing the time to be spent on oil spill response and rescuing unique wildlife species. Sakhalin Energy has conducted surveys that allow the company together with mechanical method of responding to emergency oil spills to use dispersants and burning in emergencies.

programme is basic and is designed for regular rescuers and emergency responders, while Level II is designed for training supervisors, team leaders, and oil spill responders. Key Incident Command members completed Level III training for Asset Managers, Department Heads, Crisis Managers, and ER Coordinators. They are issued with Level III Incident Command System (ICS-300) certificates.

In order to increase the personnel's OSR level and improve their practical skills, the company regularly conducts practical and theoretical training sessions, drills and exercises of various levels, including periodic corporate exercises.

An integrated emergency oil spill response drill took place in Piltun-Astokhskoye field and Prigorodnoye production complex in June and August 2017.

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 case of an emergency oil spill, whether offshore or onshore.

8.4.2. Oiled Wildlife Rehabilitation

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.

Keeping to its commitment to 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 of participation for 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, the first in Russia and the only one in Pacific Region Sakhalin's rehabilitation centre for oiled wild animals has been operating in the territory of the Prigorodnoye production complex.

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.

As part of the programme, one of the regular large-scale training courses was held in October 2017. It was attended by 29 people from 10 organisations, who had an excellent opportunity to gain knowledge and skills of repelling, capturing, cleaning, and subsequent rehabilitation of birds. This time, employees of other oil and gas companies operating in the region, representatives of government agencies, veterinary services and non-profit organisations joined in the training.

All in all, more than 300 people from 25 organisations operating in Sakhalin have been trained through the programme over the years. Trainings in repelling, capturing and rehabilitating oiled animals have also become an integral part of Sakhalin Energy's corporate culture.

In December 2017, Sakhalin Energy took the first place at the People Investor 2017: Responsible Investment forum in the Environmental Efficiency category for its oiled animals rescue programme.

8.5. Sanitary Protection and Safety Zones

To ensure the safety of the population and according to Federal Law No. 52 On the Sanitary and Epidemiological Welfare of the Population of 30 March 1999, a special-use area, i.e. a sanitary protection zone (SPZ), is 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 2017.

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. The safety zone along the pipelines transporting oil and natural gas is a strip of land extending 25 m on each side of the pipeline.

SOCIAL IMPACT MANAGEMENT

- Right to life
- Right to health
- Right to work
- Equality and non-discrimination
- Right to rest
- Right to holidays with pay
- Right to education
- Right to just and favourable conditions of work
- Right to an adequate standard of living
- Access to non-state based remedy
- Right to healthy environment
- Right to participate in cultural life

9.1. Personnel: Management and Development

HR Managers Week – 2017

In September, the company held the HR Managers Week with the participation of representatives of shareholder companies and the company's senior management. The main goal of the event was to enhance the professional competence of the HR Directorate personnel, to familiarise them with the latest developments in the field of personnel management, to provide information on the current trends in the development of the competence approach and staff assessment, and to ensure that the HR Directorate staff understand the structure of the updated competence profile.

Personnel is the main asset for 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 uphold 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 staff 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 the internal talent pool, the expertise of shareholder companies, and other sources;
- invest in the professional and personal development of Russian specialists to ensure staff retention and the formation of 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;
- develop an effective collaborative work environment that unites employees working in the offices and at the assets of the company.

The company's senior management believes that all employees should feel engaged in their work, be confident that 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.

In 2017, 1,930 people, which is about 89% of all employees in the company, participated in the employee opinion survey. The survey showed that the general level of employee engagement was very high — 86%. 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. This proves that the company's efforts in one of the priority areas of safety assurance — the Goal Zero programme — are fruitful. According to employees, the company's remuneration and benefits package remains competitive, and employees willingly recommend the company as a good employer. At the same time, employees expect the company to continue to make gains in optimising and improving work processes, enhancing the quality of communications, and accelerating the rate at which important operational decisions are made.

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 the HR management policy, which is in line with international standards.

9.1.2. General Information

As of 31 December 2017, there were 2,309 people on the company's payroll, including 2,105 Russian employees, which makes up 90% of the total number. Sakhalin Energy operates mostly in the territory of the Sakhalin Oblast, Russian Federation. There were 2,277 employees working in this region, and 32 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 2017, the number of Sakhalin Oblast residents working at the company was 1,247 people, which is 59% of the total personnel.

The personnel structure is mandated by the specific nature of the company's operations: 87% are managers, specialists, and salaried workers, approximately 63% are office employees, and the rest work at the production assets of the project.

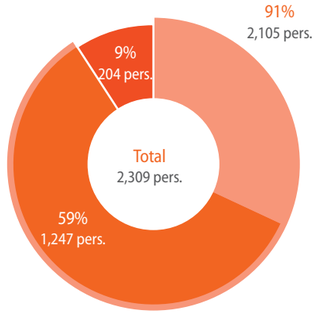
At the end of 2017, 26% of the company's employees were working on a rotational basis and living in hotels and rotational camps built and equipped in accordance with Russian legislation and best international practices.

413 Russian employees were in managerial positions (see the Managerial Personnel Structure in 2017 chart), 217 of which are residents of the Sakhalin Oblast. In addition to training, developing, and promoting existing Russian staff, the company is actively recruiting new qualified Russian specialists in order to increase the share of Russian executive personnel. By hiring trainees, we can guarantee a constant influx of young technicians (see Section 9.1.7.4 Traineeship Programme and Section 9.1.7.5 Successors Pool Planning and Development).

The Use of the SAP HCM Automated System

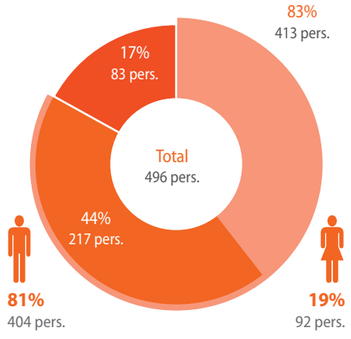
The company's HR Directorate makes maximum use of human capital management software, namely HCM SAP, in the implementation of the HR policy. This allows to significantly reduce time and costs and to optimise many processes in the HR Directorate and other units of the company. In particular, the system 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.

Personnel Structure in 2017



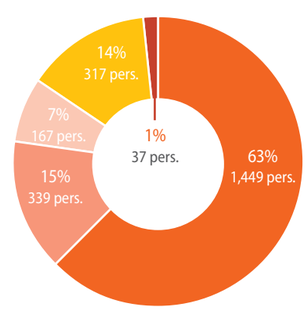
- Russian personnel
- Including Sakhalin Oblast residents (59% of the Russian personnel)
- Foreign personnel

Managerial Personnel Structure in 2017



- Russian personnel
- Including Sakhalin Oblast residents (44% of the Russian personnel)
- Foreign personnel

Personnel Structure in 2017 by Assets



- Office
- Platforms
- Prigorodnoye production complex
- Other
- OPF

In 2017, 112 employees were granted child care leave. Of these, four fathers used this right. During the same period, 42 employees (39 women and three men) resumed their job duties at the end of their child care leave. Of these, 35 people continued their employment with the company.

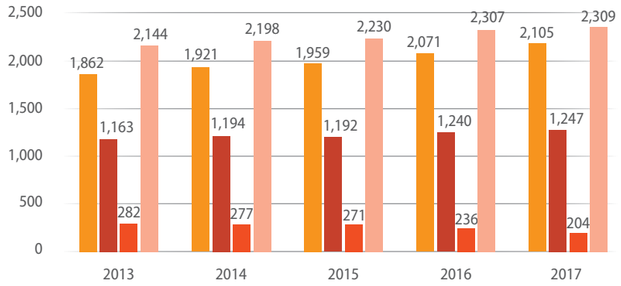
About 28% of the company's employees are women (657 people at the end of 2017). Of these, 92 occupy executive positions, making up 19% of the company's management team (see the Managerial Personnel Structure in 2017 chart).

Over the past five years, the number of employees increased steadily due to the implementation of the projects for construction of a booster compressor station and the upgrading of offshore assets. Unlike the tourism or agricultural industries, the company does not experience significant seasonal fluctuations in the number of personnel.

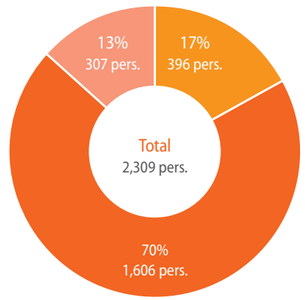
In 2017, 168 people (117 men and 51 women) left the company. Of these, 54 were foreigners and 114 — Russian employees (including 64 residents of the Sakhalin Oblast). This gives a turnover rate of 7.28% (8.46% in 2016). The voluntary turnover rate of critical technical personnel was 1.53% in 2017.

The statistics of employees who left the company in 2017, broken down by age group, are presented in (see the Personnel Retirement in 2017 chart).

Change in the Number of Personnel in 2013–2017 (as of the year end), persons



Personnel Age Structure in 2017



Personnel Retirement in 2017, by age

Age, years	persons	%
Below 30	27	16
31–50	105	63
Above 50	36	21
Total	**168**	**100**

At the end of 2017, the average age of employees was 39.1 years. Employees aged under 50 accounted for more than 87%.

The working hours established by the company are found in the Internal Working Rules:

- everyday work under five-day working week with two days-off;
- rotation-based work with 28 calendar days of work and 28 calendar days-off;
- shift work.

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	– everyday work under five-day working week
Prigorodnoye production complex	– everyday work under five-day working week – rotation-based
OPF	– rotation-based
Platforms	– rotation-based
Other	– everyday work under five-day working week – rotation-based – shift work

9.1.3. Recruiting Personnel and Onboarding New Employees

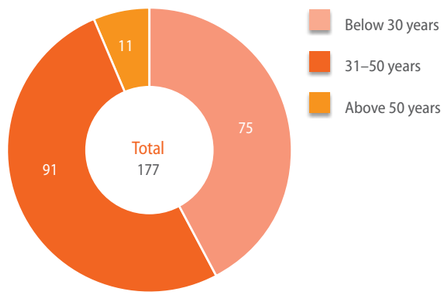
Recruitment in the company is based on the staff schedule and joint work with the heads of structural units aimed to forecast the need for personnel. Various tools and methods are used to attract potential candidates and advertise new vacancies, in particular:

- advertising through the Sakhalin Energy's website. For the applicants' convenience, there is an automated service for submitting CV online. The website offers guidelines for uploading CV; applicants can edit their CVs in their personal accounts. In 2017, a separate page with information on vacancies was opened on the company's website in the framework of the Graduate Development Programme;
- provision of information on vacancies to the Yuzhno-Sakhalinsk Labour Centre (on a monthly basis);
- cooperation with leading Russian 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 in the company;
- attracting skilled employees from shareholder companies.

In 2017, the company hired 177 people (128 men and 49 women). Thirty of the personnel hired were foreign employees and 147 were Russian nationals (including 90 residents of the Sakhalin Oblast).

The statistics of employees hired in 2017, broken down by age group, are presented in the Number of Personnel Hired in 2017 by Age chart.

Number of Personnel Hired in 2017 by Age, persons



In 2017, Sakhalin Energy participated in four job fairs, held in Moscow, St. Petersburg, Tyumen, and Ufa. After the fairs, more than 50 graduate students were interviewed, and the best job applicants were invited to do internships and participate in the competition to fill vacancies for young professionals.

In 2017, the Recruitment Subdivision held Sakhalin Energy's Business Day at Sakhalin State University (SSU). It was the second year in a row when this event was held by the company with the aim to help students to determine in which areas of the company's activities they could pursue a professional career.

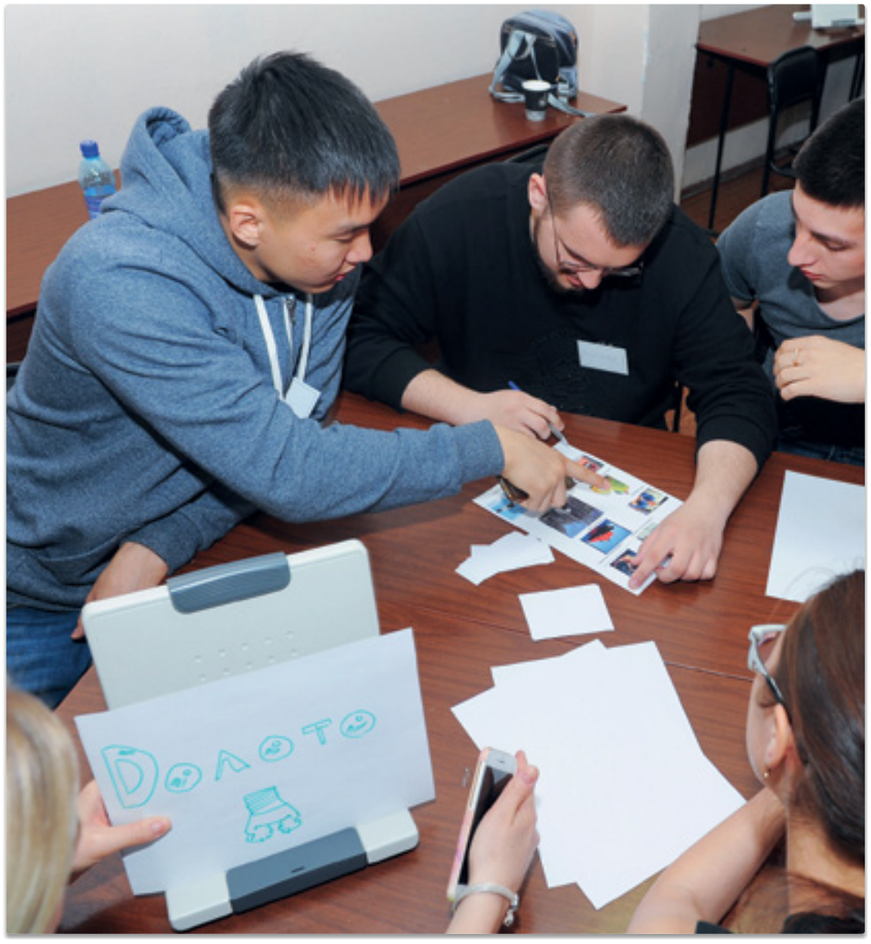
Graduate students of SSU learned about the available vacancies and the conditions for starting a career in the company, and had an opportunity to leave their CV, to meet young specialists working at Sakhalin Energy, to participate in a business game, and to get answers to their questions. In total, 80 students attended the Business Day, of which 20 young people took part in the business game. The winners were invited to take a tour of the Prigorodnoye production complex.

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

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

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.



9.1.4. Remuneration and Bonus System

The remuneration system used by the company is based on grades and establishes remuneration depending 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 with certificates of honour and Honorary Letters on the professional holiday (the Oil and Gas Workers Day) and company's anniversaries. Awarding employees may also be given to celebrate anniversary dates of employees (50 years and then every 5 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 2017, the minimum salary in the company was five times higher than the minimum wage established by Russian legislation. Sakhalin Energy's labour remuneration expenses totalled 13.26 bln roubles in the reporting year, with award/bonus payments totalling 3.34 bln roubles.

The main principles of remuneration followed 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 Guarantees, 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 by Russian labour law, Sakhalin Energy provides its employees with:

- voluntary medical insurance for employees and their families;
- health benefits;
- accident and sickness insurance;
- travel insurance;
- free meals at the company's assets and free lunches in the company's offices;
- housing for employees and their families for the duration of their employment (for those employed on terms of relocation from other Russian regions and CIS countries, as well as from the Far North and equivalent areas), or payment for housing rent for such employees;
- mortgage programme;
- annual payment of round-trip travel expenses to the 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 in case of the birth (or adoption) of a child and difficult personal circumstances;
- sport and recreation facilities (see also Section 9.3 Occupational Health);
- additional benefits for female employees on maternity leave, and for female and male employees on child care leave;
- leisure and development programmes for the children of the company's employees.

Housing for Employees (and Their Family Members)

Presently, most of the company-owned housing is located at Zima residential complex. There are also sports and entertainment facilities in the territory of Zima residential complex.

The company also has leased residential premises in Strawberry Hills complex.

Medical Insurance

The company continues to provide employees and their families with medical insurance benefits under the insurance contracts with SOGAZ, concluded for the period of 2017–2019, under voluntary medical insurance programmes, voluntary accident and illness insurance, and travel insurance.

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.

Mortgage Programme

The mortgage programme is governed by the Regulations on Payments to Employees. Since the beginning of the programme, 235 Russian employees (more than 10% of total staff) have participated in it.

The programme provides for compensating a part of mortgage interest for purchase (construction) of dwelling premises. 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.

Corporate Pension Programme

The company offers a corporate 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 2017, 23% of the company's Russian employees are enrolled in the corporate pension plan.

The company contributed a total of 203 mln roubles to Gazfond from 2011 to 2017.

Programmes for the Children of the Company's Employees

Wonder Island Leisure and Development Club

The company implements leisure and development programmes for preschool children. Development groups, creative associations, and studios for the children of the company's employees have been working at the Wonder Island Leisure and Development Club in the Zima Highlands residential complex since 2012.

Happy Holidays Programme

Children of the company's employees have the opportunity to attend Happy Holidays Leisure and Recreation Programme at the sports and cultural facilities of Zima Highlands recreation centre (RC) during the summer. The programme has been run for seven 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.

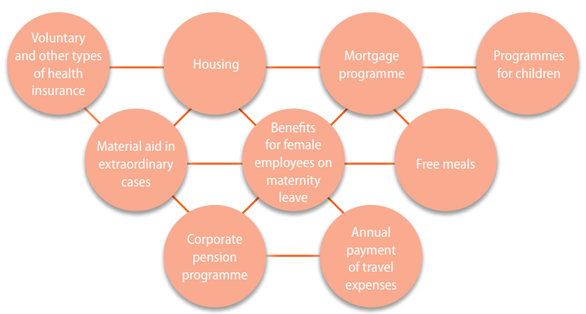
In 2017, the programme participants tried to find the success formula for a present-day young person. During the five sessions, 32 excursions and more than 50 workshops in 15 various areas were organised for children as part of the programme. The workshops conducted by professionals, including employees of the company, became the trademark of the project. In 2017, the project was attended by 655 children aged 6 to 16 years.

Other

Employees and their families can use 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.

Sakhalin Energy's Employee Compensation and Benefits Package



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 training is required for the employee to continue to grow professionally and improve the company's efficiency in general.

Individual Performance Review

INDIVIDUAL PERFORMANCE REVIEW

Employee achievements in accordance with his/her individual goals and objectives	Contribution to the achievement of company's goals	Personnel training in accordance with the needs for professional development	Development of sustainable culture of professional efficiency

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, necessary to achieve its short-term and long-term production goals.

Employees' learning and development in the company is based on the following principles:

- compliance: the content of training is formed based on the needs of personnel and business; the results of training contribute to achieving production goals and implementing the company's overall strategy;
- competence approach: the process of learning and development is based on an analysis of employees' competence;
- centralisation: the learning and development subdivisions are responsible for all training processes in the company, planning and spending the budget for training;
- cost effectiveness: achieving the maximum level of efficiency through the application of learning and training criteria coordinated with the business needs of the company, as well as the choice of educational service providers without compromising the safety and reliability of production;
- equal opportunities: continuous, systematic, and consistent improvement of the professional level of employees 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;
- partnerships: maintaining partnerships with international and Russian educational institutions, expanding cooperation with universities in the framework of partnership agreements, cooperation with organisations and training centres of shareholder companies.

9.1.7.2. Staff Assessment

The company applies the competence-based development approach for HR management. A profile of functional, leadership, and personal competences has been developed for each position. The assessment of these competences 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 list of competences and their detailed levels descriptions for a current 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 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 2017, 99% of competence profiles (for office 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 job group (JG) 5 and above. The assessment criteria are known by the acronym CAR: Capacity, Achievements, and Relationships.

- **Assessment Centre** — a technology of integrated expert assessment of employees' leadership competence, which has been widely used in the company since 2009. This method incorporates such components as business games, structured interviews, and feedback with a detailed analysis of the employee's strengths and areas for further development.

  The target audience of the Assessment Centre is high-potential employees included in the successors pool for senior positions. In 2017, 95 employees of this category passed the Assessment Centre, among them 14 women and 81 men. Compared to 2016, the participation of female employees in the Assessment Centre increased by 1.3%.

  Since 2009, the Assessment Centre has been used to assess the leadership competence of 590 company's employees, including 116 women and 474 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 2017, this type of assessment had been arranged for 121 people.

  To do this, the employee, his/her 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.

- **Structured Interview** — an interview during which the competence of a job candidate or employee is determined by applying the appropriate methodology. The Learning and Development Subdivision worked out information sessions on the structured interview methodology, during which were shown videos that gave examples of proper and improper behaviour of managers during competence assessment. Most of the company's managers were familiarised with this methodology in 2015–2016; 38 managers took part in information sessions in 2017.

- **General Business Competence Assessment Tests** — specifically designed tasks and questions to help the manager assess the level of each functional competence of his/her subordinate. In 2017, 19 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 trouble-free operations at the production assets. The programme is a system to examine the knowledge and skills of technicians involved in technical processes and repair and maintenance of production equipment. 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 to promote and transfer to other units and areas of work within the production asset.

In 2017, the Competence Assurance Programme was introduced into HCM SAP (with the transfer of all active competence profiles of employees), which made it possible to carry out the planning and reporting processes in HCM SAP.

9.1.7.3. Personnel Training

The company prepares annual plans for personnel training and professional development based on new production targets, career development plans, and employee competence assessment results.

In 2017, 2,042 employees attended workshops and training courses, including e-learning (one or more courses per individual). The company provides training for all categories of personnel without exception. The average duration of training was 7.4 man-days per employee (excluding on-the-job training). In 2017, Sakhalin Energy invested 245 mln roubles in employee training.

In 2017, 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 internal resources. All these activities allow the company to maintain the competence of its staff at the highest 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.

Employee Training in 2017 (by Personnel Category)

Personnel Category	Gender	Number of employees	Number of employees who completed training	Percentage of trained personnel
Managers	Male	404	372	92
	Female	92	75	82
Specialists	Male	960	882	92
	Female	544	421	77
Clerks	Male	0	0	–
	Female	17	14	82
Technicians	Male	288	274	95
	Female	4	4	100
Total		**2,309**	**2,042**	**88**

Modern Technologies for Mandatory Training: New Horizons

In 2017, the company continued to automate the planning of mandatory training on the basis of the HCM SAP electronic system. Focus was made on creating a catalogue of mandatory requirements of the RF legislation and the preparation of mandatory certification profiles for employees. In 2017, employees were able to experience the benefits of the new tool: the personal profile of employees and managers contains an up-to-date list of mandatory certifications with the dates of the next training and certification; thus, they can enrol on mandatory training courses, attestation or testing of knowledge in the field of occupational and industrial safety in advance. Currently, the catalogue includes 44 mandatory training courses.

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. Mandatory Training

– Mandatory training in accordance with the RF legislation on occupational, environmental, and industrial safety.

This area envisages timely organisation of training (learning, certification, testing) of the company's managers, specialists, and technicians in the company's areas of activity supervised by the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor) and other supervisory authorities of the Russian Federation. The purpose of this training is to provide employees with sufficient knowledge and certification required for the safe performance of work, ensuring the safety of other employees, the environment, the company's assets, as well as to enable them to obtain the necessary work permits.

– HSE training according to the company's internal standards.

This area envisages timely organisation of training in the field of HSE in accordance with the standards and requirements of the company's local regulations, international standards and the requirements of certification bodies, in particular those in the field of process safety, emergency prevention and protection of the company's facilities from emergencies, occupational safety, etc.

2. Professional Training

The main goal of training 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 complexity level of the work performed. Employees of the company are sent for professional training in accordance with the qualification requirements for the position occupied to fill gaps in professional competences, and in the case of production necessity.

Professional training of personnel is divided 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 retraining in technical and non-technical areas;

– further training of technicians, obtaining a second/related profession;

– obtaining international professional qualifications (IWCF, CIMA, CIPS, ACCA, NEBOSH);

– vendor training (training in engineering support and maintenance of equipment, organised by the manufacturer).

In 2017, a project was launched to develop a 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 knowledge base and skills within the framework of their technical competencies and the ability to safely and efficiently perform production tasks of any complexity.

The development of the technical competences of employees is carried out through the in-house technical training system. Discipline in-house technical training instructors and lead trainers, selected from among experienced production personnel, were united in the Technical Training Subdivision, which successfully functions at the company. The Subdivision ensures continuous technical training for workers employed at the company's production assets and those employed by the key contractors. The portfolio of industrial training programmes includes more than 150 courses.

The Technical Training Subdivision 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 career development 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 facilities related to work flow, material handling, and operation of equipment. Further, the training programmes include the requirements and practices in the field of HSE / technology 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 learning 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.

In 2017, 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. Four courses have been developed, another two are at the final stage of formation, and eight courses will be translated into the e-learning format in the nearest future. The development of new e-learning courses will make it possible to preserve the information about advanced technologies 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 courses included in the portfolio of in-house technical training courses, taking into account the experience of the Gazprom Training Simulator Computer Centre.

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, 272 people have taken part in the Programme, of which 27 people continued training as the company's trainees at the end of 2017.

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 industrial and personal safety in the performance of various types of work, and on teaching trainees the safety culture.

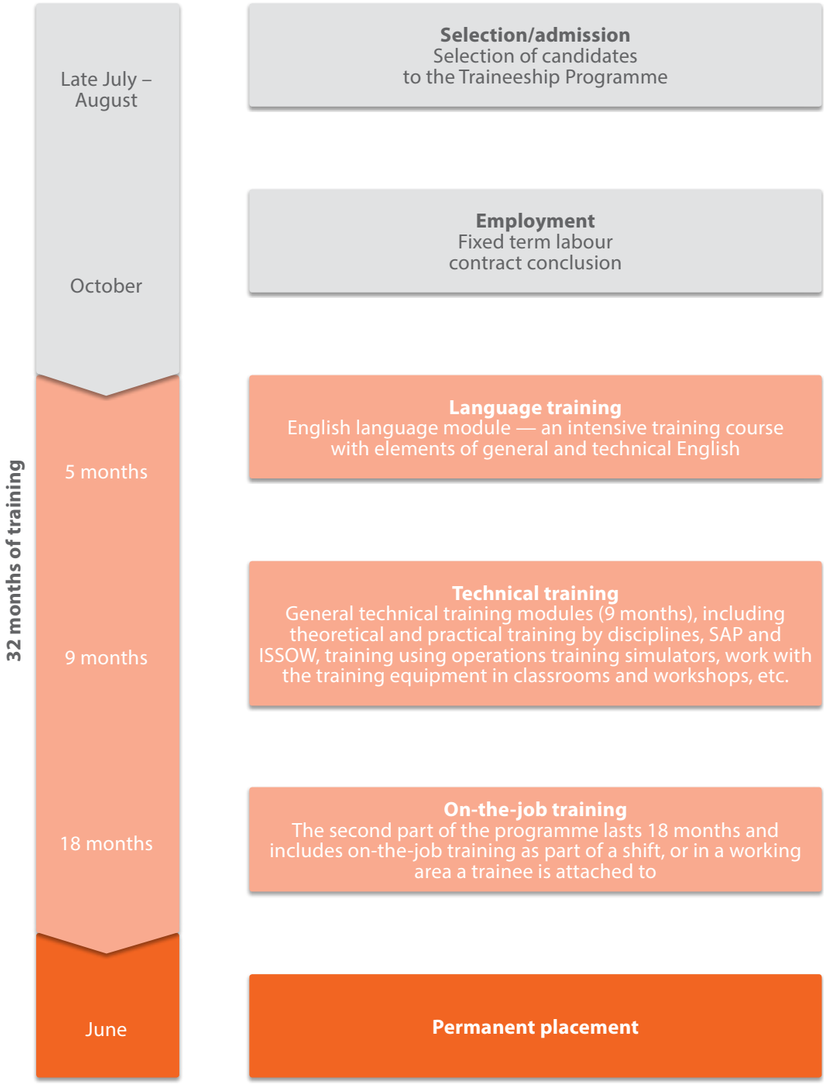
The Programme graduates are in demand at all production assets. When working at the assets, they demonstrate a high level of knowledge and skills acquired during the Programme, steady motivation for further professional development, and commitment to the principles of the industrial safety culture.

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 working area a trainee is attached to.

Traineeship Programme



9.1.7.5. Successors Pool Planning and Development

Successors pool planning and development is a high priority activity for further development of personnel capacity of the company. 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 for the positions planned for succession.

During the succession planning process for 2017–2021, potential successors (in the short- and long-term) were identified for 613 of the 647 positions within the succession planning scope (95%). For all employees included in the successor's 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 2017, 118 vacant positions out of the 106 included in the Successors Matrix were filled with internal candidates (89.8%), including 30 out of 31 expatriate positions (96.8%).

9.1.7.6. Leadership and Management Development Programmes

In order to achieve its strategic and production goals, the company requires highly qualified leaders. The leadership skills of the company's staff are enhanced through development classroom and online training courses, on-the-job training, and relationship-based learning methods such as coaching and mentoring.

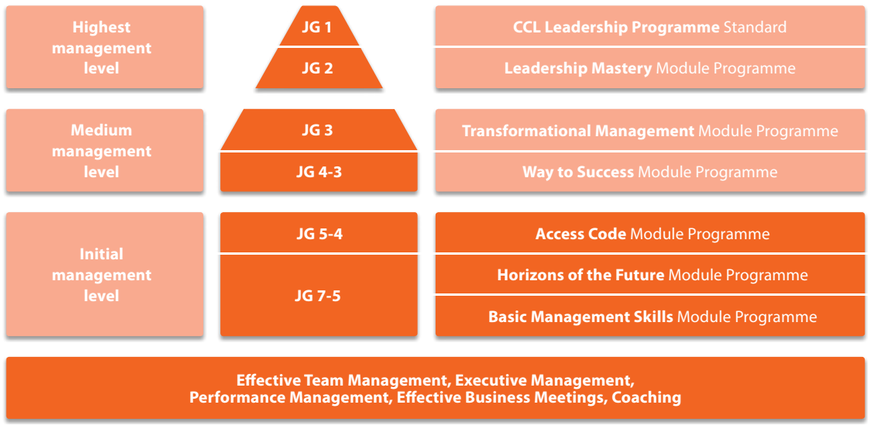
Leadership development programmes have been developed for all management levels based on the Nine Planets Leadership Competency Model.

As of late December 2017, 220 Russian employees of the company (42 women and 178 men), occupying various managerial positions, had completed training under the leadership programmes.

Also the company develops its leaders through two types of Mentoring Programme:

- Individual mentorship. Set up as pairing of employees of different levels of responsibility in order to encourage professional and personal development of the employee with the lower level of responsibility.
- Group mentorship. A series of sharing knowledge sessions under the Journey to Nine Planets project. During the sessions, leaders of the company share their experience of building a career, managing projects and staff in the context of leadership competences.

Leadership and Management Development Programmes



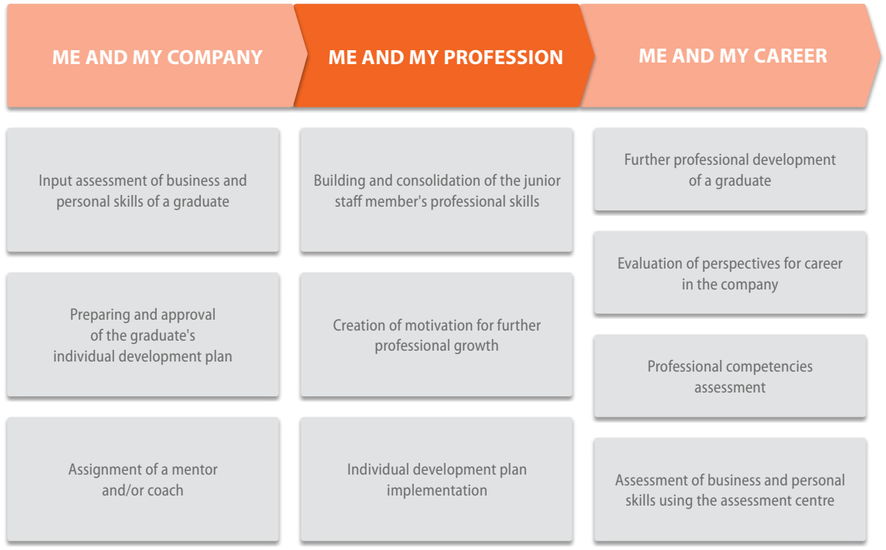
9.1.7.7. Graduate Development Programme

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 Personnel Management, signed by Gazprom and Shell, representatives of the shareholder companies have been involved in the programme since 2016.

The company organises systematic work with graduates in accordance with the three-year development programme (see the Stages of the Graduate Development Programme chart).

In 2017, the company hired 12 graduates under the programme. Since 2010, 123 people have participated in the Graduate Development programme.

Stages of the Graduate Development Programme



Young Energy Graduates Club

The Young Energy Graduates Club has been functioning in the company since 2012. Its purpose is to facilitate graduates' quick adaptation and to develop their business and leadership skills. In 2017, the Club held a number of events, including an information session about the lines of activity of the Commercial Directorate, a meeting with the Production Director and the Offshore Asset Manager, during which participants discussed various issues of the career building strategy.

Future Horizons Programme

In order to improve the graduates' competency and provide them with basic management skills, the Future Horizons modular programme was developed in 2014. The main objectives of the programme are to realise the young professionals' potential, develop skills needed for effective team collaboration and for understanding of manager's tasks and a role as well as to create conditions to identify their own strengths and areas for development. In 2017, 11 graduates participated in the programme.

9.1.7.8. Personnel Development Assignments

Arranging development assignments for the company's employees at the shareholders' enterprises is an integral part of Sakhalin Energy's HR strategy. Personnel development assignments are organised on the basis of relevant agreements signed between Sakhalin Energy and the shareholders companies. This form of cooperation allows trainees to study the practical aspects and specifics of work in corresponding units of the host company and to organise more effective interaction during implementation of joint projects.

Participating in the development 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 2015–2017, personnel development assignments in the shareholder companies were organised for 15 employees of Sakhalin Energy. In turn, 13 employees of the shareholders completed their personnel development 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, the preparation and delivering of lectures, etc.

Every year, the company holds Young Professionals Scientific and Practical Conference. All Sakhalin Energy's employees aged 35 or younger that have worked at the company for at least 12 months are invited to participate in these conferences.

In October 2017, the company held the IX Young Professionals Scientific and Practical Conference. The participants presented 34 reports at four sections: Drilling and Development of Oil and Gas Fields, Engineering Support and Maintenance, Engineering and Technical Support of Production, Economics and Personnel Management, and at the University section organised, for the first time in the history of the Young Professionals Conferences, specifically for university students and undergraduates. In addition to Sakhalin Energy employees, the conference was attended by representatives of Gazprom dobycha Yamburg, Gazprom dobycha Urengoy, Gazprom transgaz Tomsk, as well as by students and undergraduates of the Gubkin Russian State University of Oil and Gas and Sakhalin State University.

The Conference Evaluation Panel included experts from the Production, Technical, and HR Directorates of Sakhalin Energy, as well as representatives of the Gubkin Russian State University of Oil and Gas and Sakhalin State University.

9.1.7.10. Internship Programme

In order to form an external successors pool for graduate positions, the company has been implementing the Internship Programme since 2000.

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 2017, 67 university students and 33 students of vocational schools underwent on-the-job training and pre-graduation internships at the company. In 2017, about 80% 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:

- every year, the company provides third- and fourth-year students with opportunities for on-the-job training and pre-graduate internship at the Prigorodnoye production complex. The internship programme for college students began in 2009. Every year, 20–30 students studying in fields relevant to Sakhalin Energy's operations receive internships at the company;
- every term, the company holds career guidance seminars for second-, third-, and fourth-year students. The students receive general information about the Sakhalin-2 project and about Sakhalin Energy as a potential employer. These events help to motivate young people to work in their chosen profession after graduating from the college. Various kinds of internships at the company's production assets and the Traineeship Programme are also discussed with the students (see Section 9.1.7.4 Traineeship Programme);
- in 2017, undergraduate students of the college were proposed to work on topics reflecting the specificity of the LNG plant as part of their course and graduate projects. The technical training instructors provided the students with methodological, information and consulting support, and also reviewed the thesis papers. The defence of the graduate projects was successful;
- the company arranges trips to the Prigorodnoye production complex for the college teachers so that they can get acquainted with the advanced production equipment, production procedures, and standards used at the LNG plant. The technical training instructors and specialists from among experienced technical and process personnel provide information and consulting support for teachers, deliver lectures to familiarise students with the technological process at the LNG plant, and conduct target seminars.

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 2017, six graduates of Sakhalin schools won the contest.

As of the end of 2017, 26 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 has made a commitment to industrial safety and causing no harm to people health.

At present, there are ten mandatory Life Saving Rules applied by the company. These rules are particularly associated with high-risk zones.

Statistics on violations of the Sakhalin Energy's Life Saving Rules by the company's and contractor's staff in 2017 are presented in the Violations of the Sakhalin Energy's Life Saving Rules in 2017 table.

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.

Violations of the Sakhalin Energy's Life Saving Rules in 2017, number of cases

Violation	Number of cases
Alcohol or drug abuse	8
Smoking or use of ignition sources in hazardous areas	2
Standing under suspended load	0
Failure to follow the requirements of a work permit	6
Locking or isolating equipment before work begins	0
Obtaining authorisation before entering a confined space	0
Taking protection measures against a fall when working at height	1
Failure to use a seatbelt	8
Failure to follow Journey Management Plan or invalid Defensive Driving Certificate	6
Using a communication device or exceeding the speed limit when driving	4

Injury Rates for the Company and Contractor Organisations in 2013–2017

Parameter	2013	2014	2015	2016	2017
Number of people injured in accidents at the workplace, total people	12	6	9	9	4
– including fatalities	0	0	0	0	0
Number of accidents for contractor organisations at the company's assets, total people	9	4	9	9	4
– including fatalities	0	0	0	0	0
Total registered incidents (per 1 mln man-hours)	0.89	0.46	0.68	0.64	0.26
Number of people injured in road traffic accidents (per 1 mln man-hours)	0	0	0.07	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 On the Industrial Safety of Hazardous Production Facilities N 116-FZ 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.

Justification of Safety Documents (JoS) were developed and implemented at seven company hazardous production facilities. 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.

In 2017, 70 line managers, HSE specialists, and HSE critical contract holders underwent HSE Leadership for Mid-level Managers training course.

Since 2017, training has been conducted by certified Sakhalin Energy instructors.

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

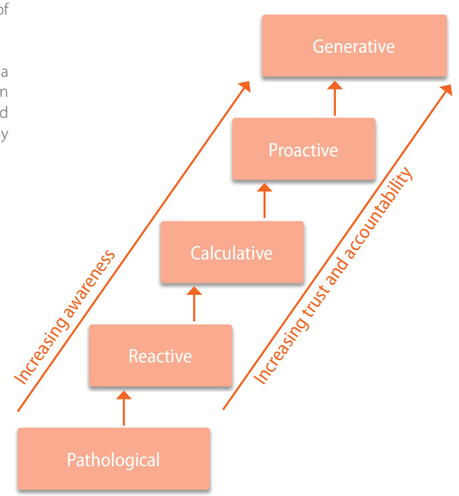
Occupational health and safety is one of the company's core values. Sakhalin Energy sets high standards and expects all employees of the company, contractor and subcontractor organisations to comply with them.

Building a corporate safety culture aimed at achieving Goal Zero, both in the company and in contractor organisations, is one of the priority tasks of Sakhalin Energy.

Creating and maintaining a safety culture is by no means a one-time event, but continuous work and development in this area. 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.

Safety Culture Evolution Ladder



The Safety Culture Evolution Ladder shows how a safety culture evolves toward the Generative level. At this level, each employee is clearly aware of his or her responsibility in HSE issues, and there is trust between the company's management and employees, which is essential for the timely prevention of incidents. Achieving this level of corporate culture is the primary goal of all labour safety programmes implemented by the company.

The commitment of the company's senior managers to the safety culture is of vital importance, since it largely determines the prevailing attitude to HSE issues and safety behaviour patterns in the company. Sakhalin Energy implements the HSE Leadership Site Visit Programme to demonstrate their commitment to HSE. In 2017, supervisors at all levels (directors, asset managers, and heads of subdivisions) visited the company's and contractors' production facilities 95 times.

Goal Zero is a mindset that actively promotes no leaks, spills, harm and injury both at work and 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.

The CEO award promotes safe behaviour and HSE achievements. Employees of the company and contractor organisations are awarded for their contribution to the development of the safety culture, in particular for excellent and safe work, the prevention of and timely response to hazardous situations. In 2017, 22 employees of the company received the award.

In 2017, Sakhalin Energy commenced roll out of Goal Zero orientation sessions aiming to safe behaviour culture and offered at all production assets of the company.

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 ten years. All employees of the company and contractor organisations gather to discuss the ever topical safety issues: how 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.

In October 2017, the company updated the Observation and Intervention Procedure as part of the Goal Zero programme. The main aim of the update was to make changes to the form of the intervention card.

9.2.4. Road Safety

Road safety is of particular importance for Sakhalin Energy.

More than 700 vehicles with overall annual mileage over 13 mln km are engaged in the project activities. Sakhalin Energy's management and the Road Safety Steering Committee has emphasised 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:

- **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. In 2017, the IVMS reports demonstrated an improvement in driving. The entire monitoring system covers more than 1,600 drivers and 700 vehicles;
- **defensive driving training.** All professional and non-professional drivers take defensive driving courses. In 2017, the courses were conducted for more than 1,700 drivers of various categories. Moreover, the company allowed any employees 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;
- **implementation of the Safe Journey Management Programme at the company's assets.** Each Sakhalin Energy's production asset has appointed persons responsible for road safety who monitor the daily operation of all vehicles within the asset, including journey management and checkups 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. 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.

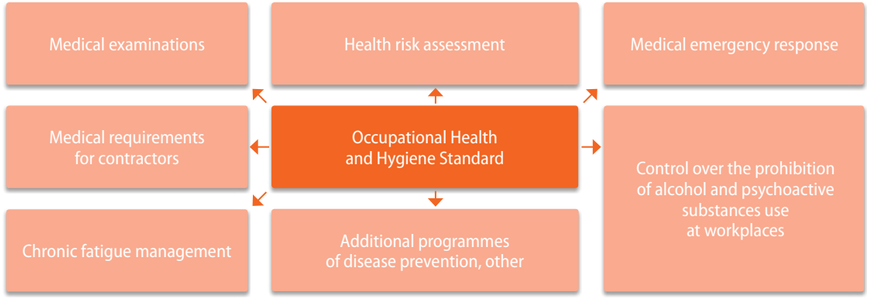
In 2017, more than 1,700 Sakhalin Energy's employees and contractor employees received defensive driving training.

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:

- occupational health;
- health risk assessment;
- medical emergency response;
- medical requirements for occupational fitness;
- medical requirements for contractors;
- monitoring the use of alcohol and psychoactive substances at workplaces;
- chronic fatigue management, etc.

Sakhalin Energy's Occupational Health and Hygiene Standard



Periodic health examinations and clinical screening of the company's employees working under hazardous, dangerous and harsh work conditions were arranged in accordance with the Medical Requirements for Occupational Fitness Standard.

In 2017, 99.5% of the company's employees engaged in work with harsh, hazardous and (or) dangerous work conditions underwent mandatory periodic health examination. More than 80% 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 2016, the rate of reported occupational diseases remained at a relatively low level (see the Rate of Reported Occupational Diseases in 2013–2017 table).

Rate of Reported Occupational Diseases in 2013–2017

Total rate of reported occupational diseases	2013	2014	2015	2016	2017
Company alone	0.56	0.61	3.33	0	0
Company and contractors	0.5	0.39	1.15	0.21	0.2
With temporary disability (company alone)	0.28	0.36	0.67	0	0
With temporary disability (company and contractors)	0.07	0.23	0.15	0.07	0.1

Performance indicators are analysed on a regular basis in order to improve working conditions, prevent illness, and promote a healthy lifestyle.

In 2017, 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 that allows only employees who are fit in terms of health 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. These programmes were introduced at the company's remote production assets in 2010, and as a result the mortality level dropped to virtually zero in 2013–2017.

Besides mandatory health programmes, in 2017, 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 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 supportive medical treatment. Also, there is an extensive information campaign during which posters and leaflets are distributed;
- continuing to implement high standards for medical emergency response. In 2017, over 380 employees of Sakhalin Energy and contractors completed first-aid training.

Company's and contractors' employees at remote assets of the Sakhalin-2 project as well as company's employees on foreign business trips are provided with high-quality medical support guaranteed by AEA International (Sakhalin). 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.

Sakhalin Energy's achievements in the field of human rights respect and promotion in 2017 has been appreciated at the Federal level. Russian Federation commissioner for human rights awarded to the company a grateful letter "For contribution to affairs of human and civil rights and freedom protection".

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 and 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 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.

Company's Human Rights Activities

The company's participation in the VI United Nations Forum on Business and Human Rights

In 2017, Sakhalin Energy participated in the VI United Nations Forum on Business and Human Rights, held in Geneva, as part of the delegation of the Global Compact Network Russia at the invitation of the Ministry of Foreign Affairs of the Russian Federation.

More than 2,000 representatives of states, enterprises, civil society, international institutions and expert groups gathered on a large international platform to exchange ideas and experience. Sakhalin Energy presented the company's integrated approach to the observance and promotion of human rights (including the incorporation of human rights standards in contracts), the grievance mechanism, the creation of partnerships for sustainable development, and other methods.

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.

The company is actively involved in discussion of experience and best practices in the area of human rights at local, national and international levels, as well as participates in development and promotion of new human rights related standards and policies.

As part of this activities, the company joined in 2017 the UN Global Compact Action Platform "Decent Work in Global Supply Chains", which was initiated by UN Global Compact in partnership with International Labour Organization (ILO) and UN Children Fund UNICEF.

The goal of this platform is building an alliance of companies committed to respecting fundamental human rights.

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.).
- Grievance Procedure (Human Resources) 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 contractor's/subcontractor's 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).

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.

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.

9.4.3. Grievance Handling in 2017

In 2017, 51 grievances and requests were received from the company's personnel and external stakeholders as part of various corporate grievance mechanisms, including:

- 31 grievances under the Whistle Blowing Procedure;
- five grievances from employees of the company;
- 15 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 tender procedures, material and services procurement, conflict of interest, and unethical behaviour.

Each of the 31 grievances received under the Whistle Blowing Procedure had been resolved by the end of 2017. All the grievances were resolved within the time frame established in the Terms of Reference for investigations.

Grievances (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 Grievance Procedure (Human Resources). In 2017, five grievances were received from employees within the framework of this procedure. All the grievances were 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), construction camp management, compliance with the Code of Conduct, and the implementation of the Sakhalin Indigenous Minorities Development Plan.

By the end of 2017, 14 grievances out of the 15 received from the public and employees of contractor and subcontractor organisations had been resolved. In addition, three grievances received at the end of 2016 had been resolved. All 14 grievances were addressed within the time frame established in the Grievance Procedure (less than 45 business days). At the end of 2017, one grievance remained unresolved. Information on the status of this grievance will be presented in the 2018 Sustainable Development Report.

Categories of Public Grievances in 2017

Grievance category	Number of registered grievances	%
Labour relations / labour safety	8	53
Construction camp management	2	13
Code of Conduct	3	21
SIMDP implementation	2	13
Total	**15**	**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:

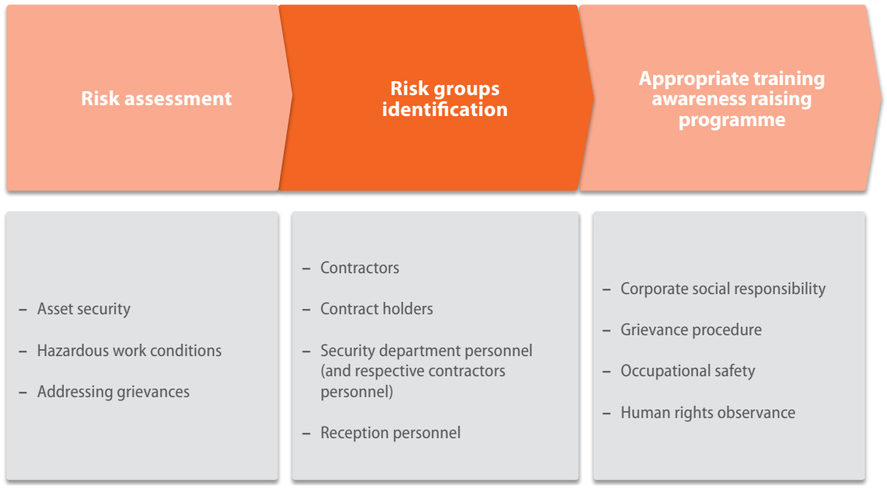
- general instruction;
- Code of Conduct training;
- health, safety, environmental, and social perfomance training.

The company conducts personalised 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.

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).

In 2017, personnel of the Production Directorate, the Environmental Protection Subdivision, and employees of the Government, Shareholders and External Affairs Division received such training.

Appropriate Training Selection



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

The company carries out active and fruitful work aimed at the development of the host region, strengthening and progress of civil society institutions, charity and volunteering culture development.

The company contributes to the protection and promotion of human rights, primarily in the areas of education, environment, culture, and health by supporting various socially significant initiatives, the beneficiaries of which are vulnerable social groups (children, people with disabilities, and others).

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 2017, the company invested a total of 64 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 (funds for this activity are allocated by shareholders), 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.

Company's objectives in social investments for 2018:

- 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 company's employees 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.

9.5.2. The Energy Social Initiatives Fund

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.

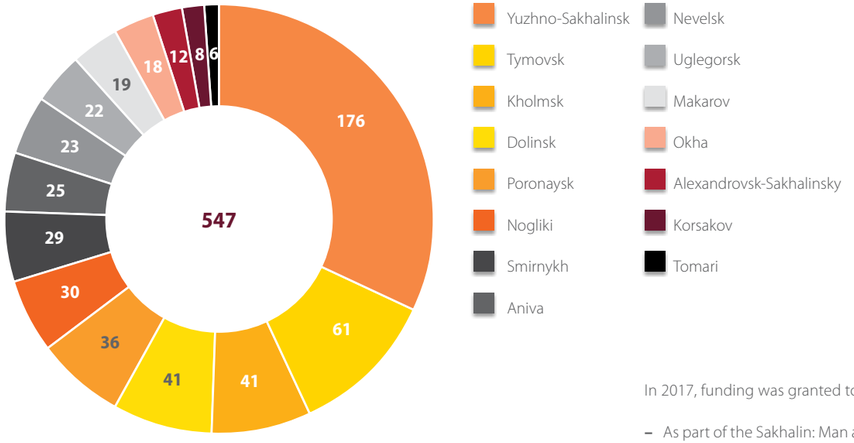
The Expert Council consisting of representatives of the company, NGOs and government evaluates proposals and selects the winning projects. Information on the terms and conditions for participation in the contests and the selection criteria is available on the website of the Energy Social Initiatives 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.

According to the report on the results of the external independent evaluation of the company's social programmes, conducted in 2017: "Sakhalin Energy's social investment programme makes it possible to use the capabilities of the target groups to the full extent and to carry out charitable programmes with due account for the needs and traditions that have developed in the region. All the implemented programmes correspond to the chosen priorities and contribute to the social development of the region and the fulfilment of its most urgent tasks. In general, the results achieved under the evaluated programmes are evidence of the consistent participation of Sakhalin Energy in the economic, social, and environmental development of the Sakhalin Oblast. The programmes being implemented are not only focused on solving urgent social problems of the island, but also provide for active participation of residents in the implementation of social initiatives."

Since 2003, more than 289 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, 547 projects have been implemented in the years of the programme. The company's investments have amounted to over 69.18 mln roubles.

Number of Projects that Received Funding in 2003–2017



In 2017, funding was granted to 45 projects, including:

- As part of the Sakhalin: Man and Sea project, implemented by the Boomerang Club, Russia's first team of volunteers to rescue marine mammals was created and trained. The team includes volunteers, rescuers, and veterinaries (more than 40 people in all). The world's most reputable experts from the International Whaling Commission (IWC) and the International Fund for Animal Welfare (IFAW) came to Sakhalin to conduct training in disentangling marine mammals from mesh nets and removing them from the shallow waters. An algorithm for responding to the detection of a marine mammal in need of assistance was developed and implemented. The unified system of rescuing and rendering assistance to marine mammals has comprised special services, supervising bodies, and volunteers.

- As part of The Island of Discoveries, an interactive project for children, implemented by the Literary and Art Museum of Anton Chekhov's Book "The Sakhalin Island", young residents of Sakhalin were presented an extraordinary exhibition with exhibits from the funds of the A. Timiryazev State Biological Museum, where children had an opportunity to learn to explore the surrounding world on their own, to study zoology, botany, anatomy, palaeontology and other sciences.

- As part of the Children's Multi-Race project, competitions were held in which young Sakhalin residents had a chance to try their hand at various kinds of tourism: kayaking, rock climbing, cycling and sports tourism. The Boomerang Club (the organiser of the competitions) in conjunction with the Regional Federation for Sport Tourism and Mountaineering and the V.A. Polyakov Search and Rescue Team of the Russian Emercom conducted preliminary five-month training. The participants of the competitions included children with disabilities.

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 Boomerang Club public organisation, etc.

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.

Given the fact that the basic concepts and rules are laid down in childhood, the programme pays much attention to activities aimed at developing a culture of safe behaviour (contests, educational events, the annual Safety Festival, etc.). In October 2017, the traditional Children's Safety Holiday was held, which brought together children's teams from 15 districts of the island. During the event, a new floor game was presented to the participants and was introduced as one of the stages of the competition.

The target audience of the programme also includes adults — teachers and parents. Interaction with these stakeholders is achieved 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. In 2017, a series of educational events were held in the kindergartens where safety corners were equipped.

The objective of the programme — the promotion of the basic life safety rules among the residents of Sakhalin — is achieved through the implementation of special projects that cover a wide range of the population. For example, as part of the project "It is Important to Observe the Rules of Safety on the Water", information boards with the rules of safe behaviour near lakes and rivers were installed in two children's countryside camps and a resort, located near water. In addition, information materials on this theme were sent to the libraries in different parts of the island. An educational computer game on life safety when on a hike (www.travel-safely.rf) was developed within the framework of Travel Safely — a special project organised by the Boomerang Club with the support of Sakhalin Energy and with the active participation of the Sakhalin Oblast Teacher Development Institute, the V. A. Polyakov Sakhalin Search and Rescue Team, and several tourist clubs. Teenagers are the main audience of the game, but adult travellers also find its information content very useful.

Another special project implemented in 2017 finished with the Senya-Rescuer Child Safety Championship. A game application for smartphones and tablets was specially created as part of the project to raise children's awareness of the basic life safety rules. The project was implemented by the Gladway Media Projects and Social Programmes Development Foundation.

The launch of the Safety in the Practice of Mountain Skiing Sports project was timed to the beginning of the skiing season. "The Gorny Vozdukh" Sports and Tourist Complex now has new information billboards with illustrated safety rules, installed under the project. There was also a presentation of a new animated cartoon "The Gorny Vozdukh".

Detailed information about the programme and the materials created are available on the website www.senya-spasatel.ru.

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 initiative, and has undergone a number of changes since.

Currently, the programme offers employees various opportunities:

1. 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).

2. Participation in Volunteer Days (Voluntary Community Work Days) (twice a year).

3. Initiation and implementation of their own charitable projects with the participation of colleagues.

4. 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 charitable 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, to join in the charitable activities under the programme.

In 2017, there were two Voluntary Community Work Days in the territory of Korsakov park. Two corporate campaigns were organised to raise funds for a number of environmental institutions (in particular, for the Green Sakhalin Fund, which is engaged in the rescue and rehabilitation of wild animal, and for school forestries). Sakhalin Energy organised the 10th New Year Miracles charitable event: on the eve of the most popular winter holiday, the company's employees granted the wishes of 125 young Sakhalin residents with disabilities or in difficult family circumstances. Employees donated about 1.9 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 2017 they organised and held two seminars on occupational safety and health issues for employees and volunteers of "The Gorny Vozdukh" Sports and Tourist Complex, 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 nine members, three representatives of each party: Sakhalin Energy, the government authorities, and the community of the Korsakov 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' 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 2017, public consultations on the Korsakov Sustainable Development Partnership Council activities were held in 10 settlements of the Korsakov District. Their 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 attitude towards the work of the Korsakov Partnership Council was made, and the residents' awareness of the projects implemented in the Korsakov 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 2017, the Council supported 14 projects proposed by local non-profit organisations.

Materials on the Korsakov Partnership Council are available at www.korsakovsovet.ru.

9.5.6. Ecocentre — Kindergarten Project

Today, the necessity to solve environmental problems is of primary importance in all countries around the globe. Special attention must be given to environmental education and education of preschool children.

In Nogliki and Korsakov Districts and Yuzhno-Sakhalinsk pilot preschool educational institutions, which have experience in doing research activities and environmental education among pupils, and are interested in further development of this direction have been equipped under the Ecocentre — Kindergarten Project.

The project implementation has made it possible to create a mobile educational and methodological centre, which serves as a basis for conducting The World Around Us lessons in these kindergartens for all age groups of preschool children in an interesting and informative way, using the latest interactive technologies. The laboratories that have been equipped in the kindergartens allow to engage children in experimental and research activities, and contribute greatly to the development of their cognitive activity and intellectual curiosity.

9.5.7. Silhouette Magic by Semyon Nadein (a Cultural Project)

In November 2017, the Silhouette Magic by Semyon Nadein exhibition opened in the Literary and Art Museum of Anton Chekhov's Book "The Sakhalin Island". Among the exhibits received from the four museums of the Sakhalin Oblast and the personal collection of Vasily Kurikalov's family, there are about 30 silhouette cut-out pictures, manuscripts of legends, fairy-tales, and short stories by Semyon Nadein. Several of the unique silhouette cut-out pictures were displayed for the first time ever.

The Ingki, a performance based on a fairy-tale under the same title, staged by young artists of the shadow theatre of the Raduga (Rainbow) Yuzhno-Sakhalinsk Centre for Folk Culture, was part of the Silhouette Magic by Semyon Nadein project. During the interactive part of the exhibition, visitors had an opportunity to listen to four tales from the collection "Engespal". Another part of the project was a magnificent laser show based on the works of Semyon Nadein, which had been created specially for the project.

9.5.8. The Traveller's Room Project, Dedicated to the 70th Anniversary of the Sakhalin Oblast

The presentation of the Traveller's Room in the Literary and Art Museum of Anton Chekhov's Book "The Sakhalin Island" was the final cultural event in the celebration of the anniversary year in the Sakhalin Oblast. The educational and entertainment zone, which can host various quests and other educational events, has no analogues in the other museums of the island.

Once in the hall, young guests can see a luminous magical tree and a starry sky, a ship with a sail, and a two-story lighthouse, from which they can send signals to ships. There is a beautiful mural painting on the wall: the artists of the museum represented an eagle soaring in the sky and a musk deer hiding in the bushes. In the quest room, children can learn to navigate using the compass and the stars, to recognise animals and plants, to identify different minerals, and to draw up maps. They can expand their knowledge of geography, the history of the region, get acquainted with the natural diversity of Sakhalin Island. The project is implemented in partnership with the Association of Museums of the Sakhalin Oblast.

9.5.9. 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.

9.5.9.1. 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.

Every year, consultations are held as part of the Plan in all areas of SIM traditional residence. In 2017, 15 public meetings, attended by 276 people, were held in 11 communities. The main objectives of the consultations were to inform the public about the results of the 2016 Plan and the competitive programmes for 2017, as well as to discuss issues related to the management and implementation of the Plan as a whole and its individual programmes in particular.

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. The effectiveness of the Plan implementation is regularly assessed by an independent expert and the Internal Monitoring Team.

Training workshops are organised annually for the members of the SIMDP coordinating bodies. The Secrets of Accounting and Reporting in NGOs workshop was held in 2017 and dealt with the issues of organising financial accounting in non-commercial organisations, as well as the requirements for accounting and reporting on targeted financing.

9.5.9.2. 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 2017, the Programme Committee approved 37 projects aimed to support clan and family enterprises, communities and other associations of the Sakhalin Indigenous Minorities. In the framework of the projects, boat motors, nets and fishing gear, snowmobiles, consumables, and certain types of electrical appliances were purchased for conducting traditional economic activities.

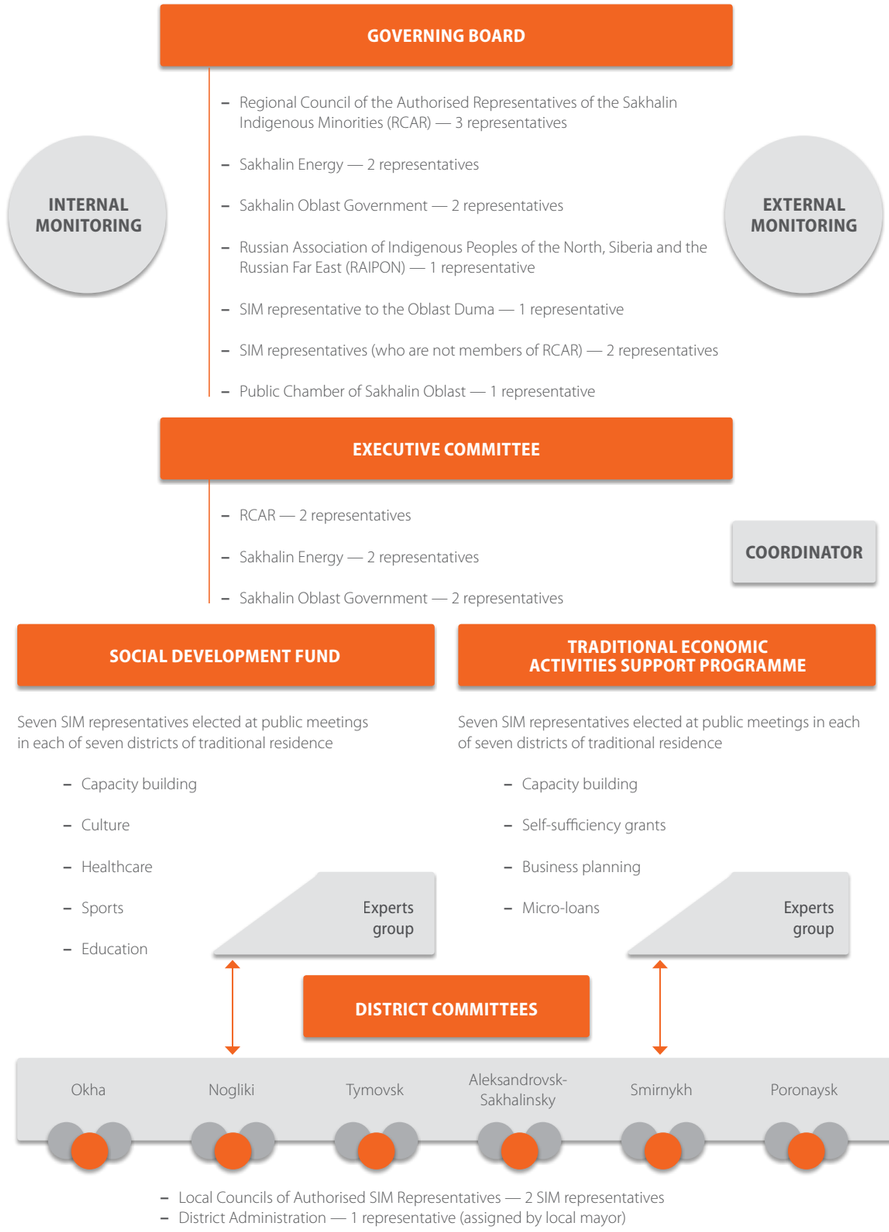
9.5.9.3. Social Development Fund of the SIMDP

The resources of the Social Development Fund were distributed among its components, namely Education, Healthcare, Capacity Building, Culture, and Sports. In 2017, the Social Development Fund Committee approved 40 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, 48 students of specialised secondary and higher education institutions received financial support, and 12 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.

Governance Structure (2016–2020)



2018 PLANS AND DEVELOPMENT STRATEGY UP TO 2022

VISION

To be the premier energy source for Asia-Pacific.

MISSION

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

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

10. 2018 Plans and Development Strategy up to 2022

Sakhalin Energy's priorities in 2018 remain the same: assurance of the safety and reliability of production, improvement of the efficiency of oil and gas field development and hydrocarbon extraction, optimisation of costs, and development of the project with regard to the principles of continuous improvement and lean processes.

In 2018, the company will continue its work aiming to achieve Goal Zero — no harm, no leaks.

As part of the HSE strategy, the company has adopted and included in the 2018–2022 plans the following main objectives:

Lead and engage

- To ensure personal HSE commitment — in work, in personal life, by all staff via goals and performance appraisal process.
- To develop leaders at all levels — implement safety leadership programmes.
- To implement One Team approach — involve company and contractor and subcontractor leaders and teams.

People

- To promote and support people to follow a healthy lifestyle.
- To provide access to high-class healthcare and enhance prevention and diagnostics for staff and contractors.
- To manage HSE and process safety capability process via the SAP HCM automation system.

Major hazards

- Assets integrity and process safety: to manage facility status reports, implement key assets integrity and process safety programmes.
- To reduce risks to as low as reasonably practicable (ALARP) level: to maintain HSE cases, implement remedial action plans, maintain RF and international compliance.
- Operational controls: to utilise barrier cards, to ensure effective electronic permit to work system.
- To maintain and enhance emergency preparedness and response capability.

In 2018 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 work on the OPF compression project , as well as on the further development of the LNG Train 3 project.

In 2018, the company will continue to work with customers to achieve the most beneficial oil and gas sales.

As part of the HR management strategy implementation, in 2018 and subsequent years, Sakhalin Energy will continue:

- To employ and retain the best talent available in the industry in line with business needs and with a focus on local Sakhalin residents.
- To meet manpower requirements of major projects utilising internal resourcing and shareholder expertise.
- In line with succession planning invest in professional and leadership development of Russian employees capable of taking technical expert and leadership roles in the company.
- To deliver an attractive and competitive employee value proposition (EVP).
- To deliver simple and cost-effective HR processes to meet company needs in continuous improvement utilising high quality HR information systems.
- To maintain the company's unique corporate culture and strong brand to ensure the Employer of Choice status.

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 2018 have been included in the Public Consultation and Disclosure Plan (see the company's website www.sakhalinenergy.com).

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.

APPENDICES

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	30	
102-2	Primary brands, products, and services	About the Company	37–38	
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	30–38	
102-5	Nature of ownership and legal form	Corporate Governance	42	
102-6	Markets where the organisation operates	About the Company	30; 37–38	
102-7	Scale of the organisation	About the Company Economic Impact Management Personnel: Management and Development	30–36 68–69 99	
102-8	Total number of employees by employment type, gender, employment contract and region	General Information	99–100	8
102-9	Organisation's supply chain	Supply Chain Management	70–71	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 2017*		
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	18–19 21 46–47 27	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	20	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 2017, the company is a member of:* • *Global Compact LEAD;* • *International Business Congress* *In 2017, the company became a member of the RUIE*	20 63–65	

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
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 2018 Plans and Development Strategy up to 2022	7–8 46–50 25–27 68–69 74–96 98–139 143	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	18–24 45–46 51	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	41 45 54–55 127–129	16
4. Governance				
102-18	Governance structure of the organisation, including committees of the highest governance body	Corporate Governance Model	42–44	
102-20	Executive-level position or positions with responsibility for economic, environmental and social topics	Corporate Governance Model	42–44	
102-21	Consulting stakeholders on economic, environmental and social topics	Impact Assessment Sakhalin Energy's CSR System	27 18–19	16
102-22	Composition of the highest governance body and its committees	Corporate Governance Model	42–44	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
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	18–19 40–46	

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
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	46–47	
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 54	
102-42	Basis for identification and selection of stakeholders with whom to engage	Stakeholder Engagement Management	55	
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	12 54–55	
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 2017 Appendix 2 *Use the link specified in Appendix 4 Public Consultation and Disclosure Reports*	12–15 54–62 129 158–169	
6. Reporting Practice				
102-45	Entities included in the organisation's consolidated financial statements or equivalent documents	About the Report	16 68	
102-46	Process for defining the Report content and the aspect boundaries. Reporting principles for defining Report content	About the Report	12–16	
102-47	List of all the material aspects identified in the process for defining the Report content	About the Report	13–15	
103-1	Material topic and its boundary	About the Report	13–16	

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
102-48	Restatements of information provided in previous reports, and the reasons for such restatements	*No restatements of information*		
102-49	Significant changes from previous reporting periods in the scope and aspect boundaries	*No significant changes in the scope and aspect boundaries*		
102-50	Reporting period (such as fiscal or calendar year) for information provided	2017		
102-51	Date of most recent previous report (if any)	*April 2017*		
102-52	Reporting cycle (such as annual, biennial)	About the Report *Annual*		
102-53	Contact point for questions regarding the Report or its contents	Appendices 5–6	176–179	
102-54	Claims of reporting in accordance with the GRI Standards	About the Report	11	
102-55	GRI Content Index. Reference to the External Assurance Report	This Appendix Appendices 7–8	146–157 180–183	
102-56	Organisation's policy and current practice with regard to seeking external assurance for the Report	About the Report	16	
Specific Standard Disclosures				
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 2017 Social Investment and Sustainable Development: Sakhalin Energy's Principles and Approaches	30 68–72 103 129 132–133	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	30 68–70 103	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	104–105	

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
201-4	Financial assistance received from government	*The company received no financial assistance from the government in 2017*		
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	103	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	99 101	
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	68 132–133	2 5 7 9 11
203-2	Significant indirect economic impacts, including the extent of impacts	Economic Impact Management	68	1 2 3 8 10
GRI 204: Procurement Practices (2016)				
204-1	Proportion of spending on local suppliers at significant locations of operation	Russian Content	69–70	12
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	51	16
205-2	Communication and training on anti-corruption policies and procedures	Anti-Bribery and Corruption	51	16
205-3	Confirmed incidents of corruption and actions taken	*No cases of corruption were registered in 2017*		16
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 2017 Environmental Protection Costs and Payments for the Negative Impact	25–26 74–96 129 81	12 13 14 15 16

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
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	78–79	7 8 12 13
302-1	Energy consumption within the organisation	Energy Production and Consumption	78–79	7 8 12 13
302-3	Energy intensity	Energy Production and Consumption	78–79	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	76 81	6
303-1	Total water withdrawal by source	Impact on Water Bodies	76	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*	76	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	82–92 81	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	82–92	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*	82–92	6 14 15

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
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	82–92	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	79–80 81	12 14 15
305-1	Direct greenhouse gas (GHG) emissions	Greenhouse Gas and Ozone-Depleting Substance Emissions	79–80	3 12 13 14 15
305-2	Energy indirect greenhouse gas (GHG) emissions	Greenhouse Gas and Ozone-Depleting Substance Emissions	79–80	3 12 13 14 15
305-6	Emissions of ozone-depleting substances (ODS)	Greenhouse Gas and Ozone-Depleting Substance Emissions	79–80	3 12 13
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX) and other significant air emissions	Impact on Atmospheric Air	75	3 12 13 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	76 77 93–95 81	12 14 15
306-1	Total water discharge by quality and destination	Impact on Water Bodies	76	3 6 12 14
306-2	Total weight of waste by type and disposal method	Waste Management	77	3 6 12

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
306-3	Total number and volume of significant spills	Oil Spill Prevention and Response Preparedness	93	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 2017 Environmental Protection Costs and Payments for the Negative Impact	25–26 74–96 129 81	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	81	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	70–71	12
308-1	Supplier Environmental Assessment	*100%*		12
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 2017	98–99 129	
401-1	New employee hires and employee turnover by age group, gender, and region	General Information Recruiting Personnel and Onboarding New Employees	100 101	5 8
401-3	Return to work and retention rates after parental leave, by gender	General Information	100	5 8
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 2017	56 98–99 129	

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
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 2017	118–124 124 129	
403-2	Rates of injury, occupational diseases, and total number of work-related fatalities	Labour Safety and Protection Occupational Health	119 125	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 2016	106–111 129	
404-1	Average hours of training per year per employee by gender, and by employee category	Personnel Training	109	4 5 8
404-2	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Learning and Development	109–117	8
404-3	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Individual Performance Review	106	5 8
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 2017	98 129	
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	99–100	5 8

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
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 2017*		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 2017*		2
G4-DMA	Disclosures on management approach	Human Rights: Principles and Management System		

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
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	130	
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 2017	18–19 54–55 132–133 129	
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%*	27 54–55 132–133	
413-2	Operations with significant actual and potential negative impacts on local communities	Impact Assessment *In 2017, the company did not carry out operations with significant actual or potential negative impacts on local communities*	27	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 2017*		16

GRI index	GRI disclosure	Report section and/or comments or references to other sources	Page in the Report	UN Sustainable Development Goals
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 2017*		16
Sector Disclosures (in Addition to General and Specific Standard Disclosures)				
Category: Environmental				
OG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	Environmental Monitoring and Biodiversity Conservation	82–93	6 14 15
OG5	Volume and disposal of formation or produced water	Impact on Water Bodies	76	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	75 79–80 80	3 7 8 12 13 14
OG7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	Waste Management	77	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	58–59 138–139	1 2
OG10	Number and description of significant disputes with local communities and indigenous peoples	*In 2017, 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 2017, 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, questionnaire surveys, etc., is presented in Section 2 (About the Report).

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 2017 Report.

In October 2017, Sakhalin Energy held the first dialogue as part of the 2017 Report preparation. At this meeting, the company provided stakeholders with information on its activities and achievements during the reporting period. In February 2018, 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 questionnaire surveys at various events in November and December 2017 (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: first dialogue meeting. Open statements	
Natalya Samarina, Head of Natural Resources Management and Environmental Protection Subdivision, Yuzhno-Sakhalinsk Municipal District Administration	
In one of the reports, it was mentioned that the company had developed a motor vehicle safety programme, and explained how it could be used in the municipal districts. This programme seems interesting to me. Could you tell me, please, whether it has been published in some sources, and if so, how could I familiarise myself with it?	There are six working groups, organised within the framework of the Coordination Council with representatives of the Yuzhno-Sakhalinsk City Administration. One of them deals with road safety issues. You can get relevant information from our colleagues from the Transport Division of the City Administration. We are working in this area together
Regina Fedulova, Chief Advisor of Indigenous Minorities Division, Sakhalin Oblast Government	
About three or four years ago, when discussing a Sustainable Development Report, a question was asked, which obviously referred to the scope of responsibility of an HR Subdivision employee. Representatives of indigenous minorities receive adequate education, but when they graduate and want to work at the company, their insufficient knowledge of English becomes a factor that makes this impossible. Has anything changed yet? You said that 80% of the company's personnel are Russian citizens. Representatives of indigenous peoples do not have very good command of English, and this prevents them from getting a job at the company	The company considers all requests for vacant positions, submitted by job candidates whose experience and qualifications meet the requirements for these positions in compliance with the laws of the Russian Federation. For certain vacant positions, the knowledge of English is a mandatory qualification requirement. However, the company has positions for which this requirement is not set. If the knowledge of English is mandatory, the required level is specified for each particular position
Alla Gafner, Chairperson of the Stroitel Gardeners' Non-Commercial Partnership	
You said that all documentation for LNG train 3 and LNG loading jetty had passed an environmental expertise and that a positive conclusion had been received. Is it correct?	The company received the positive conclusion of environmental expertise for the LNG loading jetty. Environmental expertise is required only for this component of the project. For reference: the LNG train 3 project includes the reconstruction of the gas transportation system, the construction of a second LNG loading jetty, and an expansion of the LNG plant (construction of LNG train 3, a third LNG tank, engineering communications, etc.)
Is there a clause about the sanitary protection zone (SPZ) in this expertise conclusion (for LNG train 3)? As far as I know, it is mandatory that an expertise contains a clause on the SPZ. I have read literature on the topic, and I know that emissions will increase. Therefore, the SPZ should be extended, too	The sanitary protection zone is established for onshore assets, that is, for the LNG plant, and not for the LNG loading jetty; respectively, there is no clause on the SPZ in the conclusion of the environmental expertise
But you showed the entire LNG train 3 to us. There was the jetty and more tanks. If you received a conclusion only for the jetty, why did you show us the whole project?	The information about the project was presented to give a general idea of the project
Natalya Koltunovich, Director of the Department of Environmental and Water Resources Protection, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast	
I would like to thank Sakhalin Energy for the training. The company pays much attention to environmental issues, in particular to biodiversity conservation. And conducting such trainings (in particular, trainings in rescuing marine animals) is very topical for the Sakhalin Oblast. Once again, I thank the company for the work. We look forward to further participation in such trainings	The company appreciates the feedback
The figure for 2017 has not yet been calculated, so I will refer to the 2016 Report. My questions are about the technological process rather than figures: the first question regards greenhouse gas emissions, and the second — production waste. On the instructions of the Sakhalin Oblast Government and the Ministry of Natural Resources, we are currently collecting information on greenhouse gas emissions. For this, we use statistical information and, of course, information provided by companies. In order to obtain accurate data, we must use the correct base-line values. The 2016 Report states that LNG production accounts for slightly more than 70% of greenhouse gas emissions. And there is also a chart showing emissions broken down by source. According to this diagram, almost 90% of greenhouse gas emissions are caused by fuel consumption, and only 6% — by hydrocarbon flaring. My first question: what is meant by fuel consumption, what technological processes does it include — is it only burning fuel in boiler houses and diesel stations?	As regards greenhouse gas emissions: the company has been monitoring them for many years using both the Russian method and the methodology of the American Petroleum Institute. At the company assets, up to 70% of greenhouse gas emissions are emissions from LNG production. As for the sources of emission, about 6% is caused by flaring, while the greater part is caused by fuel burning at the power plants, diesel stations, and boiler houses
The second question. We know that the process of liquefying natural gas involves, first of all, removing CO_2. Is this gas sent into the atmosphere after removal, or do you dispose of it?	As regards CO_2 removal when liquefying gas, this is done to prevent the pipes and equipment from getting frozen and clogged in the liquefaction plant. After removal from the incoming feed gas, the so-called acid gases (mainly CO_2) are fed into the plant for burning. The information is included in Section 8.1.5
The next question is about production and consumption waste. The 2016 Report indicates that waste was exported outside the Sakhalin Oblast. This year, the Nogliki and Korsakov landfills have been commissioned. In this regard, I have a question: where does the company dispose of its waste — in the landfills of the Sakhalin Oblast or elsewhere, and in what amounts?	On 17 January 2017, the company resumed the disposal of waste generated by its northern assets at the Nogliki landfill (in accordance with the current agreement). As for the south of the island, the capacity of the Korsakov landfill is limited both in terms of nomenclature and amounts of waste. Our short-term contract was concluded for a very limited amount of waste and only for Hazard Class V waste. Thus, in 2017, most of the company's waste is disposed at landfills in other regions. The company expects the other opportunities emerge for waste disposal in the Sakhalin Oblast, because it is quite costly to remove it from the island, but everything depends on obtaining corresponding limits for the reliable disposal of waste

Comment, question, critical remark or suggestion	Company's response and/or commitment
Sergey Dubov, Deputy, Yuzhno-Sakhalinsk City Duma	
First of all, I would like to thank Sakhalin Energy and its employees for organising social and environmental programmes in our region, and say some words about the economy. All of you know about the planned changes to the budget, the significance of the Sakhalin Oblast budget and municipal budgets. I would like to draw your attention to the necessity to involve more Sakhalin contractors in the implementation of the Sakhalin-2 project in order to fill local budgets and the budget of the Sakhalin Oblast, and to create new jobs for residents of Sakhalin. This is one of the recommendations I would like to make, and I request that you take it into consideration. Sakhalin contractors often find it difficult to compete with mainland companies in terms of commercial offers. There are objective reasons for it. Our prices and, accordingly, wages are higher. I would like this aspect to be given priority when choosing contractors	The company appreciates the feedback. The information is included in Sections 7.4 and 7.5
Anna Korolenko, Advisor of Environmental Protection, Regulation and Licensing Subdivision, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast	
Does the process flow scheme of LNG production provide for acid gas removal?	Yes, it does. After removal from the incoming feed gas, the so-called acid gases (mainly CO_2) are fed into the plant for burning. The information is included in Section 8.1.5
Tatyana Voskoboynikova, member of the Stroitel Gardeners' Non-Commercial Partnership	
If the amount of harmful substances increases, does this affect us, the inhabitants of the Korsakov District (and other districts, too)? What kind of waste is this?	Harmful substances are exported from the island, so they cannot possibly have a harmful effect. In the answer above, there was information about solid production and consumption waste, which is exported to the mainland. These are different low-hazard types of waste, mainly Hazard Class IV
Natalya Dunav, Head of Psychological and Pedagogical Care Subdivision, Preodoleniye Centre	
I would like to tell you about the experience of collaboration with the company and its human capital — people who work at Sakhalin Energy. We have been successfully cooperating with Sakhalin Energy for a long time already. And has resulted in material conditions in our Centre have significantly improved, campaigns, grants, which were mentioned by Anna Mikhailovna. Also the charitable work conducted by the company's employees. They do it all from the bottom of their hearts, competently, and with true interest! Our Centre has about 70 employees, who are also sincere and truly interested in the work they do. Working together with supportive, kind people who are willing to help children in difficult life situations, we succeed in making positive changes in the lives of children with disabilities. Therefore, on behalf of the employees of the Centre and on my own behalf, I would like to say words of gratitude to Elena Alyokhina, Anna Lygina and other employees with whom we cooperate	The company appreciates the feedback. We highly appreciate our cooperation and hope that the Preodoleniye Centre will continue to be an active participant in our charitable programmes

Comment, question, critical remark or suggestion	Company's response and/or commitment
It all started with a small grant project fifteen years ago, but we were asked to give it up in favour of another institution. Instead, the centre was offered a different, more comprehensive aid package. The Centre still uses the exercise machines and other equipment, donated by the company. This includes a gym, equipped specially for children with impaired locomotor system, an art studio, a sewing machine, musical instruments with beautiful natural sounds, expensive and very high-quality diagnostic equipment in the office of psychologists. Of course, we receive funding. But we are the only institution in the region that takes care of children with disabilities and various other health problems. There is always something we have to buy for the children, and very often we cannot buy what we need using budget funds. The company always promptly responds to our needs. For instance, it has just launched the Letter to Father Frost campaign. Imagine that 50 children with disabilities living in the Sakhalin Oblast will receive the gifts they have been dreaming of, and this will happen in a joyful atmosphere in their homes!	The company has been fruitfully cooperating with the Preodoleniye Centre for a long time already. The example you've mentioned is the participation of the Centre as a beneficiary in a special programme, in which several institutions received up-to-date equipment for the rehabilitation of children with disabilities. This programme has helped the specialised institutions of the region to implement new rehabilitation programmes and to improve the quality of services. In addition, the Preodoleniye Centre is a participant in the company's grant programme (the Energy Social Initiatives Fund), which has been operating for 15 years. The Centre has repeatedly won the grant competitions held by the company. The grants we obtained allowed the Centre to implement a number of its projects (the Little Theatre Studio, the Merry Orchestra, etc.). The New Year Miracles charitable campaign was another page in the history of our cooperation. It is one of the projects of the Hurry up for Good Deeds corporate programme (support of employees' charitable initiatives and development of corporate volunteering)
Event: second dialogue meeting. Open statements	
Natalya Koltunovich, Director of the Department of Environmental and Water Resources Protection, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast	
In connection with grievances and requests submitted by residents of the Korsakov District and members of the Stroitel Gardeners' Non-Commercial Partnership, I have a few comments on the 2016 Report and recommendations for the 2017 Report. First. The 2016 Report tells about the framework for detailed monitoring of the established MPE standards. I would like to ask you to explain, at least briefly, whether these measurements correspond to the conditional MPE, and to suggest that this information be included in the 2017 Report. Second. We are aware (and the company informs the participants of meetings with the population, organised at our request) that the company conducts monitoring of atmospheric air in the area of the LNG plant operations. These results, and the monitoring itself, are not mentioned in the Sustainable Development Report. It would be a good idea if this information to be included in the Report, as well as the results of monitoring (at least briefly). Third. In connection with the numerous appeals of the population, I would like to request you that the information on measurements and monitoring be communicated to the residents of the Korsakov District, preferably in the media, in the district newspaper	The conclusion on the results of measurements at the boundaries of the SPZ of all production facilities is included in Section 8.1.1. Sakhalin Energy has plenty of channels to inform the public about the company's activities. In particular, we publish information in newspapers and on the Internet. As for Korsakov, the information is published both in the Voskhod newspaper, published in Korsakov, and on the website of the Korsakov City District Administration. You can also contact Elena Glavanova, Community Liaison Specialist. She works in the company's office located at 11 Korsakovskaya Str. In 2017, the company published information on the results of the monitoring of atmospheric air, surface water, and soil in the area of the Prigorodnoye production complex in the Voskhod newspaper (issues No. 61, No. 66, No. 83). In 2018, the company intends to continue this practice

Comment, question, critical remark or suggestion	Company's response and/or commitment
Alla Gafner, Chairperson of the Stroitel Gardeners' Non-Commercial Partnership	
After our meetings with representatives of the company in Korsakov (we often meet, not only at these dialogue meetings), we asked the company to organise a focal meeting with representatives of our partnership, the Ministry of Natural Resources, Rospotrebnadzor, Rostekhnadzor, and representatives of the Supervisory Board. Do you think our request was granted? We wrote a letter, submitted it — and received a refusal. That is, when we were making arrangements for the meeting, everything was fine. It was in December, and the meeting was planned for January. As soon as I suggested that not only company representatives be invited to the meeting, our request was refused. To be exact, we received an answer saying that the meeting had been postponed till February, and that the company was not authorised to invite experts from other organisations. So, what do you think we did? We wrote to the Ministry of Natural Resources, and received an answer saying that this planned focal meeting with the residents of the Korsakov District was organised by the company, so it was up to the company to compile the list of participants and ensure their participation through official invitation. What does it all mean? The company refuses to grant our request. They do not want to invite representatives of the Supervisory Board, Rospotrebnadzor, Rostekhnadzor or representatives of the Ministry of Natural Resources. I meet with representatives of the company every month, so what else can we talk about? This is the first point	You requested the company to invite representatives of various ministries, members of the Supervisory Board and other bodies to a focal meeting initiated by you. We cannot invite representatives of third parties to a meeting organised by an organisation other than the company. The company can only guarantee the presence of its specialists at such a meeting. The company has held meetings where representatives of various ministries and other state authorities participated. These were public meetings with the community, initiated by the company, which we conduct annually in the host areas of our project
And the second. I have a request: please arrange my meeting with Mr. Dashkov, the CEO, or his first deputy, because the CEO is not aware of our problems. Now the question of the LNG Train 3 project is under consideration. In this regard, I must say on behalf of all the gardeners that the construction is out of the question until you solve the problem of the gardeners' partnership's resettlement. We are going to involve television, legal bodies, newspapers, the people's deputies of the Korsakov District and fight for our rights, because we cannot stand it any longer. You are increasing production volumes, but what about us? Our request concerns all the dacha land plots — it is impossible to be there any longer, can't you understand it?	Being the Chief Executive Officer, Roman Dashkov knows about this situation (just like the other directors). But when we organise meetings with you, we invite specialists who have expertise in the issues that you raise. According to the effective laws of the Russian Federation and the Resolution of the Chief State Medical Officer of the Russian Federation On Establishing the Size of the SPZ, it is only the owners of dacha land plots located within the SPZ who are subject to resettlement or payment of compensation. Stroitel GNCP, however, is located outside the SPZ. Nevertheless, despite the absence of legal grounds for compensation, during consultations with the owners of dacha land plots in 2006 and on the basis of the World Bank's Operational Directive 4.30 on Involuntary Resettlement, the company offered the members of Stroitel GNCP two options for compensation: • 100% of the market value for those who agree to abandon their land plots; • 50% of the market value for those who do not agree to abandon their land plots. 28 out of 73 owners of dacha cottages chose the option of 100% compensation of the market value with owners' simultaneous refusal from the ownership to respective land plot, and 43 owners chose to receive a compensation of 50% of the market value. Two members of the partnership did not show any interest in receiving compensation. All the owners of dacha cottages agreed to the amounts of compensation, which was recorded in the agreements they signed. To date, the company considers its obligations to the members of Stroitel GNCP to be fully fulfilled and all pre-trial forms of settlement of this dispute — exhausted

Comment, question, critical remark or suggestion	Company's response and/or commitment
I do not know what kind of sampling or testing you do there. In 2011–2012, we took samples; we received help; we paid so much money for the necessary reagents. It was all licensed. The Institute of Agriculture conducted all the testing. Nevertheless, we cannot prove anything. The tests showed an increase in benzapyrene content in the soil by 40%, 16%. But the company's representatives say to us: "Prove that it has been caused by the plant." How else can we prove? That was back in 2011; can you imagine how high the contamination rate is today? After all, these substances accumulate, constantly burn, fall out. They have been accumulating for seven years already. Did you take samples of the soil in 2017? You did not. You took only samples of the air. So, what about the air? Thus, my first question regards the appeal I wrote. What resolution has been made in respect of this appeal?	The state of atmospheric air is controlled not only by the company, but also by the Department of the Independent Hydro-Meteorological Service for the Sakhalin Oblast on a monthly basis. This authority has not detected any atmospheric air pollution in the vicinity of the Prigorodnoye production complex or air pollution caused by the LNG plant. The report on the state of the environment in the Sakhalin Oblast indicates that the air pollution rate in this area is characterised as low. Soil monitoring was carried out in 2017; no accumulation of pollutants was revealed. Unfortunately, the company cannot control the use of the dacha land plots and land directly in the territory of Stroitel GNCP. The company has no information about what substances are put into the soil — what fertilisers and in what quantities, and what pollutants get in it. There is no accumulation of pollutants in the natural environment, and the same applies to the plant community. All structures of the plant community are preserved in the same state as they were before, except for the modified territories that underwent changes during construction. As for protected species, their situation is satisfactory; no changes have been detected. Moreover, according to the results of the independent monitoring conducted by the Institute of Marine Geology and Geophysics, as well as monitoring conducted by the company, the sensitive indicator species (e.g. lichens) evidence that the company's production activities do not affect these objects. This area is accessible to all. Not only the company, but also many other competent organisations are engaged in monitoring the environment in this territory
Nadezhda Nikitina, Head of the Subdivision of Programme and Estimate Documentation Analysis and PSA Implementation, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast	
I would like to thank you for the 2016 Report and for taking into account our comments regarding the Russian Vendor Development Programme in it. I would like to point out that Sakhalin Energy is a pioneer on Sakhalin — the first company to issue such a report. The Report meets international standards in this field, and gets better and better every year owing to several factors, the recommendations of the public being one of them. In turn, I would like to recommend the company to take into consideration the following	Thank you for your feedback and suggestions
Clause 5.4. Corporate Ethics and Culture refers to combating bribery and corruption. It would be a good idea if the Report contained a phone number so that contractors could call and provide information about the facts of dishonest business practices	The information is included in Section 5.7
My second comment regards vendor development. It is a very good section, thank you. The company conducts workshops, and they are of great benefit to Sakhalin contractors. It would also be useful to specify contact phones or a link so that a Sakhalin contractor company could find out how it can participate in these events. Or a link to the official website of the company. This would be of great help to us. You told us about the LNG Train 3 project. It is a very promising project. Sakhalin contractors are also interested in it. In the 2016 Report, the company indicated that it conducted technical audits. If the Report contained a relevant link, Sakhalin contractors could use it to apply for an audit, because if such audits find that they are technically acceptable, the company considers the enterprise as a potential contractor and recommends the general contractor to involve it in the performance of works under a subcontract	The information on the Russian content and the Russian Vendor Development Programme is included in Sections 7.3 and 7.5 respectively. Section 7.5 includes additional information on contact details and other data related to the Vendor Development Programme and the Russian Enterprises Audit Programme for the LNG Train 3 project

Comment, question, critical remark or suggestion	Company's response and/or commitment
Also there is something I would like to say about the Russian content. The 2016 Report contains a separate information block on the Russian content — Section 7.3. Thank you for including the information on the value of contracts with Russian companies, but I think that my fellow countrymen would be interested to know about Sakhalin companies	The information was included in Section 7.3. The list of examples of contracts signed in 2017 includes Sakhalin companies, among Russian enterprises. Sakhalin Energy is exploring opportunities to expand the participation of Sakhalin companies. To this end, the company interacts with the Sakhalin Oblast government, and information exchange is currently under way. In particular, it is planned to include Sakhalin companies in the Pre-Qualification Audit Programme in 2018
I would like to thank all the speakers, but I have another recommendation — to include not only the declared principles and the Zero Goal programme in the section on occupational safety and health, but also figures about incidents in 2016 and 2017	The information was included in Section 9.2. In addition, this comment will be taken into account when preparing for dialogue meetings
Vladimir Averin, Project Manager of the Ecology of Russia project in the Sakhalin Oblast	
The company has been doing extensive work aimed at sustainable development. In 1990, I made a report on the development of the Sakhalin shelf for investors. Among the issues raised in the report was the issue of pricing. Does the company compare the prices of the product that it produces? What was the price of oil products 15 years ago and how much do they cost today? It is necessary to revive the mini-factory for residents of the region, because the price of hydrocarbons in Moscow, where petroleum products are not extracted, is cheaper than on Sakhalin by seven roubles per litre. Therefore, the company needs to pay attention not only to the project, under which much work is carried out indeed, but also to the population	Thank you for your feedback. This question does not apply to the activities of the company
Sergei Sedov, Human Rights Commissioner for the Sakhalin Oblast	
On behalf of the Federal Human Rights Commissioner Tatyana Moskalkova, I have the honour to present the company with a letter of thanks for the considerable contribution to the protection of human rights and freedoms of citizens. The high standards of human rights protection that the company is guided by in its activities are very important. Over the previous five years of my work, I did not receive a single complaint regarding the activities of the company. I hope it will be the same in the future. And I have a suggestion: your Human Rights policy could be applied to all your suppliers through the vendor management procedure	It is remarkable that the company has received the award for the protection of human rights and freedoms, especially in the year when we are preparing a Sustainable Development Report on the topic of human rights, in the year that was announced as the Year of Civic Engagement and Volunteering in Russia. Sakhalin Energy's Human Rights Policy extends to contractors and suppliers of the company. The information is included in Section 9.4
Other activities (electronic questionnaires, personal interviews, etc.)	
The significance of the project not only for the budget of the Russian Federation and the Sakhalin Oblast, but also for the population of Sakhalin	The information is included in Sections 7.1, 7.2, 9.1, and 9.5

Comment, question, critical remark or suggestion	Company's response and/or commitment
Support and development of Sakhalin companies and suppliers	The information is included in Sections 7.3 and 7.5
Reuse of utilised resources	It is only possible to reuse materials, but not resources (money, time, and people cannot possibly be reused). The company's capabilities in this regard are significantly limited, since there are no production facilities recycling waste such as plastic, glass, and paper (cardboard) in the Sakhalin Oblast. However, scrap metal, partly boxing and packaging, and food waste are sent for recycling. Information on waste management is included in Section 8.1.3
The company's work with contractors in the area of re-use of used materials	Owing to separate waste collection and in connection with the export of waste to the mainland, the company's contractors partially send materials such as plastic and paper for processing, but this share could be significantly increased. Information on waste management is included in Section 8.1.3
Air quality in Yuzhno-Sakhalinsk	Sakhalin Energy (i.e. its office buildings) do not affect the quality of atmospheric air in Yuzhno-Sakhalinsk; therefore, the company does not monitor its condition here. Nevertheless, there is information in the reports of the Sakhalin Oblast Ministry of Natural Resources that the MPC is exceeded for some pollutants. The main source of pollution is motor vehicles. The situation improved significantly (emissions decreased by 70%) after the transition of the Heat and Power Plant to gas supplied under the Sakhalin-2 project to the Russian party under the terms of the PSA. Information on air quality monitoring is included in Section 8.1.1 of the Report
Is there any negative impact from the LNG plant operations?	The negative impact of the LNG plant's activities is at an acceptable level (this is confirmed by the positive conclusions of the state expertise; the compliance of the results of the discharges and pollutant emissions monitoring with the established standards; the safe state of the environmental components — based on the monitoring of soils, water objects, flora and fauna around the Prigorodnoye production complex)
It is proposed to additionally include the following topics in the Waste Management section: Reduction, Reuse and Recycling (3R) and Waste-to-Energy. Both concepts can be used in the implementation of the Sakhalin-2 project. Our company is ready to provide environmental specialists and present our views on these issues in order to raise the awareness of personnel	The company is familiar with the concepts of 3R and waste-to-energy, and uses the hierarchical principle of waste management in accordance with the corporate strategy and standards. Unfortunately, our capacity to apply the above concepts is limited due to the lack of waste processing facilities on the island. The company is interested in specific proposals for the practical processing or recycling of waste, or its use for energy recovery
Engagement with regional and federal authorities	The information is included in Section 6.9
Community engagement	The information is included in Section 6.4

Comment, question, critical remark or suggestion	Company's response and/or commitment
Achievements of the company in any field of activity in 2017. Indicate some technical breakthroughs in production, optimisation or other interesting facts	Information on the advanced technologies used at the company assets and the results achieved for the reporting year is included in Section 4.2. Information on the Continuous Improvement Programme is included in Section 4.3. Interesting facts and achievements in various areas of the company's activities are included in the 2017 Sustainable Development Report
Goal Zero programme	Information about the Goal Zero programme is included in Section 9.2.3
Project development	Section 4.2.2 provides the information on the development projects implemented by the company. The company's plans for 2018 and consecutive years are also included in Section 10
Pro bono	Pro bono — rendering professional assistance on a non-reimbursable basis to non-profit organisations and the public — is one of the areas of the Hurry Up For Good Deeds corporate programme (support of employees' charitable initiatives and development of corporate volunteering), which the company has been actively implementing and promoting in the past two years. This practice is now becoming one of the most promising development vectors for volunteerism in the whole world and in our company in particular. The Report presents several volunteer projects. The information is included in Section 9.5.4
Marketing of hydrocarbons, the company's share in the market of the Asia-Pacific region, in Russian gas supplies to world markets	The information is included in Section 4.2.3
Is it possible to show the relationship between the successful development of the oil and gas industry on the island and its creating certain problems for the local infrastructure such as traffic jams and a lack of parking spaces, which require special solutions? What can the company do to help solve this local problem (in addition to providing buses that allow not using personal vehicles)?	A bus service has been organised between the company assets in the south of the island and Yuzhno-Sakhalinsk. Employees of the company are strongly recommended to use corporate buses for trips during the working day and for trips to work. In order to promote the idea of walking, cycling, and using public transport, the company conducts the Day Without Car, on which employees are encouraged to refrain from using fuel-consuming vehicles at least for a day. The issues related to the organisation of the transport system in Yuzhno-Sakhalinsk are discussed with the City Administration at the meetings of the Coordinating Council Working Group
Assistance in the preservation of many rare animal species around the world	The efforts made by Sakhalin Energy to protect endangered species in the zone of potential impact of its production facilities contribute to their conservation on a global scale. Information on monitoring and conservation programmes for protected animal species is included in Section 8.2

Comment, question, critical remark or suggestion	Company's response and/or commitment
Scientific research and its results	At the stage of project operation, the main objective of the company is to carry out the diagnostic monitoring of natural environments, most often a comparison of the selected indicators with the standards or background values. During the implementation of these programmes, results are obtained that have scientific value by themselves. The company normally gives its consent to the publication of such data by contractors, among which are educational, academic or sectoral research organisations. To obtain such consent, it is necessary to contact the company through the contract holder with the relevant request, which will certainly be given consideration. What is more, in some areas, e.g. gray whales monitoring, mechanisms have been developed to promote scientific publications
Resettlement of the members of Stroitel GNCP from the LNG plant adverse impact zone	According to the effective laws of the Russian Federation, only the owners of land plots located within the SPZ are subject to resettlement or payment of compensation. Stroitel GNCP is located outside the SPZ; therefore, there are no legal grounds for the resettlement of its members. In order to comply with the requirements of the law of the Russian Federation in respect of legal entities that have stationary sources of pollutant emissions into the atmosphere, the company carries out quarterly industrial quality control of atmospheric air at the border of the sanitary protection zone of the Prigorodnoye production complex. In addition, quality control of atmospheric air is carried out in the territory of Stroitel GNCP on a monthly basis from May to October upon agreement with the owners of dacha cottages. No cases of exceeding the MPC standards were recorded in 2017
More complete coverage of environmental campaigns. Invitation of volunteers	Every year, two corporate volunteer campaigns (Voluntary Community Work Days) are held as part of the Hurry Up For Good Deeds Programme (support of charitable initiatives of employees and development of corporate volunteering), which are attended by employees of the company and members of their families. Participation in all charitable and volunteer events of the company is absolutely voluntary. Announcements of upcoming events, as well as information on their results are distributed through various internal communication channels, including the information screen, email distribution, posters at the company's offices, the Vesti corporate newspaper, and others
About the LNG Train 3 project. If the project facilities are located in the areas of traditional residence of the Sakhalin indigenous minorities, the availability of a public relations specialist from among the SIM is an objective necessity	The company has a team for SIM engagement, consisting of two employees, one of them works in the Nogliki District on a permanent basis
Please consider the inclusion of travel grants in the charitable activities of the company. These grants would allow children with disabilities, accompanied by their parents, to attend important events (competitions, festivals, etc.), including those outside the region	When implementing its charitable programmes, the company strictly adheres to the approved policies and procedures. All of the company's projects are primarily aimed at developing the capacity of social institutions and organisations of Sakhalin (introduction of new services, improvement of services quality, developing new activities, etc.), which ultimately contributes to the sustainable development of the company's host region. Provision of targeted support to individuals, including financial support for travel outside the Sakhalin Oblast, is not among the objectives of the company's charitable programmes

Comment, question, critical remark or suggestion	Company's response and/or commitment
Information on trouble-free operations should be spread more widely, especially on motorways	Sakhalin Energy strictly adheres to the standards set by the RF transport legislation and compliance with the requirements of the company's Road Safety Management Standard. Placement of information posters on motorways outside populated areas contradicts the company's principles in the field of road traffic safety, even if the information is topical. Such posters distract drivers, which, in turn, may have a negative effect on road safety in general. At the same time, it should be noted that the company conducts an active social policy, participates in various forums where it shares best practices of safe road traffic organisation, interacts with state authorities, the public, and business
Promotion of healthy lifestyles	Promotion of healthy lifestyles (HLS) includes health education aimed at raising awareness of various HLS aspects (prevention of infectious diseases, healthy eating, physical activity, stress, fatigue, etc.), promoting active lifestyles, and providing employees of the company with an opportunity to control their physical condition, to take part in sports events and so on. To do this, the company has created all the necessary conditions: access to the use of gyms and the swimming pool. There is a football pitch, tennis courts, an ice rink, etc. in the territory of the company assets. Moreover, there are gyms and sports grounds at the company's remote assets. The company also implements other programmes, as well as measures to prevent a number of diseases
Gender equality	The information is included in Section 9.1
Recommendations of the RUIE Council for Non-Financial Reporting Concerning the Results of Examination of the 2016 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. for the Purpose of Public Endorsement	
It should be noted that the recommendations of the Council to present broader data in dynamics for at least three years, to include measurable indicators in the description of the company's strategic objectives in the field of sustainable development, as well as the company's contribution to the achievement of the UN Sustainable Development Goals for the period until 2030, taking into account the company's commitments in this field, can be implemented more fully in the future	The Report presents data more widely (in dynamics for at least three years). The Report contains an additional section that describes the company's actions towards the achievement of the Sustainable Development Goals (3.4.2)
The Report provides information about the assessments of the areas and indicators of responsible business practices, which are regularly conducted as part of the internal control and audit system, as well as by lenders, their consultants, and independent experts. It is recommended that the company further disclose information on the key results of this practice	Many of the external monitoring reports are publicly available. The Report provides links to these documents, and every report contains a brief summary in several pages

Comment, question, critical remark or suggestion	Company's response and/or commitment
The Report lists the projects that the company implements promoting sustainable development of the local communities. It is recommended that the company provides, in its next reports, more details on the monitoring carried out by the company and evaluation of the main outcomes of such projects. It would also be useful to include comments on the dynamics of changes in requests from the local community and the company's response to them	The Report presents the main conclusions from the external independent evaluation report on the company's social programmes. The independent experts' reports are also available on the company's website. As regards the social and economic aspects of the host region, the impact and changes in this area are determined by a variety of factors, and it is difficult (and sometimes impossible) to determine the direct link between these changes and the implementation of the charitable programmes by the company, especially under conditions when the company is not city-forming in the host region. Priority areas of the charitable programmes are specified in the company's procedural documents. The company provides funding for local initiatives exclusively on a competitive basis, and examines only applications that meet the conditions of the company's charitable programmes
The Report contains an increased number (compared to the previous Reports) of environmental indicators in dynamics. It is recommended to continue this trend in the future. Attention should be given to the importance of including comments explaining the dynamics of the indicators, in particular with regard to data on water consumption and energy efficiency	In the 2017 Report, an explanation of the dynamics of energy efficiency data is included in Section 8.1.4. An explanation of the dynamics of water use indicators is presented in Section 8.1.2
The Report contains information on taking into account the opinions of stakeholders when identifying material topics for disclosure. It is recommended that, along with the description of the positions of all major stakeholder groups, given in the Report, the next reports describe more clearly the procedure for identifying material topics taking into account stakeholders' views on the importance of various aspects of the company's activities	The information is included in Section 2
The Report systemically covers the topic of respect for human rights in the context of entrepreneurial activities. It is recommended that the subsequent reports include a description of specific practices for the application of corporate documents and management procedures that consider various issues of socioeconomic human rights in the company's relations with stakeholders	The company will continue to report on the respect to fundamental human rights. Moreover, this Report is devoted to this topic (see Section 2). General information on the company's respect to human rights is presented in Section 9.4, information on the respect of the right to information is contained in Section 6, on the respect of the right to a favourable environment — in Section 8, and on the right to favourable conditions of work — in Sections 9.1–9.3

Appendix 3. List of Participants in the Dialogues with Stakeholders, Held in the Preparation of the 2017 Sustainable Development Report

1. Korsakov District Administration, O.I. Manukhin, Deputy Head of Social Development Department.
2. Korsakov District Administration, N.A. Panasenko, Head of Education Subdivision.
3. Yuzhno-Sakhalinsk Municipal District Administration, E.K. Anistratova, Head of Public Relations Subdivision of Internal Policy Division.
4. Yuzhno-Sakhalinsk Municipal District Administration, T.V. Pervukhina, Specialist.
5. Yuzhno-Sakhalinsk Municipal District Administration, N.E. Samarina, Head of Natural Resources Management and Environmental Protection Subdivision of Environmental Protection Division.
6. Sakhalin Oblast Governor and Government Office, O.S. Kutaybergey, Consultant of Indigenous Minorities Division.
7. Sakhalin Oblast Governor and Government Office, N.V. Mizinin, Head of Indigenous Minorities Division.
8. Sakhalin Oblast Governor and Government Office, R.V. Fedulova, Chief Advisor of Indigenous Minorities Division.
9. Sakhalin Regional Museum, T.P. Chaychenko, Subdivision Head.
10. Sakhalin Regional Art Museum, A. V. Lomteva, Head of Science and Education Subdivision.
11. Sakhalin Regional Art Museum, I.G. Malkova, Deputy Director.
12. Sakhalin Regional Art Museum, Z.V. Turmanova, Head of Museum Pedagogy Subdivision.
13. Sakhalin Regional Art Museum, E.S. Nitkuk, Head of Regional Art Projects Subdivision.
14. Sakhalin Regional Children's Library, I.M. Kalinovskaya, Chief Librarian.
15. Preodoleniye Centre, N.S. Dunav, Head of Psychological and Pedagogical Care Subdivision.
16. City Duma of Yuzhno-Sakhalinsk, S.V. Dubov, Deputy.
17. State Duma of the Russian Federation, L.P. Denisova, Assistant to Deputy G.A. Karlov.
18. Chief Directorate of the EMERCOM for the Sakhalin Oblast, N.P. Sharukhina, Lead Expert.
19. I.P. Dzhieva, M.S. Kochneva, Lawyer.
20. Yuzhno-Sakhalinsk Centralised Library System, Culture Division of the Administration of Yuzhno-Sakhalinsk, L.K. Kisenkova, Head of Projects, Publishing and Advertising Subdivision.
21. Ministry of Healthcare of Sakhalin Oblast, T.I. Atkishkina, Lead Advisor.
22. Ministry of Forestry and Hunting of Sakhalin Oblast, Department for Specially Protected Natural Areas, Wildlife and Hunting, E.G. Chernyavskaya, Head of Subdivision for Specially Protected Natural Areas Work Organisation and Biodiversity.
23. Ministry of Education of Sakhalin Oblast, E.F. Babina, Deputy Minister.
24. Ministry of Education of Sakhalin Oblast, E.V. Klinova, Lead Consultant.
25. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, N.S. Koltunovich, Director of the Department of Environmental and Water Resources Protection.
26. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, N.V. Nikitina, Head of Programme and Estimate Documentation Analysis and PSA Implementation Subdivision.
27. Ministry of Natural Resources and Environmental Protection of Sakhalin Oblast, A.Yu. Korolenko, Advisor of Environmental Protection, Regulation and Licensing Subdivision.
28. Ministry of Economic Development of Sakhalin Oblast, A.A. Uspensky, Acting Minister.
29. Representative of the Indigenous Peoples of the North, M.V. Kragina, decorative applied arts craftswoman.
30. Representative of the Indigenous Peoples of the North, O.V. Sadinova.
31. Ecology of Russia project in the Sakhalin Oblast, V.N. Averin, Project Manager.
32. Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities, S.N. Sangi, Council Member.
33. Rodnik Environmental Centre (Sakhalin Regional Public Organisation), A.S. Zatsarinnaya, Chairman.
34. Stroitel Gardeners' Non-Commercial Partnership, A.I. Gafner, Chairperson.
35. Stroitel Gardeners' Non-Commercial Partnership, T.S. Voskoboynikova, Member.
36. Korsakov City District Assembly, L.D. Khmyz, Chairman.
37. Indigenous Minorities Council of Yuzhno-Sakhalinsk Municipal District Administration, A.Ya. Nachetkina, Deputy Chairman.
38. Sakhalin Research Institute for Fishing and Oceanography, D.S. Zavarzin, Senior Researcher.
39. Sakhalin Research Institute for Fishing and Oceanography, V.E. Maryzhikhin, Junior Researcher of the Environmental Research and Anthropogenic Impact Monitoring Laboratory.
40. Sakhalin Oblast Division of the Federal Service for Supervision of Natural Resources, L.V. Kirillova, Head of Subdivision for Supervision over Water and Land Resources, Hunting and Specially Protected Natural Areas.
41. Far Eastern Aerogeodetic Company, G.N. Egorova, Technical Manager.
42. S.B. Sedov, Human Rights Ombudsman of Sakhalin Oblast.

Appendix 4. Useful Links

Content	Website
Company's website	http://www.sakhalinenergy.com
Sustainable development principles	http://www.sakhalinenergy.com (section Social Performance)
About the company	http://www.sakhalinenergy.com (section About the Company)
Contracting with us	http://www.sakhalinenergy.com (section Contracting with Us)
Job and career	http://www.sakhalinenergy.com (section Job and Career)
Media centre	http://www.sakhalinenergy.com (section Media Centre)
Vesti newsletter	http://www.sakhalinenergy.com (section Media Centre)
Energy TV programme	http://www.sakhalinenergy.com (section Media Centre)
Whistle Blowing Procedure	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Company Documents and Material Referred to in the Report	
Code of Conduct	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Sustainable Development Policy	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Human Rights Policy	http://www.sakhalinenergy.com (section About the Company – Our Principles)
Sakhalin Energy Commitment and Policy on Health, Safety, Environment and Social Performance	http://www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Health Safety Environmental and Social Action Plan, Policies and Standards on Health, Safety, Environment and Social Performance (note: complex of documents)	http://www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Lenders' Independent Environmental Consultant Reports on Conducted Monitoring	http://www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Company Social Performance Management Standard	http://www.sakhalinenergy.com (section Safety and Environment – Health, Safety, Environment and Social Action Plan)
Contracting and Procurement Policy	http://www.sakhalinenergy.com (section Contracting with Us)
Public Consultations and Information Disclosure Plan (updated annually)	http://www.sakhalinenergy.com (section Social Performance – Community Awareness)
Biodiversity Action Plan	http://www.sakhalinenergy.com (section Media Center – Library – Environmental Documents)
Public Consultations and Disclosure Reports	http://www.sakhalinenergy.com (section Social Performance – Community Awareness)
Statement on application of ISO 26000:2010 Guidance on Social Responsibility	http://www.sakhalinenergy.com (section Social Performance – Sustainable Development Principles)
Sustainable Development Reports	http://www.sakhalinenergy.com (section Media Centre)
Projects and Programmes Websites	
Korsakov Partnership Council for Sustainable Development	http://www.korsakovsovet.ru/
Sakhalin Indigenous Minority Development Plan	http://www.simdp.ru/
"Safety is Important" Programme	http://senya-spasatel.ru/
The Energy Social Initiatives Fund	www.fondenergy.ru
Printed Materials	
Archaeological Heritage of Sakhalin Island	http://www.sakhalinenergy.ru (section Media Center – Library – Published editions)
Steller's Sea Eagle	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)

Content	Website
ABC-book of the Uilta Language	http://www.sakhalinenergy.com (section Media Center – Library – Published editions)
The Universal Declaration of Human Rights in the Nivkh language	http://simdp.ru (section Multimedia – Other Materials)
The Universal Declaration of Human Rights into the Nanai Language	http://simdp.ru (section Multimedia – Other Materials)
The Universal Declaration of Human Rights in the Uilta language	http://simdp.ru (section Multimedia – Other Materials)
"Vladimir Sangi" the book for 80th anniversary of the writer	http://simdp.ru (section Multimedia – Other Materials)
Calendar 2017 – Safety is priority!	http://www.sakhalinenergy.com (section Media Centre – Library – Published editions)
Comics	http://senya-spasatel.ru
Environmental protection at the Prigorodnoye production complex	http://www.sakhalinenergy.com (section Media Centre – Library – Published editions)
Resettlement: experience of Sakhalin Energy	http://www.sakhalinenergy.com (section Media Centre – Library – Published editions)
Human Rights: Experience of Sakhalin Energy	http://www.sakhalinenergy.com (section Media Centre – Library – Published editions)
Russian Content: Success Stories and New Opportunities	http://www.sakhalinenergy.com (section Media Centre – Library – Published editions)
EA. Best Practices Book Vol.1	http://www.sakhalinenergy.com (section Media Centre – Library – Published editions)
EA. Best Practices Book. Vol.2	http://www.sakhalinenergy.com (section Media Centre – Library – Published editions)
Gray Whales. The Sakhalin Story	http://www.sakhalinenergy.com (section Media Centre – Library – Published editions)

Content	Website
Reference Material and Other	
UN Global Compact	www.unglobalcompact.org
Global Initiative Sustainability Reporting Guidelines	http://www.globalreporting.org
IUCN Western Gray Whale Advisory Panel (WGWAP)	https://www.iucn.org/western-gray-whale-advisory-panel
SDG Compass	https://sdgcompass.org/
Sustainable Development Goals	http://www.un.org/sustainabledevelopment/ru/sustainable-development-goals/
UN Sustainable Development Goals	http://www.sakhalinenergy.ru/ru/social_responsibility/sdg.wbp

Appendix 5. Company's Information Centres List

District	Locality	Organisation	Address
Aniva	Troitskoye	Rural library, Branch No.7, Subdivision of the Municipal Institution Aniva Municipal Centralised Library System	13, Sovetskaya Str.
Dolinsk	Vzmorye	Rural library, Branch No.6, Subdivision of the Municipal Institution Dolinsk Municipal Centralised Library System	22, Pionerskaya Str.
	Sovetskoye	Rural library, Branch No.10, Subdivision of the Municipal Institution Dolinsk Municipal Centralised Library System	127a, Tsentralnaya Str.
	Dolinsk	Dolinsk Central City Library, Subdivision of the Municipal Institution Dolinsk Municipal Centralised Library System	31, Lenina Str.
	Sokol	Rural library, Branch No.5, Subdivision of the Municipal Institution Dolinsk Municipal Centralised Library System	14, Shirokay Str.
Kholmsk	Kholmsk	Central Regional Library named after Yury Nikolayev, Subdivision of the Municipal Institution of Culture Kholmsk Centralised Library System of Kholmsk Municipality	124, Sovetskaya Str.
Makarov	Vostochnoye	Rural library, Branch No.2, Subdivision of the Municipal Institution Makarov Municipal Centralised Library System	8, Privokzalnaya Str.
	Makarov	Makarov Central Library, Subdivision of the Municipal Institution Makarov Municipal Centralised Library System	9a, 50 Let Oktyabrya Str.
	Novoye	Rural library, Branch No.4, Subdivision of the Municipal Institution Makarov Municipal Centralised Library System	11a -7, Tsentralnaya Str.
Poronaysk	Poronaysk	Poronaysk Central Library, Subdivision of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	45, Gagarina Str.
	Gastello	Rural library, Branch No.4, Subdivision of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	42-2, Tsentralnaya Str.
	Vostok	Rural library, Branch No.13, Subdivision of the Municipal Institution of Culture Poronaysk Central Library System	10a, Gagarina Str.
Smirnykh	Onor	Rural library, Branch No.3, Subdivision of the Municipal Institution of Culture Smirnykh Centralised Library System	21, Sovetskaya Str.
	Pobedino	Pobedino Rural Library-Museum, Branch No.4, Subdivision of the Municipal Institution of Culture Smirnykh Centralised Library System	60, Tsentralnaya Str.
	Smirnykh	Smirnykh Central Library, Subdivision of Municipal Institution of Culture Smirnykh Centralised Library System	12, Lenina Str.
	Roschino	Rural library, Branch No.6, Subdivision of the Municipal Institution of Culture Smirnykh Centralised Library System	4, Komsomolskaya Str.
	Buyukly	Rural library, Branch No.7, Subdivision of the Municipal Institution of Culture Smirnykh Centralised Library System	1, Kosmonavtov Str.
Tymovsk	Molodezhnoye	Rural library, Branch No.17, Subdivision of the Municipal Institution of Culture Tymovsk Centralised Library System	14a, Sovetskaya Str.
	Tymovskoye	Central District Library, Subdivision of the Municipal Institution of Culture Tymovsk Centralised Library System	68a, Kirovskaya Str.
	Yasnoye	Rural library, Branch No.13, Subdivision of the Municipal Institution of Culture Tymovsk Centralised Library System	2, Titova Str.
	Kirovskoye	Rural library, Branch No.8, Subdivision of the Municipal Institution of Culture Tymovsk Centralised Library System	70, Tsentralnaya Str.
Nogliki	Nogliki	Nogliki District Central Library, Subdivision of the Municipal Institution of Culture Nogliki Centralised Library System	5a, Pogranichnaya Str.
Korsakov	Korsakov	Korsakov city Youth Library, Branch No.13, Subdivision of the Municipal Institution of Culture Korsakov Centralised Library System	7, Molodezhny Per.

Appendix 6. Feedback Form

DEAR READERS,

You have just read 2017 Sakhalin Energy Sustainable Development Report (hereinafter—the Report).

Your opinion on this Report is very important to us and we would really appreciate if you help us improve the quality of reporting by answering questions stated in this Form.

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

- ☐ Yes
- ☐ Mostly yes
- ☐ Equal
- ☐ Mostly no
- ☐ Unsure

Please provide comments in support of your answer:

_____

_____

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

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

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

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

Please provide comments in support of your answer:

_____

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

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

Please provide comments in support of your answer:

_____

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

_____

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

_____

_____

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

_____

_____

8. Please provide general comments on the Report:

_____

_____

9. Are you or your organisation interested in participating in dialogues about preparation of 2018 Sustainable Development Report?

- ☐ Yes (please provide your contact information)
- ☐ No

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

_____

_____

_____

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

- ☐ Company's employee
- ☐ Lender
- ☐ Shareholder
- ☐ Customer (buyer)
- ☐ Partner (contractor)
- ☐ Representative of authorities
- ☐ Representative of 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 email

Please return the completed Form on the 2017 Sustainable Development Report to:

35 Dzerzhinskogo Str., Yuzhno-Sakhalinsk, Sakhalin Region, Russian Federation, 693020

You may also send this Form by email: ask-sakhalinenergy@sakhalinenergy.ru or leave it at the company's information centre.

List and 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 2017

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

The detailed RUIE Council conclusion regarding public endorsement of 2017 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. 114.01.004.01.17

RUIE President /signature/ A. Shokhin

Moscow, 2018

Appendix 8. Conclusion on the Results of the Review of Sakhalin Energy 2017 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 2017 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.

During the period from 5 March 2018 to 20 March 2018, 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. 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. 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. 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 2017 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 2017 Report addresses the RUIE Council's recommendations for the 2016 Sakhalin Energy's Sustainable Development Report. The reported data for minimum of three years has been expanded, commentaries on water use and power consumption indicators have been included, information on evaluation of the projects on the local communities' development has been partially disclosed.

The company's 2017 Report contains material information regarding the following aspects of responsible business practices.

Economic Freedom and Responsibility. The Report presents information on the company's implementation of the crude oil and LNG production plans in compliance with all safety requirements as well as information on structure of crude oil and LNG market in 2017. The Report presents financial and economic indicators confirming the importance of the Sakhalin-2 project for the Russian Federation and Sakhalin Oblast. It contains information on development projects and initiatives as part of the Continuous Improvement Programme. The Report highlights the corporate governance system, its general principles, approaches and elements as well as composition, tasks and authorities of the company's management bodies. The company's

organisational structure is provided. Information is provided on Sakhalin Energy's Sustainable Development Policy and CSR management. The document contains description of management systems of occupational and environmental safety, risks, and anti-corruption. The company's contribution to the achievement of the UN Sustainable Development Goals (SDGs) is analysed. Sakhalin Energy's tasks, objectives, examples of activities and programmes corresponding to specific SDGs are presented.

Business Partnership. The Report describes the company's stakeholder engagement management system, basic approaches and results in this area as well as regulations, including Code of Conduct, Sustainable Development Policy and other documents. Process of engagement with stakeholders as part of the Report preparation is described. Personnel management approaches and the company's personnel policy are detailed. Internal communications system and tools are described. The report presents the company's channels of interaction with external stakeholders, including international and regional partners as well as Sakhalin Oblast population including Sakhalin indigenous minorities. The Report describes the network of information centres and public meetings to discuss aspects of the company's activities relevant for the public, such as construction of LNG train 3. It includes information on activities aimed at maintaining and developing cooperation with customers. The Report presents a broad outline of work with contractors and suppliers in respect of compliance with rules and standards of responsible business, including requirements for HSE, social performance, anti-corruption and human rights. The Report describes training aimed at introduction of business ethics as well as socially responsible and environmental business principles into contractors' business practices. Information is provided on activities of joint with Sakhalin Oblast authorities working bodies and their activities. The Report highlights participation of the company's representatives in international and national events on a wide range of issues, including those related to sustainable development.

Human Rights. The subject of human rights, as stated, is a priority for 2017 Report. The Report outlines the company's integrated approach to observance of fundamental human rights by incorporating human rights standards in normative documents and contracts, implementing grievance mechanism, and external and internal control of respect for human rights. The Report contains information on guaranteeing labour rights in employment, training, remuneration and social protection of the employees. Information is provided on implementation of projects that contribute to respect of the rights of the indigenous peoples and the preservation and development of native languages. The Report presents the results of addressing grievances and appeals from the company's personnel and external stakeholders. The Report informs about training courses and information sessions on human rights for personnel of the company and contractors. It also provides information about the company's efforts to promote best human rights practices on local, national and international levels as well as participation in development of new standards and policies in the area of human rights.

Environmental preservation. The Report presents information about environmental impact management system and tools including industrial environmental control, programmes to enhance competencies of the company's and contractors' staff, environmental monitoring and biodiversity conservation programmes. The Report notes the existence of certificates of compliance with international standards ISO-14001, OHSAS-18001 as well as corporate standards for ambient air protection, energy consumption management, water use and waste management. Gross and specific indicators are presented in dynamic form. Activity on energy saving and enhancement of energy performance is described. The results are reflected in the company's energy consumption indicators and specific energy consumption indicators for various types of activities presented in dynamic form. The Report informs that the company maintains calculation and monitoring of greenhouse gas emissions and presents relevant indicators in dynamic form. It indicates that the company continues to implement the Action Plan to gradually cease to use ozone-depleting substances (ODS) in accordance with the Montreal Protocol requirements. Total environmental costs and their structure in the reporting year are specified. Areas of environmental monitoring and biodiversity conservation activities are listed. The information on cooperation with environmental organisations is provided. The Report details the questions of oil spills prevention and response preparedness. It is noted that no oil spills have been registered in 2017.

Local Community Development. The Report highlights the company's principles and approaches in the area of social investment and sustainable development of the host region in accordance with Social Investment Strategy. The Report characterises the company's charity and social investment management system. 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 biennial external evaluation is presented in the Report. The description of long-term social and charitable projects includes information on the company's partnership with regional and local authorities and non-profit organisations including those representing interests of Sakhalin indigenous minorities as well as information about participation of the company's staff and local communities in implementation of these projects. The Report contains data on number of participants and costs of a range of programmes and projects, total costs of external social programmes in the reporting year as well as social investment targets for 2018. Information on independent evaluation of the company's social programmes carried out in 2017 is included.

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 at all levels. 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 the company's impacts on society and the environment.

The Report was prepared using the GRI Standards (Core option), which ensures the continuity of information across reporting cycles, as well as comparability with other companies' reports. The Report contains information on the company's specific contributions to the achievement of the UN's Sustainable Development Goals most relevant to the company. The Report states that the company took into account the non-financial reporting recommendations of the European Commission, including disclosure methodology and materials in accordance with EU Council Directive on Non-Financial Disclosure.

The 2017 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. is its ninth 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 2017 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 recommendations regarding the company's previous non-financial reports remain relevant and should also be used in further work.

The Report shows the company's achievements in all areas of responsive business practices. In the fast-changing business environment, many companies face new challenges. Including in the future reports the information about how certain issues of concern are resolved with the view of further improvement of the company's activities would make the reports more balanced.

The Report broaches the topic of social impact and assessment of social efficiency of the company's activities. In particular, multiple benefits of Sakhalin-2 project for the country and Sakhalin Oblast also include the increase of level of employment of the population and skill level of the labour force as well as growth in living standards and incomes of the population. Given the importance of such information for stakeholders it is recommended that future reports should include illustrative examples of the achieved social effects and specific indicators that would demonstrate the positive effect of the company's activities on Sakhalin Oblast labour market and welfare of the residents.

It is recommended that the information on external independent evaluation of social programmes, carried out in the reporting year, should be complimented with data on evaluation criteria. The information on results should be expanded and complemented with facts of incorporating the received proposals into management practices.

To ensure accuracy of reporting, it would be useful to further detail the indicator "Direct Energy Consumed. Generated from Produced Natural Gas" and list the consumption of gas, engine fuel, heat and electric power from external sources. With regard to the use of land resources it is recommended to include the data on total area of protection zones occupied by the company assets.

In view of the company's experience in engagement with suppliers, it is recommended that future reports should reflect the results of the company's effect on developing business ethics and social and environmental responsibility as well as countering corruption. It would be useful to provide the examples of monitoring these aspects as part of the due diligence screenings on business partners as well as examples of introducing relevant policies and standards in their business practices.

The Report contains information about correspondence of the company's goals and objectives in specific areas of activity with the UN Sustainable Development Goals 2015–2030. This approach appears to be relevant since it is increasingly used in public reporting. It is recommended to provide this information in greater detail, show contribution of Sakhalin Energy's activities to achieving these global objectives and specific targets linked to them.

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 the company's reporting. It is also recommended to make fuller use of GRI Standards for future reporting, given the company's orientation towards this reporting system.

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 2017 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. has received public endorsement.

RUIE Non-Financial Reporting Council

Appendix 9. Abbreviations

Abbreviation	Definition
ALARP	As low as reasonably practicable
ANPO	Autonomous non-profit organisation
APR	Asia-Pacific region
BAP	Biodiversity Action Plan
BoD	Board of Directors
BS 2	Booster station 2
CED	Committee of Executive Directors
CSR	Corporate social responsibility
EBRD	European Bank for Reconstruction and Development
ESHIA	Environmental, Social, and Health Impact Assessment
FS	Feasibility Study
GRI	Global Reporting Initiative
HPF	Hazardous production facility
HSE	Health, safety, and environment
HSES	Health, safety, environment, and security
HSESAP	Health, Safety, Environment and Social Action Plan
IC	Information centre
IECandLMS	Industrial Environmental Control and Local Monitoring System
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMO	International Maritime Organisation
ISMS	Industrial Safety Management System
ISO	International Organisation for Standardisation
ISO	International Organisation for Standardisation
IUCN	International Union for Conservation of Nature

Abbreviation	Definition
IVMS	In-vehicle monitoring system
KChS	Committee for Emergency Situations
KPCSD	Korsakov Partnership Council for Sustainable Development
LNG	Liquefied natural gas
LUN-A	Lunskoye-A platform
MChS	Ministry for Emergency Situations
MNR	Ministry of Natural Resources
MPC	Maximum permissible concentration
MPE	Maximum permissible emission
MSH	Minimum Standards for Healthcare
NPO	Non-profit 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
PERC	Pacific Environment and Resources Centre
PMD	Pipeline maintenance depot
PSA	Production Sharing Agreement
RAIPON	Russian Association of Indigenous Peoples of the North
RAS	Russian Academy of Science
RS	Road Safety
RTA	Road traffic accident
RUIE	Russian Union of Industrialists and Entrepreneurs
SCM	Supply chain management

Abbreviation	Definition
SDGs	Sustainable Development Goals
SIM	Sakhalin Indigenous Minorities
SPZ	Sanitary protection zone
SRWDS	State Register of Waste Disposal Sites
SSIP	Sakhalin Salmon Initiative Programme
Stroitel GNCP	Stroitel Gardeners' Non-Profit Partnership
TLU	Tanker loading unit
UNDP	United Nations Development Programme
UNGC	UN Global Compact
UNO	United Nations Organisation
WGWAP	Western Gray Whale Advisory Panel
WWF	World Wildlife Fund

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