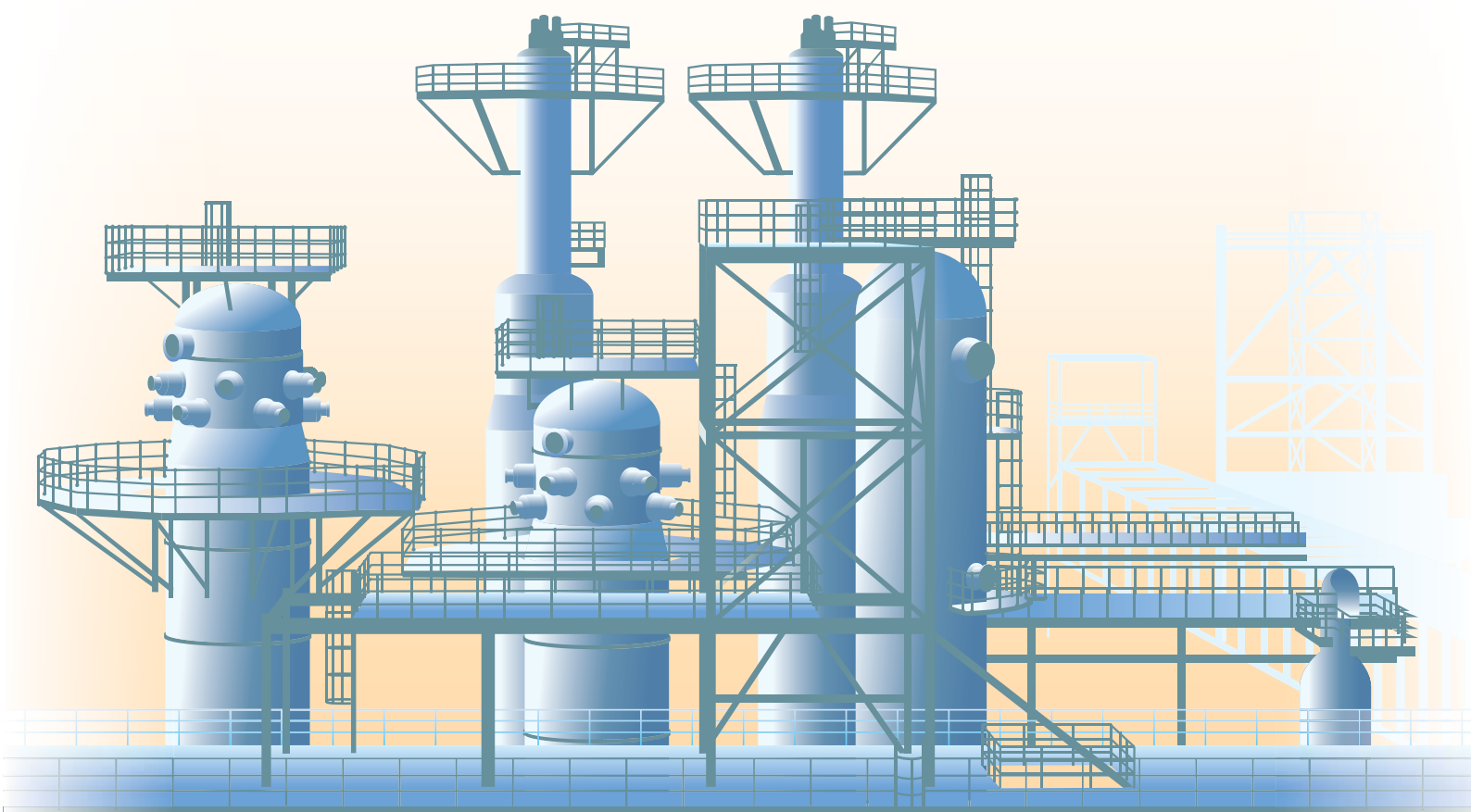


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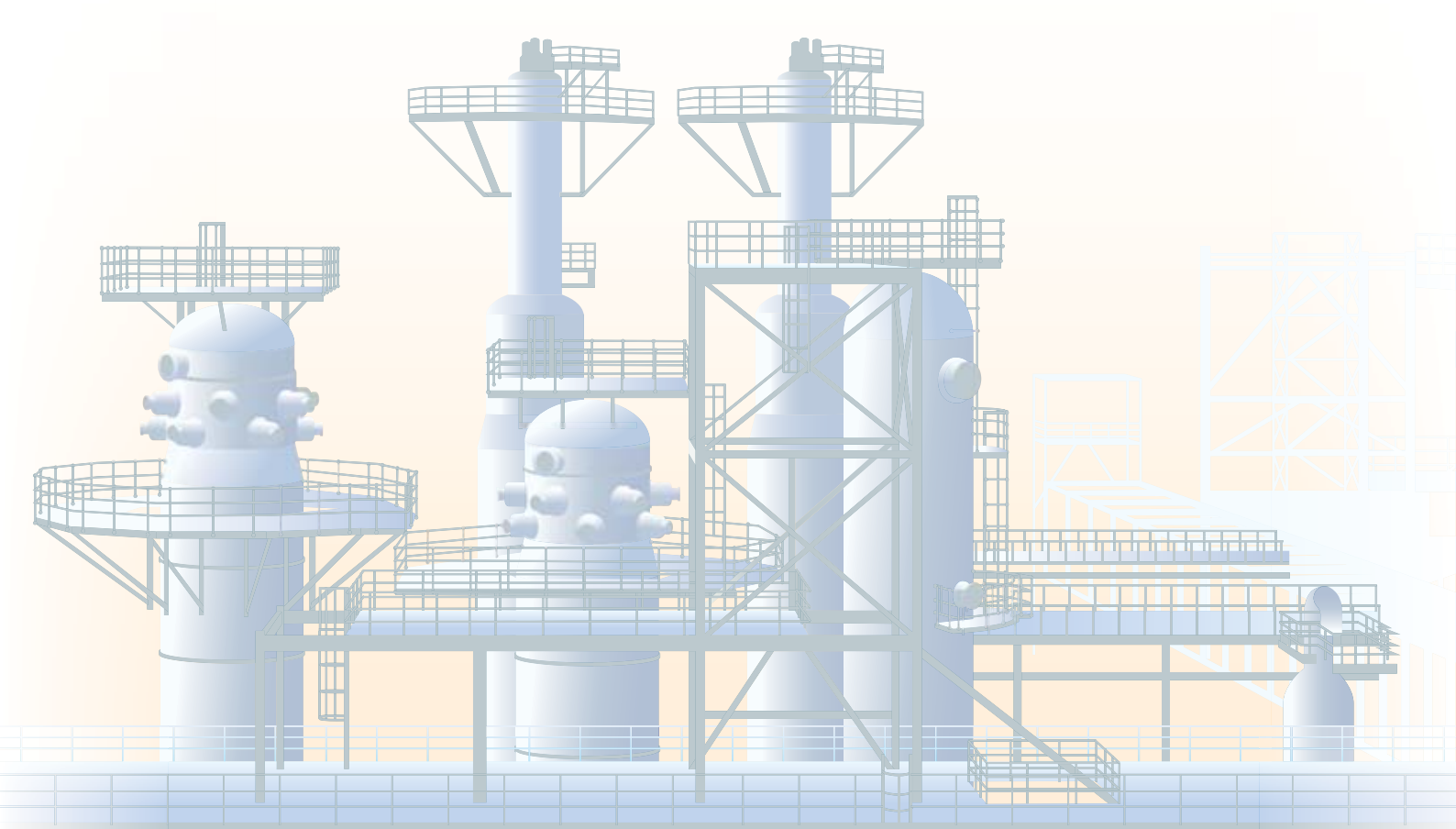
SUSTAINABLE DEVELOPMENT REPORT



Sakhalin Energy Investment Company Ltd.

2013

SUSTAINABLE DEVELOPMENT REPORT



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Roman Dashkov

Dear colleagues!

Here is the Sakhalin Energy Sustainable Development Report for 2013. It is already the fifth report we have prepared in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative. While preparing it, we strove to take into account the opinions of our stakeholders to the fullest extent possible.

We finished 2013 with excellent results in key areas.

Safety was our constant priority and remains so. In 2013, the company succeeded in reducing the number of incidents related to production safety. We have had good results in areas such as associated gas flaring, the management's commitment to safety culture, and HSE management of contracts. Production safety and process integrity of facilities also received high marks in safety.

HSE culture and responsible practices are a priority not just for Sakhalin Energy. We are also working with our contractors to create a corporate culture aimed at preventing risks, reducing the number of accidents, and developing proactive HSE behaviours among employees.

The efficiency and reliability of our operations are proven by our production figures. In 2013, we produced and delivered 5.4 million tonnes of oil and 10.8 million tonnes of LNG, which exceeded the planned figures.

Today, our infrastructure is used to deliver gas to the Russian Party via two gas transfer terminals located in the northern and southern parts of the island. Through them, the company supplies natural gas into Gazprom gas pipelines



for, among other things, the needs of Sakhalin Oblast. In 2013, the switching of the Yuzhno-Sakhalinsk Heat and Power Plant to natural gas of the Sakhalin-2 project was completed, including the commissioning of two new gas power-generating units. The network of Sakhalin-2 gas customers has been expanding: Komsomolets and Teplichny state farms, Novoalexandrovsk, Lugovoye, Dalneye, etc. The company delivered a total of 536 million cubic metres of gas for the needs of Sakhalin Oblast.

Additional volumes of oil and liquefied natural gas as well as the competitive cost of production of our hydrocarbons allowed the company to achieve commendable financial results in 2013.

In 2013, following the results of 2012, we started paying profit taxes at the rate of 32%. The company paid more than US\$ 2.6 billion to the Russian Party in the reporting year.

In 2013, Sakhalin Energy confirmed its compliance with international and Russian HSE standards. Such standards include ISO 14001:2004, OHSAS 18001:2007, and GOST P 54934-2012. Lenders had no serious concerns related to Sakhalin Energy activity following their annual audit of the company.

We continue working actively to retain professional staff and to improve the professionalism and competence of our employees. Caring about people, about their training and development remains a priority for Sakhalin Energy.

The social performance of the company is an important component of our operations on the island. In 2013, it brought us several awards on both national and international levels. Please see Sections 7 and 9 of the report for more details.

The company is still actively involved in the United Nations Global Compact (UNGC), a global initiative aimed at promoting corporate responsibility and corporate sustainable development efforts. This platform remains an important reputational resource for both the company and Russian business.

We achieved much in 2013, but we cannot rest on our laurels. In 2014, in the year of its 20th anniversary, Sakhalin Energy will continue moving forward towards its vision — to be the premier energy source for Asia-Pacific.



Roman Dashkov
1 March 2014



2.1 General

This report describes the company's sustainable development performance in 2013 and has been prepared according to the Global Reporting Initiative (GRI, G3) (hereinafter — Reporting Initiative) with due regard to the main principles and provisions of G4 GRI 2013. The target audience of this report is both internal and external stakeholders listed in the Section 7.2 Stakeholder engagement management. This is the fifth annual Sustainable Development Report issued by the company.

The process of the report preparation, review and approval was based on the company's experience and according to the procedure and schedule approved by its Committee of Executive Directors. A dedicated working group was set up for the report preparation, which included managers and specialists from a majority of the company's departments responsible for particular aspects of corporate governance and for the company's economic, social and environmental performance.

In preparing this report, the company held two rounds of dialogues with stakeholders according to the AA1000SES international standard. Details on the consultations and their results are presented in Appendix 2, Sakhalin Energy's answers and commitments, as part of its dialogues with stakeholders on the 2013 Sustainable Development Report.

The report is published on the company's website and distributed to the general public on Sakhalin (through the company's information centres and through district libraries), and among principal stakeholders.

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

- Use the Feedback form attached to this report;
- Fill out the Feedback Form on the company's public website (www.sakhalinenergy.com); or
- Fill out the Feedback Form at one of the company's information centres (a list of information centres is provided in Appendix 5 Company information centres list).



Sustainable development reports for previous years

2.2 Principles of report content and quality definition

The information regarding the company's performance is selected so as to provide the most essential data on the three main areas of sustainable development — economic, environmental and social. The company regularly reviews the key aspects of its business activities to make sure they are essential to both the company and stakeholders. To meet G4 GRI provisions and prioritization criteria,

the reports on 2012 and 2013 were amended by adding sections describing approaches we use in the area management, supply chain, corporate governance, code of conduct and anti-bribery and corruption.

The company acknowledges and uses the following sustainable development reporting principles used globally.

Report content and quality definition



Principles	Definition
Definition of Report Content	
Materiality	The report presents all the material topics, issues and indicators relating to the company's economic, environmental and social performance, including the executives' appraisal of the company's performance in the period under review, as well as the stakeholders' expectations and concerns on material issues. In identifying these material issues, the company has based its findings on the following: stakeholder engagement results obtained in 2012 and previous years (individual, group and public consultations, etc.); regular media analyses and annual public opinion surveys; analysis of public concerns shared with the company; and special consultations held in preparation of this report (see Section 7). In addition, recommendations and comments regarding the 2012 Sustainable Development Report were also taken into account, as well as recommendations of the RUIE Non-Financial Reporting Council that conducted public endorsement of the 2012 Report. We have also analysed the materiality of the issues presented in the non-financial reports prepared by Russian and non-Russian companies in accordance with best international practices.
Stakeholder Engagement	In 2013, the company continued systematic and consistent engagement with all stakeholders based on the strategy and principles described in Section 7.1. Information on stakeholder engagement scope and process, including identification, methods, mechanisms and results of the engagement, is presented in Section 7 hereof. Details on the consultations and their results are presented in the company's Report on Public Consultation and Disclosure at Sakhalin Energy's website.
Sustainable Development Context	This report provides balanced and sound information on all aspects of the company's sustainable development performance — economic, environmental and social.
Completeness	This report contains information on all areas of the company's sustainable development performance in the reporting period according to GRI principles and indicators of Level B applicability, based on stakeholders' assessment of the topics' and issues' materiality and the priorities set by the company's shareholders, lenders and the company management.

Principles	Definition
Definition of Report Quality	
Balance	The report includes both favourable (accomplishments) and unfavourable aspects (issues, action items) of the company performance in the year under review. The company identified the topics and issues to be disclosed in the report based on their materiality, as well as the interest and wishes of stakeholders.
Compatibility	In preparing topics and indicators of this report, the company followed the GRI Sustainable Development Reporting Guidelines and their Technical Protocols, and proceeded with the topics and indicators covered by the previous reports.
Accuracy	The company seeks to make an accurate, specific and sufficiently detailed presentation of its performance results so as to enable stakeholders to evaluate them objectively. To this end, the company uses both qualitative descriptions and quantitative information based on data from the standard financial and statistical reports to the relevant oversight agencies, the Russian Party of PSA, shareholders and lenders, as well as internal reports drawn up according to the procedures and methods adopted by the company. Where estimates are used, a reference to the source is provided or the rationale for using estimates is presented.
Timeliness	This is the fifth Sustainable Development Report issued by the company. Its preparation was carried out on a planned basis, including relevant dialogues with stakeholders (see Section 7), public endorsement procedure (see Section 2.4) and publication.
Clarity	Information in this report is presented in an easily understandable and clear format, in accessible form. We avoided specialised technical terms or industry-specific jargon, etc., and omitted information that requires special knowledge to be properly perceived. The report provides for different charts, graphs, schematics and explanations of the terms used. In this Section we provide a list of the acronyms used in the report, which are also explained when first mentioned within each section.
Reliability	The report contains credible information, which can be verified and confirmed. A number of the report details reflecting results of the company's sustainable development performance have also been verified independently, with references to such verifications provided appropriately.

2.3 Definition of the report scope

The report contains information on all assets and structural units of the company and all areas related to its sustainable development performance, including economic, environmental and social.

2.4 GRI application level and public endorsement

This report was prepared to GRI Application Level B+, revision G3.0 (see the Application Levels table) incorporating GRI G4 comments and in consistent consultations with stakeholders. The report includes the results of the consultations with stakeholders and the respective responsibilities of the company (see Section 7.2 and Appendix 2), which is regarded to be equivalent of the initial level of public endorsement.

This report has passed the procedure of external public endorsement of corporate non-financial reports to the highest applicable professional level in the Russian Federation — inde-

pendent expert review (public endorsement) by Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs (RUIE) (Public Endorsement Certificate and Conclusion of the RUIE Non-Financial Reporting Board on the review of the Sakhalin Energy Investment Company Ltd. 2013 Sustainable Development Report for the purpose of public endorsement (see Appendices 7 and 8, respectively).

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

GRI application level

		2002	C	C+	B	B+	A	A+
		In accordance with						
Mandatory	Self-Declaration				<input checked="" type="checkbox"/>			
	Third-Party Check				<input checked="" type="checkbox"/>			
	GRI Check							
Optional								

2.5 List of acronyms and abbreviations

ALARP	As Low As Reasonably Practicable
ANPO	Autonomous non-profit organisation
APR	Asia Pacific Region
RS	Road Safety
BAP	Biodiversity Action Plan
BoD	Board of Directors
BS-2	Booster Station No.2
CED	Committee of Executive Directors
CSR	Corporate social responsibility
EMC	Emergency Response Committee
EMERCOM	Ministry for Emergency Response
ESHIA	Environmental, Social and Health Impact Assessment
FEC	Fuel and Energy Complex
GRI	Global Reporting Initiative for Sustainability Reporting
HSE	Health, Safety and Environment
IAS	International Accounting Standard
IC	Information Centre
IEC and LM	Industrial Environmental Control and Local Monitoring
IFC	International Finance Corporation
IPNS	Indigenous People of the North, Sakhalin
ISO	International Organisation for Standardisation
IUCN	International Union for Conservation of Nature and Natural Resources
IVMS	In-vehicle monitoring system
LNG	Liquefied Natural Gas
LUN-A	Lunskoye-A platform

MHMS	Minimal Health Management Standards
MNR	Ministry of Natural Resources
MPC	Maximum permissible concentration
MPE	Maximum permissible emission
NPOs	Non-profit organisations
OET	Oil Export Terminal
OPF	Onshore Processing Facility
OSR	Oil Spill Response
PA-A	Molikpaq platform (Piltun-Astokhskoye-A)
PA-B	Piltun-Astokhskoye-B platform
PERC	Pacific Environment and Natural Resources Centre
PMD	Pipeline Maintenance Depot
Prisco	Primorsk Shipping Corporation
PSA	Production Sharing Agreement
RAIPON and Far East of the RF	Russian Association of Indigenous Peoples of the North, Siberia and the Far East of the RF
RAS	Russian Academy of Sciences
RTI	Road traffic incident
RUIE	Russian Union of Industrialists and Entrepreneurs
TEOC	TEO (Feasibility Study) of Construction
TLU	Tanker loading unit
UN	United Nations Organisation
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact
WGWAP	Western Gray Whale Advisory Panel
WWF	World Wildlife Fund

3.1 Introduction

Since Sakhalin Energy was founded, the management and employees of the company have been focused on corporate social responsibility (CSR) and sustainable development. Today, a priority of Sakhalin Energy's strategic development is to apply the high standards of corporate social responsibility as the basis for the company's sustainable development. This is the result of the company's deliberate introduction of best social and environmental practices and the increasing demands of stakeholders.

CSR is a mechanism for implementing corporate strategy to improve the company's role in society and guide the company's business activities in compliance with the standards of sustainable development and good business ethics. It is an integral part of the company's business activities and strategic development.

Corporate governance at Sakhalin Energy has gradually progressed to managing the company as an open system continuously exposed to impacts from the outside business environment, with due allowance for some of the features related to the status of the PSA (Production Sharing Agreement, see more about PSA in Section 6.2).

Sakhalin Energy views corporate social responsibility as the basis for improving the company's overall sustainability in the business environment, in Russia and worldwide.

Sustainable development reporting is a management technology and a corporate governance tool that systemises the non-financial efforts of Sakhalin Energy (social, environmental, and other programmes and initiatives) to improve the quality of strategic and operational management, which leads to increased stability and manageability of the company in general. The company's voluntary transparent reporting demonstrates its commitment to the CSR principles and concepts as well as sustainable development, makes Sakhalin Energy more transparent to the public, and provides meaningful information about the economic, environmental, social, and ethical aspects of the company's activities and performance.

This management style is highly effective for companies of all sizes and types—commer-

cial and non-commercial, public and private, industrial and service providers. CSR and sustainable development reporting provide the company with the following key advantages:

In 2012, the Committee of Executive Directors decided to include Corporate Social Responsibility training in the corporate training programme. This training is mandatory for line and senior managers and employees assigned as managers. Furthermore, it is included in the list of training courses offered to all company employees for building competence. The training covers topics such as risk and impact assessment, stakeholder engagement and participation in community life, human rights, ethical behaviour, etc. In 2013, 43 Corporate Social Responsibility training sessions were attended by 187 people, including all the executive directors of the company, 80% of the members of the company's governing body, as well as other specialists who encounter various CSR aspects in their day-to-day activities.

- Identify the stakeholders' opinions and expectations of the company's activities and clarify the company's CSR strategy;
- Demonstrate that the company is aware of and takes into account the stakeholders' opinions, creating long-term trust and cooperation;
- Serve as an effective tool for detecting, preventing, and mitigating non-financial risks, creating a sustainable reputation (as a responsible employer, partner, citizen, etc.);
- Create new opportunities and areas of involvement for the company in all aspects of production, environmental, and social spheres;
- Identify CSR and sustainable development performance indicators, evaluate these performance indicators and take them into account when making decisions on all levels, thus improving their quality;
- Help to track compliance with the principle of continuous improvement and stimulate the subsequent improvement of internal and external processes in the company; and
- Increase the company's competitiveness in Russia and worldwide.

3.2 Sakhalin Energy's CSR system

CSR, while not being the ultimate goal, penetrates all activities of Sakhalin Energy. This approach is supported by its mission, vision and values and a whole range of corporate documents, including Statement of General Business Principles, the key corporate document, Sustainable Development Policy, Code of Conduct, Human Rights Policy, and Commitments and Policy on HSE and Social Performance (see Section 5 Corporate governance).

The company applies the requirements and principles defined in these documents to both suppliers and contractors, in accordance with the requirements of the new G4. In addition to special contractual provisions, the company arranges training sessions and workshops to ensure these principles are effectively integrated

into the work of its contractors and to oversee their compliance (see Section 6.4 Contracting and procurement management).

Also, the company monitors and focuses on detecting and mitigating non-financial risks at all times. A non-financial risk occurs when the company's efforts to achieve its corporate goals are resisted by stakeholders, whether knowingly or not (see Section 5.6 Risk management).

In any company, non-financial risks stem from the uncertainty inherent in the freedom of action of independent stakeholders. These sources of uncertainty should be managed by methods that differ from those used to manage financial and technical risks. It is important to maintain dialogues and other forms of engagement with all the stakeholders. To influence

Company's CSR system



stakeholders in their choice of behaviour, the CSR system should be implemented properly through continuous efforts to analyse, understand, and spot mutually advantageous solutions along with the stakeholders.

In Sakhalin Energy, CSR trends and indicators are regularly evaluated by authorised personnel and senior management within the company's system of internal oversight and audit, as well as by lenders, their advisors, and independent third-party auditors. Assessments are also done through various types of stakeholder engagements: public consultations, workshops, opinion surveys, topical meetings, dialogues and consultations in information centres set up by the company all over Sakhalin Island, and through

On 4 December, at the VI International People Investor-2013 Forum on Sustainable Development and Global Challenges in Russia, Sakhalin Energy's experience in introducing most advanced standards in the field of social responsibility into contractors' work has been recognised as the best in Russia. The company became a winner in nomination Building Relationships with Business Partners and Customers. The award is recognition of many years of consistent activity both of the company and its contractors, aimed to meet social requirements in accordance with the best international standards.

the successful grievance procedure (see Section 7 Stakeholder engagement management). The company regularly submits reports on sustainable development and fulfilment of its commitments that are available to the general public.

3.3 Performance standards

In their day-to-day activities, which include various forms of non-financial reporting, Russian companies think of CSR as business, social, and environmental activities provided for by legislation, as well as a range of additional programmes and responsibilities with regard to employees and society. 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 best international standards established with regard to CSR.

Many initiatives and standards have been established worldwide in the area of environmental and social responsibility. The most significant ones are the UN Global Compact and the CSR Centres all over the globe, which bring together commercial and non-commercial entities, the Global Reporting Initiative (GRI), the AA1000SES, i.e., the Stakeholder Engagement Standard, the International Financial Corporation (IFC) Standards, as well as ISO 26000:2010 Standard Guidance on Social Responsibility Standard approved in March 2013 and many others.

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

In 2011 Sakhalin Energy became the first and (as per beginning of 2013) the only Russian company chosen by the UN to participate in its new

Sustainable Corporate Leadership platform —the Global Compact LEAD, launched in the framework of the UN Global Compact. LEAD companies must perform certain activities in the environmental, social protection and management spheres, and create new CSR standards.

The main standards that Sakhalin Energy is compliant with are as follows:

- ISO standards (environmental management, quality management, safety and health management);
- European Union and United Nations standards and directives (environment, human rights, indigenous people, etc.);
- World Bank and International Finance Corporation standards (management systems, risk and impact assessment, biodiversity, public health, cultural heritage, indigenous people, involuntary resettlement, stakeholder engagement, grievance procedure, etc.); and
- GRI and AA1000SES standards (non-financial reporting, stakeholder engagement).

Sakhalin Energy was one of the first companies in the Russian Federation to carry out CSR self-assessment in 2012 based on ISO 26000:2010 and to apply recommendations on self-assessment of the Committee of the Russian Union of Industrialists and Entrepreneurs (RUIE). As the next step, the company will regularly assess its activities based on ISO 26000:2010 (GOST P ISO 26000:2010 Guidance on Social Responsibility). The plan is to perform such assessments once every three years.

3.4 Sustainable development policy

The notion of sustainable development is firmly established in worldwide practice of state and corporate activities. Resolutions of the international community adopted by the UN World Summit on Sustainable Development in 2012 (Rio + 20) confirmed that sustainable development policy will continue to be implemented in all countries.

An important milestone in the establishment of corporate practice of sustainable development was the introduction of the Global Reporting Initiative (GRI) based on the Triple Bottom Line principle that includes financial, environmental, and social performance measures.

In 2013, GRI approved the fourth version of its Global Reporting Initiative G4. Today, special CSR and non-financial reporting programmes are used by more than 6,000 companies. CSR and non-financial reporting significantly improves the business reputation and motivation of employees, increasing their competitiveness. This practice is also being implemented by leading Russian companies and today is used by approximately 130 of the largest companies accounting for 30 to 40 percent of the nation's GDP, according to expert estimates.

The SD policy has been pursued throughout the existence of Sakhalin Energy by incorporating SD principles into the business policies, plans, and processes of the company.

According to its internationally recognised 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". Sakhalin Energy puts this definition of SD into practice. Sustainable development 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 co-operation and two-way communication with all the stakeholder groups.

As a result of the experience it has accumulated, in 2013 Sakhalin Energy consistently implemented its strategic document in the area of CSR — the Sustainable Development Policy — approved as a publicly available document by the Committee of Executive Directors. This docu-

ment includes the principles, directions, and responsibilities of the company in this area.

The starting point of the Policy is the seven principles of sustainable development to which the company adheres in making decisions regarding its production, social and environmental activities:

- Respect for and promotion of human rights;
- Identification and mitigation of economic, environmental and social risks and impacts;
- Efficient use of resources, enhanced environmental and biodiversity protection;
- Profit maximisation;
- Development of strategic partnerships to enhance sustainable development of host communities;
- Open and honest engagement with stakeholders, taking into account their views and concerns in the company's decision-making process; and
- Delivery of sustainable value to shareholders, employees, contractors, business partners and host communities.

To comply with these principles, the company encapsulated them in the Sustainable Development Policy:

- 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, Sakhalin Oblast and Shareholders;
- Sakhalin Energy will contribute to the present and future needs of society on Sakhalin Island, while keeping a balance between economic development, environmental protection and social responsibility, beside taking into account cultural diversity; and
- Sakhalin Energy will work with stakeholders to identify ways to contribute to the wider, long-term economic, environmental and social benefits in Sakhalin Oblast.

To comply with the abovementioned principles, Sakhalin Energy is committed to the following:

- Embed SD principles into all the regulatory documents and standards of the company;
- Ensure ongoing compliance with the HSE and Social Performance commitments, as well as regulatory documents and standards stipulated in the Health, Safety, Environmental and Social Management System and Action Plan (HSE&SP-MS and HSESAP);



Public meeting, Korsakov, May 2013

- Inform and engage with our stakeholders on our performance and seek feedback;
- Develop and implement social investment programmes and sustainable development programmes related to the company's strategy, applying explicit oversight mechanisms and procedures;
- Develop strategic partnerships with external stakeholders to maximise the positive impact of community development programmes;
- Issue annual non-financial reporting in accordance with the international AA1000 standard, as well as the Global Reporting Initiative (GRI) standards and principles;
- Observe and promote the Ten Principles of the UN Global Compact; and
- Participate in the Global Compact LEAD programme of the UN Global Compact, leading the sustainable development efforts of the international community.

3.5 HSE and Social Performance management

3.5.1 HSE and Social Performance management system

The company pursues the goal of not harming people, protecting the environment and contributing to sustainable development. This attitude is beneficial to the residents of Sakhalin and other key stakeholders. The Russian Federation and Sakhalin Oblast receive numerous benefits from the Sakhalin-2 project, including billions of dollars in investments, high local employment,

contracts for Russian businesses, etc. However, due to its scope and complexity, the project can potentially cause environmental and social impacts, and Sakhalin Energy has committed to deal systematically with these impacts so as to minimise risks and prevent negative consequences. In its activities the company uses a preventive approach with a strong focus on risk management and impact assessment (see Section 5.6 Risk management).

Health, Safety, Environment (HSE), and Social Performance (SP) management is an integral part of the entire corporate management system. Sakhalin Energy is guided in its HSE and SP activities by the following fundamental policies:

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

Company commitments, undertaken on the basis of the ESHIA which was accomplished prior to Phase 2 construction operations, are covered by the Health, Safety, Environment and Social Action Plan (HSESAP). In the beginning of 2011, HSESAP revision 3 was published which consolidates all HSE and SP internal and external standards regulating the company's activities in health, safety, environment, and social spheres.

HSESAP commitments are integrated into the company's policies and standards and are mandatory for all company employees. HSESAP details the measures agreed to by the company and lenders to prevent and mitigate identified adverse impacts. There are about 100 documents which cover key standards, plans, and procedures of the company. The Plan is publicly available and can be viewed on the company's website (in Russian and English), at company information centres, and in libraries of towns located in the vicinity of the company's production facilities. Some of these materials are available in Japanese for Japan-based stakeholders. Implementation of HSESAP is monitored on a regular basis by the company, lenders, and their consultants, and the outcomes of this monitoring are placed in the public domain.

In 2012, the International Finance Corporation revised its IFC Performance standards and the company responded by updating its HSESAP and undertaking appropriate commitments in the area of its relevant activity.

The documents listed above have been approved by the CED, signed by the Sakhalin Energy CEO, and communicated to all staff and contractors. This comprehensive approach to the HSE and SP management system is designed to ensure continuous improvement in this area. The company's integrated health, safety, environment, and social performance management system describes the tools which Sakhalin Energy utilises to manage impacts and risks. The system applies to all project assets, facilities, and operations, including those used

by contractors. Sakhalin Energy sees the management of such risks as critical to its business success. The company will update and optimise this management system. The HSE and SP management system is based on the Plan-Do-Check-Act methodology of ISO 14001 and OHSAS 18001 standards. Application of this methodology is intended to:

- Set objectives and establish procedures required for achieving desired results in accordance with the company HSE and SP policy, which includes defining legal and other requirements, risk management and problem solving, identifying hazards, risk and impact assessment, determining procedures, and developing objectives and annual improvement plans;
- Introduce procedures, including organisation, awareness, training, and competence processes; contractor management, participation and engagement; management change; and emergency preparedness and response; also, operational control of occupational health, personal safety, asset integrity and process safety; transportation, environmental protection, and social performance — including indigenous peoples, cultural heritage, land acquisition, resettlement and supplemental assistance, public consultation and information disclosure grievances, and social investments;
- Monitor and determine process effectiveness in compliance with given tasks as well as legal and other requirements, reporting results, incidents, and non-compliance, lesson learning, remedial and preventive measures, and inspection and HSE audits at the company facilities and in its functional units; and
- Review the management system on a regular basis and take measures for continuous improvement of the company HSE and SP.

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

3.5.2 Impact assessment

The company's commitment to make an impact assessment prior to any new activities or significant changes in existing projects is the basis of the due diligence approach and all risk management processes. Impact management is targeted at minimising potential adverse impacts and maximising benefits from the company's activities. Sakhalin Energy endeavours to avoid or reduce impacts to a minimum or make compensation for them if they occur. The following steps are taken when any potential negative impact has been identified:

- Impact avoidance,
- Impact prevention,
- Impact minimisation,
- Compensation,
- Lessons learned, and
- Reducing probability of impact.

An inseparable part of any impact assessment of the company is stakeholders' engagement. Previous environmental and social impact

assessments (including required amendments and special studies) have been taken into consideration in the company standards, and its current activities are based on relevant plans and programmes. The results of impact assessments are published on the company's website. The accuracy and completeness of such assessments are monitored by both government authorities and Sakhalin Energy lenders.

3.5.3 Checks and audits

To monitor the integrated HSE and SP management system, internal and external checks and audits are performed in accordance with approved annual plans. External audits are conducted by the company's shareholders, lenders, external certification agencies, etc. For internal audits, specially trained auditors — qualified personnel of the company and shareholders — are engaged. Ten audits of the HSE and SP management system were completed in 2013, including four external and six internal audits (see table below).

Inspections and audits of the HSE and SP management system in 2013

Level	Audit Numbers	Contents
External	4	Prigorodnoe Operations HSSE & SP Control Framework Audit.*
		ISO 14001 & OHSAS 18001 Surveillance Audit.
		Midterm Review of the implementation of the Sakhalin Indigenous Minorities Development Plan.*
		Independent assessment of the company's social programmes.
Internal	6	Lenders Audit and Monitoring Visit. Diving Operations HSE Audit. Onshore Operations HSE Audit. Lifting and Hoisting Operations HSE Audit. Aviation Operations Audit. Aviation Management Audit.
* Reports are available on the company's official website (www.sakhalinenergy.com)		

4.1 Sakhalin Energy

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

Sakhalin Energy is operating under the Sakhalin-2 Production Sharing Agreement (PSA) signed by the company and the Russian Federation represented by the Government of the Russian Federation and the Administration of Sakhalin Oblast (presently, the Government of Sakhalin Oblast).

The following companies hold Sakhalin Energy's shares through their subsidiaries: Gazprom (50% plus one share), Shell (27.5% minus one share), Mitsui (12.5%) and Mitsubishi (10%).

As part of the development of these fields the company constructed a large-scale infrastruc-

ture for extraction, transport, processing and subsequent sale of hydrocarbons.

This infrastructure includes three stationary offshore platforms, offshore and onshore pipeline systems, an onshore processing facility, two booster stations, an oil export terminal with a tanker loading unit, the plant for the production of liquefied natural gas (LNG), and gas transfer terminals. This is one of the most technically complex projects carried out over the last few decades in the global oil and gas industry.

Sakhalin Energy is the first and so far the only producer of liquefied natural gas in the country. Due to the company, Russia has become one of the key players at the promising market of the Asia-Pacific Region. Sakhalin Energy's LNG plant provides over 4% of the global LNG supply.



Committee of Executive Directors visit to Onshore Processing Facility (OPF), March 2013

4.2 Main production results in 2013

4.2.1 Assets

4.2.1.1 Molikpaq platform (PA-A)

In 2013, the operating well stock of the Molikpaq platform included 13 oil producing wells (two of which were temporarily closed), four water injection wells (two were closed in 2013) and one well for cuttings re-injection to rock formations. In 2013, the average daily production rate on the platform was about 43.0 thousand barrels of oil and 1.08 million cubic metres of associated gas.

In 2013, the commissioned system of ventilation and evacuation of exhaust gases from the platform core where Frac and Pack equipment was placed allowed the company to complete two wells using the Frac & Pack technology and to resume production of oil from these wells. A new well bore with a horizontal section of over 300 m was drilled and successfully commissioned.

Hole sections for two water injectors (were plugged and abandoned for further workovers.

Completion string change out in injection well was commenced.

Acid job was successfully completed in gas lifted oil producer. Gas lift is a mechanised production technique that enables the water and hydrocarbon mixture to be lifted to the surface.

PLT and RST logging activities were performed on two producing wells.

In 2013 the oil production system was optimized, which made it possible to decrease working pressure in the oil production system from 22 to 19.5 Bar.

The Astokh field has a water flood scheme that has proven effective. It maximises the hydrocarbon recovery from the subsurface and leads to significant increase in value. Water is injected into the hydrocarbon reservoir, effectively sweeping the oil between an injector and producer pair. The water will eventually arrive at the producer well but the exact timing of the water arrival at the producer side is uncertain. In order to sustain production from such wells and achieve expected oil recovery gas lift is being implemented on Molikpaq. Flow rate - is the volume of hydrocarbons produced from the well per unit of time.

In 2013 the company updated the Reservoir Management Plan (RMP), with the approval of the regulatory authorities. The updated project



Molikpaq platform

documentation reflects the new understanding of the short and long term field development, with the associated production forecasts.

In 2013 the company obtained positive results from the State Environmental Expert Review for Group Well Design for Well Construction at Astokh area, Piltun-Astokhskoye gas-condensate-oil field from Molikpaq platform (PA-A).

Sakhalin Energy's Molikpaq Platform was recognized as the best drilling rig of 2013. This choice was made by KCA Deutag, one of the world's leading companies in drilling operations, based on the results of an international competition held among all offshore drilling rigs where KCA Deutag works.

The decision of the KCA Deutag expert group was based on compliance with core values of the company such as safety of operations, occupational health and safety, social responsibility, increasing the production efficiency, environmental protection, business integrity, and promoting sustainable development.

Molikpaq platform was restarted in mid-2012. Before this, no drilling operations had been conducted for four years. After the restart the drilling rig performed well. By the end of 2013, performance results were exceptionally high. Due to this, the drilling rig had 157 perfect days, which means not a single event of equipment failure or downtime.

PA-A successfully underwent a planned maintenance shutdown from 30 August to 16 September 2013.

In November 2013, for the first time in more than three years, the Astokh field daily oil production exceeded 55,000 barrels per day. This

demonstrates the value of the production recovery programme currently underway.

The main focus of the Molikpaq platform oil production recovery programme is:

- Making the most of what we have. Wells that had to be closed due to sand production have been opened up at a reduced rate, and sand production is being closely monitored. This allowed a flow between 1,000 to 2,500 barrels of oil per day (bbl/d) to bridge the gap until sand control could be installed. Production system optimisation (PSO) identified an opportunity to reduce topside pressures, which allowed increased production (1,500 bbl/d) from all oil producing wells. Additionally, in 2012 and 2013 the Molikpaq production facilities achieved a world-class surface equipment reliability of 99.4%. This maximized production from available wells and together these PSO measures have resulted in 5% of total Astokh production in 2012.
- Implementing flexible measures. While rig capability was being upgraded to include sand control capability, there was a gap in the drilling schedule. We managed to devise an alternative plan in less than two months. One of the wells has been in operation since March 2013, producing an average of 5,750 bbl/d of

oil. The key factor in successfully drilling this well was the 4D seismic that was done in 2010.

- Successful installation of sand-control wells. This year the first wells with downhole sand control were completed. With these wells, total Astokh oil production has once again broken the 55,000 bbl/d mark.

4.2.1.2 Piltun-Astokhskoye-B platform (PA-B)

In 2013, the PA-B platform had ten production wells, five water injection wells and one cuttings re-injection well.

Alongside with that in 2013 a sidetrack was drilled and hydrodynamic studies were carried that will help optimize the development system.

In 2013, the platform's average daily production rate was 31.9 thousand barrels of oil and 2.18 million cubic metres of gas.

The company received a Shell Award for Effective Project Implementation in 2013 for the generator replacement project at the PA-B platform. The work under the project started in March 2012 and has been completed in six months.

The team of experts had to ensure a functioning generator would be available as soon as possible. It was decided to fly the generator for repair to Singapore and back. Lifting the generator from the platform and returning it turned out to be the largest offshore lifting operation the company had ever undertaken. The project was completed on time and without any safety incidents.



Piltun Astokhskoye-B platform

The platform underwent a successful preventive maintenance shutdown in May 2013.

Smart well technology deployment at the geologically complex Piltun field continued in 2013.

The Reservoir Management Plan (RMP) for the Piltun field was updated in 2013 and approved by the regulatory authorities. The new project documents confirmed the solutions stated in the previous revision and updated the long-term production forecast.

In 2013 the company received positive results from the State Environmental Expert Review for Group Well Design for Well Construction at Piltun area, Piltun-Astokhskoye gas-condensate-oil field from PA-B platform.



Lunskeye platform

4.2.1.3 Lunskeye-A platform (LUN-A)

The Lunskeye field structure is divided into six blocks, with all the currently producing wells located in blocks III, IV and V. The planned future wells will be in blocks III and II. Since the platform from which the wells are drilled is situated above block IV, these future wells will be longer and situated farther from the platform, but will have the same vertical depths as the existing wells. These wells are classified as extended reach wells. In 2014 the longest gas well for the time being will be completed providing vital data and experience for drilling long wells in the future at Lunskeye field.

In 2013 the LUN-A platform continued stable and reliable production from its existing gas wells.

The platform's average daily production rate was 44.9 million cubic metres.

Two more new big bore gas wells were drilled in 2013. Oriented perforation was successfully executed in these gas wells. This technology will help to delay sand production for a longer period than in any of the existing wells in the Lunskeye field. 2012 was the first time that such technology was used by Sakhalin Energy.

In 2013 Long Casing Flow for LA-510 was introduced to reduce friction and get higher rates for longer wells.

During the reporting year it was decided that it would not be economically feasible to drill new wells at the Lunskeye oil rim. Two exploration wells drilled in 2011-2013 showed that the amount of oil is much less than was originally

anticipated. Oil rim is a part of the gas-condensate-oil formation that has a significantly smaller size and in-situ reserves than the gas (or gas-condensate) part of the formation.

The Reservoir Management Plan (RMP) of Lunskeye field was updated in 2013 and approved by the regulatory authorities. The new project documents confirmed the solutions stated in the previous revision and updated the long-term production forecast.

At Lunskeye field, gas is produced from wells with the largest diameter tubing ever used in Russia.

In 2013 the company received positive results from the State Environmental Expert Review for Group Well Design for Well Construction at Lunskeye field.

4.2.1.4 Onshore processing facility (OPF)

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

The original design capacity of the OPF plant was 56 million cubic metres of gas and up to 60 thousand barrels of oil and condensate.



The main control room at OPF

The OPF gas capacity has been increased since then and the current capacity is 58 million cubic metres of gas and up to 195 thousand barrels 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 300 km of offshore pipelines and onshore multiphase pipelines, over 1,600 km of oil and gas onshore pipelines, as well as 105 block valve stations, five pipeline maintenance depots, two booster stations (BS), and two gas transfer terminals (North and South).

Sakhalin Energy received the Russian Offshore 2013 award in the Technology Development of the Year category. Sakhalin Energy won the award for its onshore gas pipeline repairs project. The company decided to use new, state-of-the-art technology and proved that it is possible to carry out such repairs safely and effectively without stopping the production processes. This kind of technological operation had never been used in Russia before.

A pipeline must operate around the clock without any shutdowns, unlike other facilities. Therefore, the main task of Sakhalin Energy and Gazprom Transgaz Tomsk, which is in charge of the Trans-Sakhalin Pipeline System maintenance, is to prevent violation of the integrity of the system components that carry hydrocarbons under pressure.

Sakhalin Energy came up with an HSE case for its pipeline system in which all the hazards to its integrity were identified. They include internal and external surface corrosion, excessive pipe pressure, earthquakes, landslides, soil erosion, ice plowing of seabed, shore scouring, ship traffic, illegal hot taps, and inadvertent and wilful damage. The following measures have been taken to prevent and eliminate these potential hazards:

- To deal with external corrosion, the pipeline has a cathodic protection system, which changes the polarisation of the pipe in the ground.
- To monitor internal corrosion, experts look at inputs from the three platforms and the onshore processing facility.
- The onshore pipelines are pigged on a regular basis to remove water and sludge from pipelines, and offshore pipelines are pigged every month. To confirm indirect information, the pipeline is pigged using smart pigs.
- To ensure timely notification and response in case of a seismic event, Sakhalin Energy uses its own seismic monitoring system located along the pipeline and the USGS system.
- Seismic fault crossings are monitored every year to assess movements and pipe displacements.
- Prior to seasonal drops of ambient air temperature, the pipeline is checked for the presence of water in the pipeline trenches so as to avoid freezing and limiting pipe movements.
- Pipeline RoW is periodically monitored during walkabouts and helicopter overflights.
- Satellites are used: high resolution satellite images aid in monitoring the vegetation growing in the pipeline area.

70% of pipelines incidents in the world are caused by unintentional damage from human activity. That is why raising community awareness about the pipeline is an integral part of the operations. Local authorities, contractors and land users are informed about land use limitations within the right of way and have the contact details and telephone numbers of the company. Additionally, special notice boards are located along the pipeline with free telephone numbers in case of questions.

This October Gazprom announced the start-up of hydrocarbon production at Kirinskoye field as part of the Sakhalin-3 project. Export of the condensate from the Kirinskoye OPF into the Sakhalin Energy pipeline system will be part of

the agreement between Gazprom Export and Sakhalin Energy.

On December 3 the Sakhalin-3 condensate line was successfully tied into the Sakhalin Energy oil pipeline. This was completed safely and without interruption to the oil production currently being exported through the Sakhalin Energy pipeline.

4.2.1.6 Prigorodnoye Production Complex

The Prigorodnoye Complex, situated in the south of Sakhalin on the shore of Aniva Bay, which stays ice-free nearly year-round, incorporates an LNG plant with an LNG Jetty and an Oil Export Terminal (OET) with a Tanker Loading Unit (TLU) installed 5 km out to sea. The LNG plant was inaugurated on 18 February 2009. It occupies 490 hectares of land and has two trains, each with a design capacity of 4.8 million tonnes of LNG per year. Capacity enhancement programmes over the years have resulted in a sustained increase in plant capacity of 10%.

In the summer of 2013 the company completed a major integrated gas system maintenance shut-down, at which time routine maintenance of all the company gas assets was carried out as well, including the LUN-A platform, the OPF and LNG plant.

The company continues to look for the best available solutions to ensure adequate monitoring of the pipeline's integrity. A special monitoring system using a fibre-optic cable that is currently being tested is an example of such solutions. Using this system, movements and displacement of the soil, which may be caused by third parties, can be tracked. This is like the sonar that bats use for finding the way in the dark. The cable transmits a signal which reflects from the pipe walls and returns to the emitter. The reflected signal gives information on what is happening at a specific pipe section.

There were also two unscheduled shutdowns during 2013 for maintenance on a Train 1 main cryogenic heat exchanger (MCHE). All the above shutdowns were completed safely and on schedule.

A key success for Prigorodnoye Production Complex in 2013 was reaching five years (which is the first from before the start-up in 2009) and more than 6 million manhours without a lost time injury (LTI). The countdown of these five years started before LNG production.

Prigorodnoye Production Complex successfully maintains ISO 9001 for its Quality Management System (QMS).



Prigorodnoye Production Complex

4.2.2 Development projects

4.2.2.1 OPF front end compression project

The company has commenced pre-FEED works on a front end compression project for the Onshore Processing Facility, which will help to maintain the projected production levels as the wellhead pressure from the Lunskeye field begins to decline. Early preconstruction activities are scheduled to begin in 2014.

4.2.2.2 Additional gas delivery points

The company has commenced FEED works for Tymovsk gas delivery point in 2013 with detail design and construction to be completed in 2014. The target is to supply gas in October 2014 at Tymovsk gas delivery point.

Makarov and Dolinsk gas delivery points will be engineered in 2014 and construction is expected to be completed for both in the 4th Quarter 2015.

4.2.2.3 South Piltun development project

Sakhalin Energy is always looking for opportunities to increase the Sakhalin-2 project profitability and to extend the operational life of the fields being developed. Sakhalin Energy is exploring opportunities for increasing the operational efficiency and hydrocarbon production from hitherto undeveloped Piltun-Astokhskeye reservoirs.

The company continues to analyse various options for the South Piltun site development. The

South Piltun site is located at the centre of the Piltun-Astokhskeye field and has never been part of the Sakhalin-2 Phase 2 scope of work.

In 2013 the company prepared the South Piltun Development Concept that envisions production starting up in this area after the steady production phase at Lunskeye field is over. The company is planning to continue exploration and research in this area.

4.2.2.4 LNG Train 3 construction project

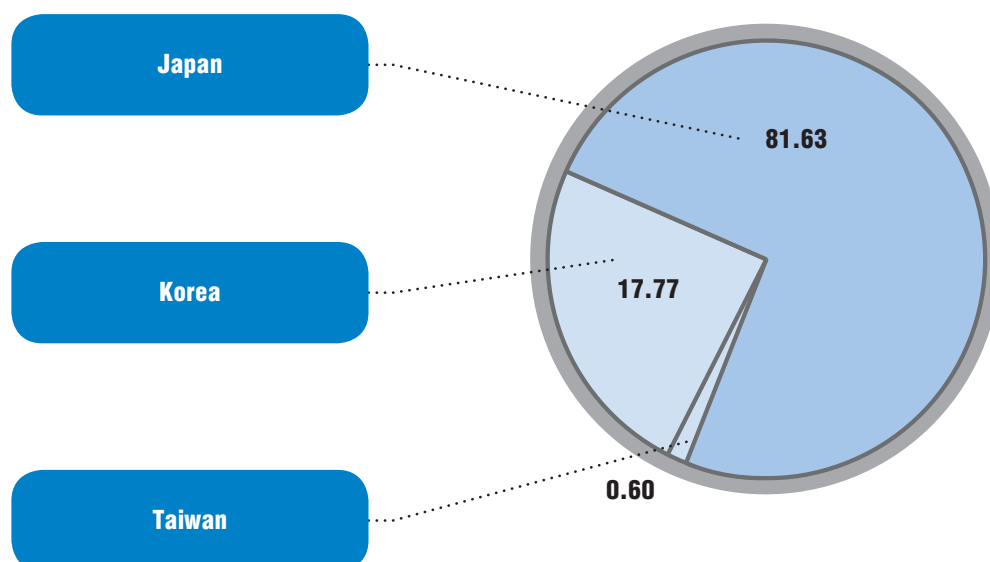
Sakhalin Energy has opportunities to further expand its business by expanding its gas liquefaction facilities with an additional train, Train 3 at the LNG plant. Such expansion was envisaged and taken into account during the initial design of the LNG plant site at Prigorodnoye. Gazprom and Shell agreed to move to FEED phase for Sakhalin-2 third LNG train. A detailed road-map for preparation of Train 3 design documentation should be ready for signing in February 2014.

4.2.3 Hydrocarbon production and export

4.2.3.1 LNG

Liquefied natural gas (LNG) is a colourless and odourless liquid half the density of water, consisting mainly (up to 90%) of methane (CH₄), the simplest natural gas of the gaseous hydrocarbons. When cooled to approximately -160°C (-250°F) at standard atmospheric pressure,

Sakhalin LNG sales market structure in 2013, %



natural gas liquefies and contracts to 1/600th of its initial volume, thereby becoming suitable for collection, storage and sea shipment.

Due to successful debottlenecking and equipment adjustment, the LNG plant exceeded its design output by producing 10.8 million tonnes of liquefied natural gas in the reporting year.

Sakhalin LNG is transported either by specialised customer ships or by the Grand LNG tankers (Grand Elena, Grand Aniva and Grand Mereya), constructed especially for this project and operated by two Russian-Japanese consortia, provided to the company under long-term charters, as well as Ob River and Fuji LNG chartered on a short-term basis.

In 2013, Sakhalin Energy shipped LNG to Japan, Korea, and Taiwan.

4.2.3.2 Oil

The Vityaz Blend is a new oil grade introduced by Sakhalin Energy to the Asia-Pacific Region. It is a light, low-sulphur oil blend, similar in quality and composition to the light oil produced in Oman.

In 2013, Sakhalin Energy produced and exported 5.4 million tonnes (over 42 million barrels) of Vityaz Blend oil from the Prigorodnoye terminal.

China's share in purchasing the company's products increased (by 41%) as compared to last year. In total, 11 companies from four countries purchased the oil blend in 2013. Products were delivered through 16 transit and

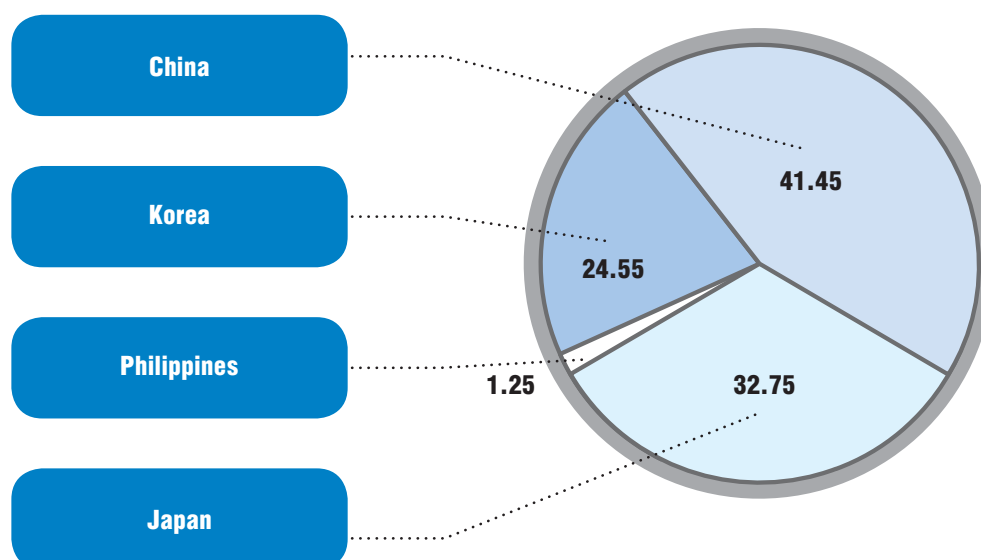
In November 2013, the company won the 2013 Customs Olympics, the Far Eastern regional competition of leaders in foreign economic activity, in the Best Exporter category. More than 60 companies in the Far East involved in foreign economic activity or providing customs services took part in this competition, which was held for the ninth year by the RF Federal Customs Service. Sakhalin Energy was among the top three exporters in the Russian Far East.

destination ports in Japan, China, Korea and the Philippines.

4.2.3.3 Natural gas

Since 2011, Sakhalin Energy has been supplying natural gas to the gas trunk-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 via the Southern Gas Transfer Terminal to the Yuzhno-Sakhalinsk Heat and Power Plant-1 and other Sakhalin infrastructure facilities, more than 904 million cubic metres of natural gas have been delivered (including delivery of 536 million cubic metres in 2013). In 2013, about 903 million cubic metres of natural gas were delivered via the Northern Gas Transfer Terminal to the Sakhalin-Khabarovsk-Vladivostok gas trunk-line for further usage as part of the Far East and Primorye fuel and energy sector development programmes. In total, about one trillion and 439 million cubic metres of gas were supplied to Russian partners in 2013.

Vityaz oil blend sales market structure in 2013, %





Oil spill response exercise

4.2.4 Sanitary protection and safety zones

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

The SPZ designed for the Prigorodnoye Asset, OPF and BS-2 confirmed by the Chief State Health Officer of the Russian Federation did not undergo any changes in 2013.

Onshore trunk pipelines run in the same right-of-way and are clearly designated by special signs. A safety zone, whose size for a given segment of the pipeline system is designated on the signs, is established along the entire route.

A safety zone was established for trunk pipelines to prevent any possible damage to them. This zone is determined by the Guidelines for Trunk Pipelines Patrol, approved by Ruling No. 9 of Gosgortekhnadzor (presently, Rostekhnadzor, the Federal Service for Environmental, Technological and Nuclear Supervision) of Russia of 22 April 1992. The safety zone is established along the routes of pipelines transporting oil and natural gas. It is established as a land plot limited by nominal lines running 25 metres from the pipeline axis on each side.

4.2.5 Oil spill prevention and response preparedness

4.2.5.1 General information

Oil spill prevention and oil spill response (OSR) preparedness are top priorities for Sakhalin

Energy. The company applies a complex approach to addressing this important mission. Sakhalin Energy has OSR Plans in place for each of the assets that are at risk for oil spills.

The level of oil spill prevention at Sakhalin Energy is evidenced by the following statistics. Since 1999, the company has produced nearly 321 million barrels of oil, while the total oil product spill over the last 15 years amounts to only one hundred thousandth of a per cent (about 26.47 barrels or 3.58 tonnes). For 2013, the total oil spill volume was 45 litres. Between 1999–2013, there has been no registered oil or petroleum product spill that could be graded as an emergency situation.

The company has six off-duty emergency response teams which are always prepared for oil spill response and other emergency response measures at the company production facilities (Prigorodnoye Production Complex, OPF, BS-2, and PA-A, PA-B, and LUN-A platforms). In 2013, emergency response teams of all three platforms (PA-A, PA-B, and LUN-A) and BS-2 were certified to respond to emergencies and to perform other contingency activities. In addition, Sakhalin Energy has concluded contracts for providing OSR services with CREO professional emergency response teams for onshore assets and Ecosheff for offshore assets of Port of Prigorodnoye and stand-by vessels for offshore platforms.

In 2013, the company organised corporate exercises at the following assets: Piltun-Astokh Offshore Oil Field (legend: a spill of approximately 6,000 cubic metres or more than 5,000 tonnes of oil from Molikpaq to PAB process pipeline); an onshore pipeline near Yasnoye PMD in Tymovsk District, Sakhalinskaya Oblast (legend: a spill of about 5,000 tonnes of oil from the main oil pipeline).

Based on the results of the exercises, recommendations were drawn up and relevant measures were taken to improve OSR activities.

Analysis of the drills and exercises conducted confirmed the company's preparedness for oil spill prevention and response at the Sakhalin-2 project offshore and onshore facilities.

To coordinate activities in case of an emergency situation, the company has organised emergency and crisis management teams that are ready 24 hours a day, including crisis coordination teams/emergency coordination teams, and a 24-hour duty dispatcher service.



Fire-fighting

In order to increase the personnel's OSR preparedness level and improve their practical skills, the company regularly conducts practical and theoretical training, drills and exercises of various levels, including at least two corporate exercises a year.

In 2013, 52 employees of the company completed Level I and II training, as well as Level I (ICS-100) and Level II (ICS-200) Incident Command System. Level I of the programme is basic and designed for regular rescuers and emergency responders, while Level II is designed for training supervisors, team leaders and oil spill responders. Level III training was provided for the first time for Asset Managers, Heads of Departments, Crisis Managers and ER Coordinators. Eighteen employees were given Level III Incident Command System (ICS-300) certificates.

In accordance with the 2013 Training Schedule, 440 exercisers and training sessions were conducted at the company's assets, including 225 OSR exercises and training sessions.

4.2.5.2 Oiled wildlife rehabilitation programme

In keeping with our commitment to biodiversity preservation and in line with international best practice, Sakhalin Energy is implementing an oiled wildlife rehabilitation programme. In 2005,

Two corporate TIER III exercises were held in 2013. In accordance with the generally accepted international classification, TIER III exercises are considered to be the most complex and ambitious type of exercises that involve simulation of spills of < 5,000 tonnes of oil. The corporate TIER III exercise at Piltun-Astokh Offshore Oil Field combined three objectives: offshore oil spill response, Piltun Bay shoreline protection and wildlife protection. For the first time such a large-scale offshore exercise performance involved international OSR experts, environmental consultants from Environ and EMERCOM representatives. The readiness of Sakhalin Energy's staff and equipment in Sakhalin to respond the emergency, as well as Level III OSR Global Support mobilisation (manpower and equipment), was evaluated. Customs and border guard issues, as well as the process of obtaining a dispersant permit were also checked. TIER III exercises at onshore pipeline sections of the onshore pipeline transportation system at the Yasnoye PMD were organised jointly with Gazprom. The task was to check not only the OSR preparedness, but the efficiency and preparedness to conduct rescue and recovery operations and restore the functioning of the onshore pipeline transportation system.

Sakhalin Energy invited IFAW (International Fund for Animal Welfare) and IBRRC (International Bird Rescue Research Centre) to give advice on establishing an oiled wildlife response structure suitable for Sakhalin's fauna and climate. As part of its integrated oil spill response plan, the company developed an Oiled Wildlife Rehabilitation Plan. The plan describes measures aimed at the prevention and response to oiled wildlife, the required response capability, resources and



Exercise on washing and stabilization of animals in the area of Prigorodnoye Production Complex

procedures, and protocols for coordination and cooperation between corporate and third-party structures and resources.

Priority areas for wildlife protection in the event of an oil spill include coastal bays and lagoons that sustain migrating birds, seabirds and other wildlife, spawning rivers, and wetlands. Sakhalin Energy has purchased specialised equipment that is always ready to be deployed.

In 2013 mobilization and deployment of oiled wildlife responders and equipment was practised during the South Piltun Tier III exercise and a specialized course in washing and stabilizing oiled wildlife was conducted at the Temporary Oiled Wildlife Rehabilitation Site at Sakhalin Energy's LNG site in Prigorodnoye.

4.3 Operational excellence programme

In 2013 Sakhalin Energy journey towards Operational Excellence Programme continued with the introduction of a new Operational Excellence Manager for the first time. The continuous improvement programme is designed for a long-term period and is part of the production and corporate culture.

The 2013 Operational Excellence Plan was achieved with improvements in areas of enhancing the efficiency of SCM, implementation of HR strategy, implementation of category management principles in the procurement system, increasing the efficiency of front-end engineering of new projects, as well as the start of the CWE project and achieving a world-class level of development and operation.

The aim of the programme is to ensure that Sakhalin Energy is one of the world's most efficient global energy companies. The programme's main objectives include the following:

- No harm to people, assets or the environment (Safety);
- Business processes efficiency (Lean processes without waste);
- Economic efficiency (Cost reduction);
- Satisfied customers (Production Assets Reliability and Cargo size); and
- Support for the stakeholders and customers.

In the spirit of continuous improvement a new corporate Operational Excellence Framework was developed towards the end of 2013. The new framework has nine corporate directions and will be communicated together with the 2014-2018 Journey Book early in 2014.

In 2014 there is a plan to deliver Lean training and coaching to meet our corporate direction of Lean Execution.

Key directions of Operational Excellence Programme



5.1 Company mission, vision, values, and principles

Our corporate goals and strategy are based on the company's vision and mission, which were updated in 2010 after newly constructed facilities were put into operation without incident, which ushered in a new stage of reliable and sustainable production.

Sakhalin Energy is guided by general business principles, with underlying core values of honesty, integrity, respect and care for people, teamwork, and professionalism. These principles are exemplified by the company's 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, competition, business integrity, political activities, health, safety, security, and environment, local communities as well

as communication and engagement with stakeholders. The full text of the company's General

The mission and vision of Sakhalin Energy can be stated as follows:

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

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

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

Business Principles is available at the Sakhalin Energy 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

Sakhalin Energy management with its shareholders and the Russian Party to determine the direction of the company activities, establish areas of responsibility, and assess performance.

Corporate governance system and structure



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

Leadership

Sakhalin Energy's management is fully committed to the Business Management System. Compliance with management decisions is mandatory for all staff and contractors. Management plays a leading role in constant 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 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 risk levels of its activities and identifies ways to manage risks, including decreasing, mitigating or preventing them. For more details, 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. Staff is 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 risk controls and means of risk management are in place and understood at the appropriate organisational levels. Process owners ensure the proper implementation of control procedures through regular testing for compliance with procedures adopted by the company.

Planning

All approved plans are optimised and fully resourced. Performance targets are set that will ensure progression towards the long-term objectives. The five-year plans, which are annually assessed and adjusted, form the basis of planning. They are established through active and open discussion with the company's staff from all directorates at annual Workshops 100 (see Section 7.3 Engagement with personnel). Changes to the plans are documented and appropriately authorised. Contingency and emergency response plans are implemented and regularly evaluated.

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

Implementation (Monitoring and Corrective Actions)

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. Any lessons that are learned are properly 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 business objectives are met. Line managers engage with their staff, communicating business direction and priorities. The CED receives their feedback for information and possible follow up. CEO and other members of the CED reinforce this communication framework with quarterly staff engagement sessions. For more details see Section 5.4 Corporate culture and Section 7.3 Engagement with personnel.

5.3 Corporate governance model

Strategic planning is carried out through engaging Sakhalin Energy management with the Russian Party (representatives of the Federal executive authorities and the Sakhalin Oblast Government) and company shareholders that determine policy directions, establish areas of responsibility, and assess 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 strategic management body established and operating in accordance with the Production Sharing Agreement. The Supervisory Board supervises the fulfilment of the PSA terms and approves the company's long-term development plans and budgets, annual work programmes and budgets, LNG sales agreements, procurement procedures, Russian national employment and training plans, etc. The Supervisory Board also reviews the company's annual reports and appoints audi-

tors. The Supervisory Board consists of twelve members: six representatives of the company and six representatives from the Russian Party. The authority of the Supervisory Board is established by the Production Sharing Agreement.

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

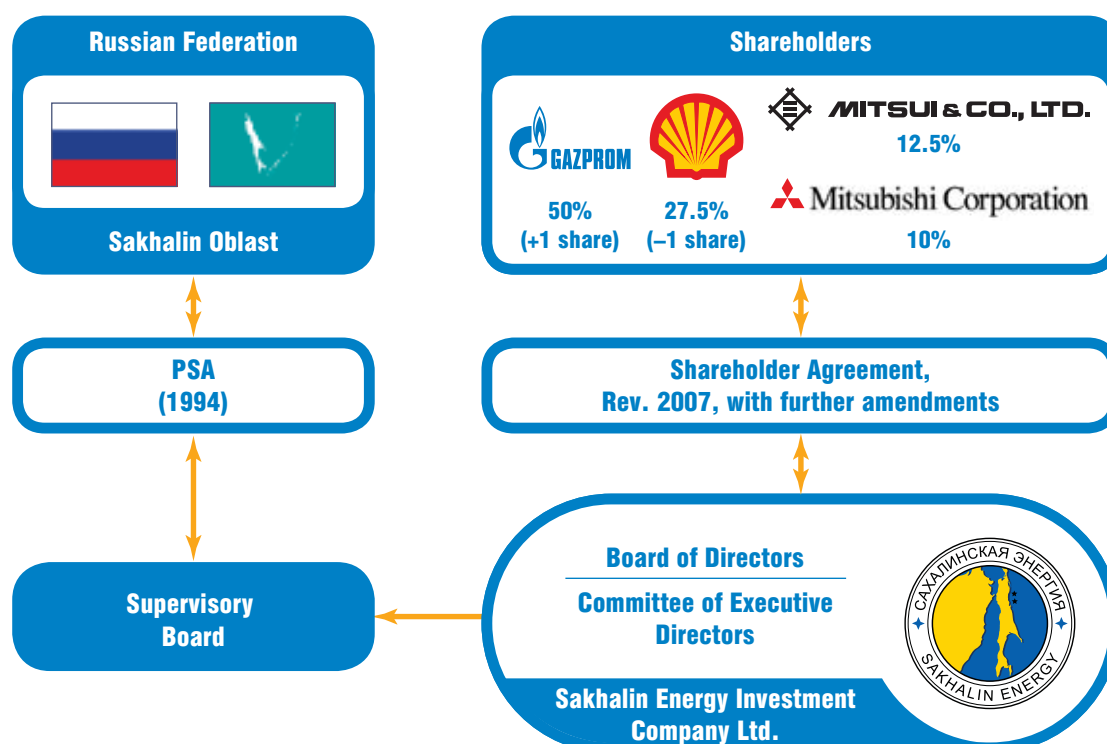
- Certain key decisions are taken by shareholders,
- The Board of Directors is responsible for overall company governance, and
- Daily management and operation of the company is the prerogative of the Committee of Executive Directors (CED).

Listed below are management bodies which play their respective roles in the corporate governance model.

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

The BoD members in 2013 included all the executive (7) and non-executive (8) directors of the company. Olivier Lazare, Executive Vice-Pres-

Corporate governance model



ident of Russia and Caspian at Shell, served as the Chairman of the Board in 2013.

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

Commercial Committee — chaired by the company Commercial Director and consisting of representatives of 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, business strategies relating to crude oil, LNG and natural gas, and other commercial issues.

Technical Committee — chaired by the company Technical Director and consisting of representatives of Sakhalin Energy's Technical and Production Directorates and representatives of the shareholders 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, engineering, procurement and construction plans, project development schedules, and HSE management.

Finance Advisory Committee — chaired by the Finance Director and consisting of representatives of Sakhalin Energy and the company shareholders who meet to discuss financial issues. The standard agenda of a FAC meeting includes the following items: equity/project financing arrangements, internal controls framework (including financial business), cost recovery issues, internal/external audits, Work/Service contracts and agreements and amendments thereto, tax liabilities, insurance, treasury and accounting policy.

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

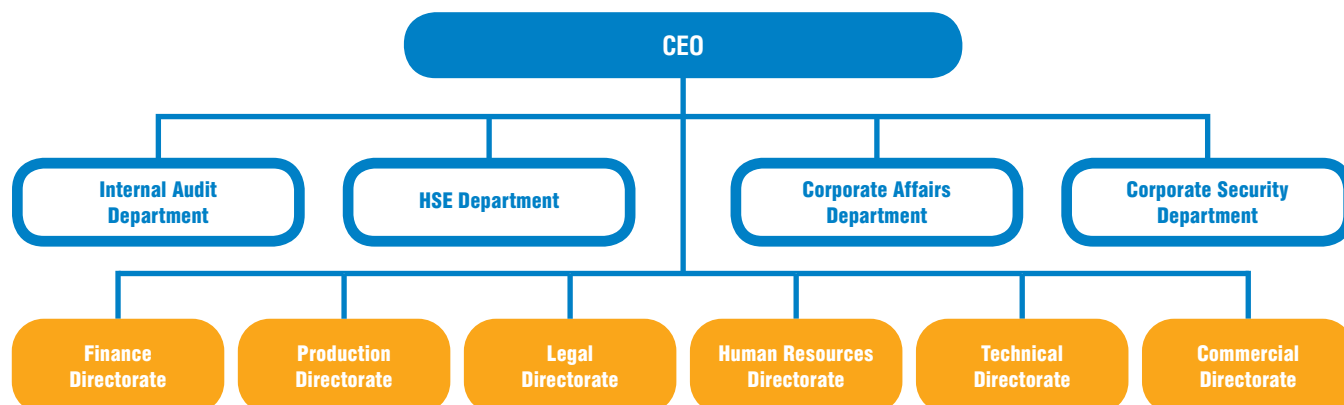
Board Assurance Committee — consisting of two representatives from each of the company shareholders, one of which one is a Non-Executive Director. The company is also represented by the Finance Director and the company's Chief Auditor.

Board Remuneration Committee — an advisory committee to the BoD. This Committee reviews and makes recommendations with regard to annual performance against targets by 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.

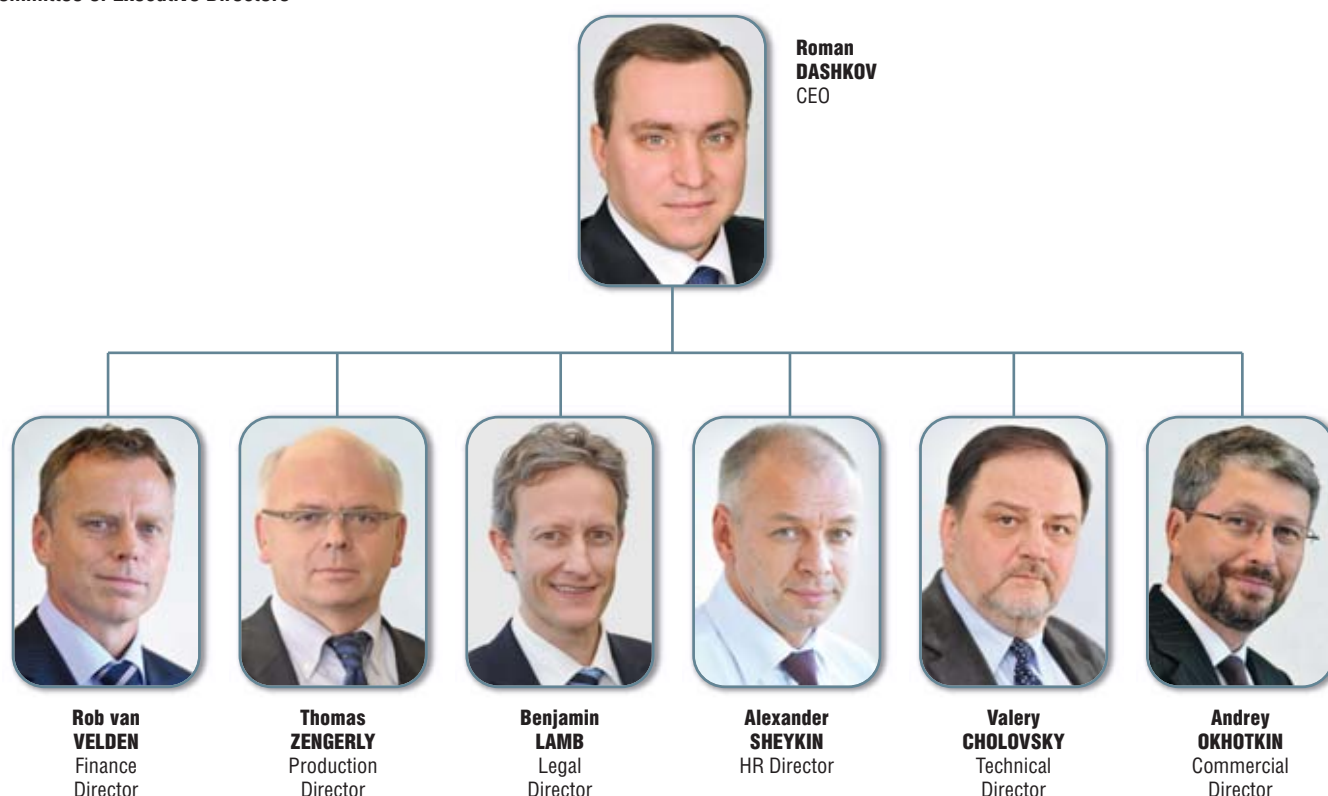
Committee of Executive Directors (CED) — headed by the company CEO. The CED, which consists of all the Executive Directors of the company, is responsible for the day-to-day management of the company, designating, directing, and controlling the everyday activities of Sakhalin Energy through business plans and strategies as well as by decisions of how best to implement them.

The CED members as of 1 January 2014 are shown below in the Committee of Executive Directors organisational chart.

Company organisational structure



Committee of Executive Directors



Executive Directors head the respective functional subdivisions (Directorates) and are responsible for the company's day-to-day operation and management.

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

- Tender Committees;
- Management Development Committee;

- Business Integrity Committee;
- Business Assurance Committee;
- HSES Management Committee; and
- Operational Excellence Committee.

The company's organisational structure ensures fulfilment of functional tasks related to both facilities and processes.

5.4 Corporate culture

People and corporate culture are of primary importance in achieving the goals of our company. Respect, support and promotion of human rights are core principles for Sakhalin Energy, and the company's 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 important component of achieving and improving operational excellence.

In order to ensure compliance with professional and business ethical standards, the

company's Code of Conduct explains norms of behaviour which Sakhalin Energy expects from employees and describes how these norms correlate with the company's business principles and core values (see Section 5.5 Code of conduct). Sakhalin Energy employees share core values of the company, such as:

- Honesty and integrity;
- Respect and care for people;
- Individual accountability supported by teamwork; and
- Professionalism and continuous improvement.

These values are reflected in Sakhalin Energy's behavioural standards and guidelines, most notably:

- Statement of General Business Principles,
- Code of Conduct,
- Sustainable Development Policy,
- Human Rights Policy,
- Whistle Blowing/Grievance Procedure,

Corporate values



- Conflict of Interest Procedure, and
- Anti-Bribery and Corruption Procedure.

These documents ensure that Sakhalin Energy operates within the framework of applicable laws and in accordance with ethical requirements as set out in Sakhalin Energy's General Business Principles. The human rights principles control system requires the company management to provide employees with a safe and confidential setting for raising any concerns and reporting noncompliance. 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 teamwork characterise this behaviour.

The company constantly works to reinforce engagement with staff in a two-way communication format, using such methods as direct communication (all-staff communication sessions, meetings within each group/department, etc.), as well as various types of electronic and written communications and feedback (see Section 7.3 Engagement with Personnel).

5.5 Code of conduct

The Code of Conduct is the primary document that explains the fundamental rules and standards acceptable to the company to ensure

compliance with our Statement of General Business 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 main standards of behaviour:

- 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 enterprise; and
- Fraud, theft, abuse or misuse of Sakhalin Energy's assets is unacceptable.



"Code of Conduct" booklet

5.6 Risk management

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

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

At Sakhalin Energy a risk is understood to represent a potential situation in the future which may impact the achievement of goals. All risks are therefore split into threats and opportunities. Risks include a degree of uncertainty affecting the intended course of action of the business. This

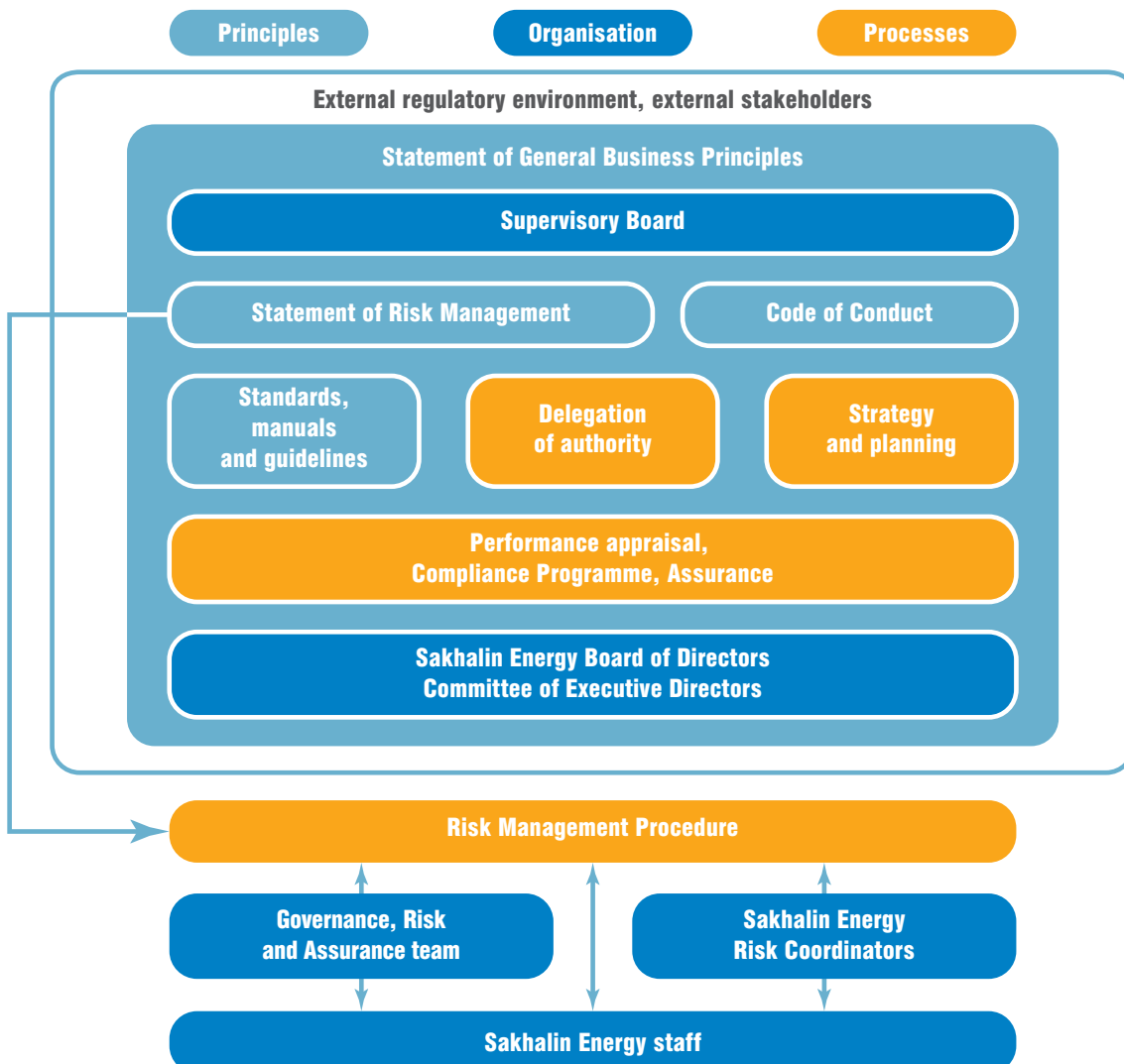
uncertainty must be taken into account, monitored, and controlled, i.e. managed.

The process for managing risks at Sakhalin Energy involves identifying and assessing risks, planning and implementing a response, moni-

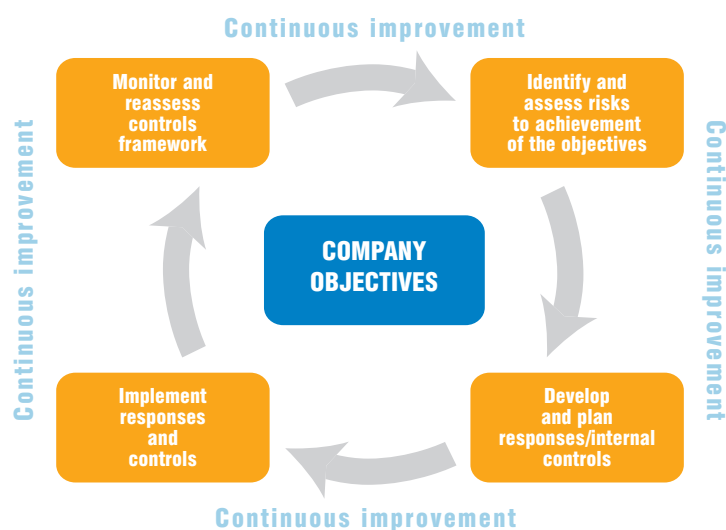
One of the most important components of an efficient risk management process is impact assessment. This process is to be carried out before commencement of any operation which may potentially affect various spheres of activity (for more details, see Section 3.5.2 Impact assessment).

toring performance, and reassessing risks on an ongoing basis to ensure that areas for improvement are captured and implemented (see Risk management lifecycle chart). This process is regulated by the corporate Risk Management Procedure. The purpose of this Procedure is to define

Controls framework



Risk management lifecycle



the process by which risks are identified, assessed, and mitigated (implementation of risk controls) in accordance with Sakhalin Energy internal controls framework (see Controls framework chart).

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 existing goals.

Risk management is the responsibility of those who are accountable for achieving the objectives associated with these risks. Each Executive Director 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 consisting of the company executive directors, and the Board Assurance Committee (see Controls framework chart).

Listed below are the risks which are believed by the company to be essential, as well as ways to control them.

Risks	Controls	Reference
Operational excellence (risks—opportunities)	Many Sakhalin Energy processes can be improved to become more effective and/or more efficient, to enable the company to realise its vision of becoming the premier energy source for the Asia Pacific. Controls in place: in 2010, the company developed a strategy to achieve maximum performance indicators, referred to as the Operational Excellence Programme.	For details see Section 4.3 Operation excellence programme
Economic risks		
Cost management	Control around investment decisions leading to optimal usage of scarce resources and challenging of the costs to use budgets effectively are main elements for cost management. Transparency, awareness, efficiency, cost and contract management focus on reducing long term cost structure. Cost Management strategy of the company is supported by Journey book, Business Plan and Operational Excellence Programme.	For details about managing contractors and suppliers, see Section 6.4 Contracting and procurement management
Social and reputational risks		
Staff retention, competence and succession plan	Recruiting and developing of Russian staff is a key element of our company to operate successfully and is essential to ensure sustainable business. There is a risk that recruitment or retention of Russian nationals falls behind requirements due to the labour shortages in oil and gas markets. Successors Pool Planning, Talent Retention Strategy and Development policy are in place to reduce the exposure to this risk.	For details see Section 9.1 Personnel: management and development
Risk of occupational diseases	The company applies the following controls to reduce the risk of occupational diseases: personnel health risk assessment at the company's facilities; harmful factors production control; workplace attestation; periodic medical and clinical examinations, monitoring the compliance with work instructions during work; monitoring the use of PPE; public education on the prevention of occupational diseases.	For details, see Section 9.3 Occupational health
Risk of non-compliance and exceeding the rate of 95% of associated gas disposal	In order to minimize the flaring of gas, the company is constantly taking steps to enhance the equipment reliability, to increase the operating time and to minimize the number of unplanned shutdowns.	For details see Section 8.1.6 Utilisation of associated gas in production

Risks	Controls	Reference
Environmental risks		
Risks with regards to environment	<p>The company uses the following controls to reduce the risk of negative impact on environment: company runs complex of environmental monitoring programs at production facilities locations, among them the flora and fauna monitoring in Aniva bay on the assessment of ballast water impact; acoustic monitoring to check noise level in Gray Whale feeding areas; Steller's Sea Eagle and other birds species research and monitoring programmes; marine mammals protection programmes. Risk management performs in accordance with company's Biodiversity Standard and Biodiversity Action Plan.</p>	For details see Section 8 Environmental impact management
Safety risks		
Process safety	<p>Process safety is the management of hazards that can give rise to major accidents involving the release of potentially dangerous materials, release of energy such as fire or explosion or both. Examples of major accident hazards are hydrocarbon releases from production facilities or wells, onshore and offshore sites and pipelines which could result in fire and explosions; loss of structural integrity of offshore installations; marine hazards such as ship collision with installation or another vessel; aviation hazards such as a helicopter crash; road transport major accidents; contamination of food or water affecting personnel at manned sites; loss of power to remote locations during winter; dropped objects; transfer of personnel between offshore installations and vessels.</p> <p>Control of process safety is through the three elements:</p> <ul style="list-style-type: none"> • Design Integrity is to design and build company assets so that risks are as low as reasonably practicable (ALARP). • Technical Integrity is to maintain the hardware barriers through effective maintenance, inspection, repair, and assurance. • Operating Integrity is to work within operational barriers and management of critical work processes like permit to work, overrides management and management of change etc. <p>The heart of these elements is Integrity Leadership. It is about leaders' ability to pick up on weak signals and the openness leaders create for people to intervene and speak up when they feel something is not right.</p> <p>Process Safety risks have been assessed at each company asset based on Russian Federation legislation and international practice.</p>	For more details please see Sections 4, 9.2, 9.3, 9.5.7
Personnel safety risks	<p>These risks mainly include personnel safety risks during lifting operations, electrical safety risks, and risks related to hazards of any falling objects.</p> <p>To reduce personnel safety risks during lifting works to as low as reasonably practicable (ALARP), basic controls include, but are not limited to, the following: performance of careful assessment of risks during lifting works and preparation of a detailed lifting pattern describing all of the phases and indicating weight of load, capacity of lifting device, etc.; ensuring competence of personnel involved in lifting operations (crane operator, slinger team); regular technical inspections and checks of all lifting equipment.</p> <p>To reduce personnel safety risks concerning electrical safety issues, basic controls include the following: Performing work only when permits to work have been issued, and carrying out of risk assessment; regular inspections of electric systems for damages; timely testing of all electric equipment units; securing wires, where possible, above the ground level; protection of high-voltage wires against possible damages, their clear designation; protection of wires and electric outlets against groundwater, rain and snow; repair of electric equipment only by qualified staff; assigning persons responsible for first-aid treatment in the event of electrical shock.</p> <p>In order to reduce risk of injuries caused by falling objects, the company developed a programme to prevent objects from falling. A group of representatives of all the company's facilities received training and is implementing the programme at the facilities. The company started to monitor and review incidents with falling objects. Regular inspections, awareness campaigns, development of tools that allow to identify hazards and prevent objects from falling are carried out under the programme.</p>	For more details please see Section 9.2 Labour safety and protection

Risks	Controls	Reference
Road safety	During the operations phase, traffic decreased, but the risk levels remain high for the service life of facilities. There is still a large amount of traffic, often in difficult conditions. The leading violation among contractors' drivers is speeding. To control risks and prevent the violations of road traffic regulations, the company conducts various activities such as active monitoring of drivers' violations of speed limits by using IVMS and Traffic Safety Team inspectors; training sessions and discussions with drivers; assigning focal points at all the facilities, responsible for monitoring the implementation of road safety measures; strictly regulated journey management; and the activities of the Sakhalin Road Safety Council.	For more details, see Section 9.2.2 Road safety and Section 9.5.7 Sakhalin Road Safety Council

5.7 Anti-bribery and corruption

In order to counteract bribery and corruption, Sakhalin Energy:

- 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 international laws and regulations; and
- Adheres to the principle of integrity and legality in all company activities.

Sakhalin Energy expects the same level of ethical behaviour from its employees, contractors and business partners.

Sakhalin Energy assists its employees, business partners, contractors, and suppliers in fulfilling requirements for counteracting bribery and corruption. The primary company document regulating issues of counteracting bribery and corruption is the Anti-Bribery and Corruption Procedure.

Risks associated with non-compliance with this Procedure come from nonfulfillment by the company of requirements of Anti-Bribery and Anti-Corruption Laws as well as failure to comply with ethical standards of business. These risks may lead to reputational damage, financial losses (through fines), and criminal liability associated with the 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 violation of anti-bribery and corruption laws and must attend individual training on the requirements of this Procedure. Additionally, all newly hired staff must be briefed about the requirements set forth in the Procedure at their orientation meeting. The Finance Controller in collaboration with the Governance, Risk and Assurance Manager is required to ensure that Sakhalin Energy employees are made

aware of this Procedure (including through training sessions) and that the Anti-Bribery and Corruption Procedure is complied with by all employees. Furthermore, the company Legal Directorate will consult employees on anti-bribery/corruption legal requirements and the legal risks associated with non-compliance. The Anti-Bribery and Corruption Procedure establishes an overall framework of internal controls for compliance with Anti-Bribery and Anti-Corruption Laws, including:

- Requirements in the area of anti-bribery and corruption;
- Identifying violations;
- Reporting to the Business Assurance Committee;
- Utilising the system of potential risk indicators, or 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.); and
- Utilising pre-contractual audits, mandatory contract provisions, and other methods of control.

In order to integrate anti-bribery and corruption requirements into the company contracting and procurement processes and to implement further controls:

- The Legal Directorate shall monitor any changes in standard contract clauses which specify company anti-bribery and corruption requirements; and
- The company 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 contracting and procurement processes.

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

6.1 Importance of the Sakhalin-2 project for the Russian Federation and Sakhalin Oblast

- Since Sakhalin Energy started its operations, Russian Party's proceeds from the Sakhalin-2 project have totalled almost US\$ 7 billion.
- Russian companies have gained access to new technologies and business development opportunities.
- Over US\$ 18 billion worth of contracts have been awarded to Russian companies and organisations.
- Russia has gained valuable experience in managing complex high-tech projects in remote locations and in sub-arctic conditions.
- Significant funds have been received by Sakhalin Oblast and local municipalities.
- The infrastructure on Sakhalin Island has been upgraded on a large scale (over US\$ 600 million was invested by the company).
- There has been a notable increase in local employment (both direct and indirect effect) and local workforce quality.

- Salaries 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, which dramatically enhanced their capacity and competitiveness.

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

- The company has carried out extensive social and public initiatives on Sakhalin Island.
- In 2013, according to the International Accounting Standard (IAS), revenues of Sakhalin Energy amounted to US\$ 7,508.1 million, and its total net income was US\$ 2,606.4 million.

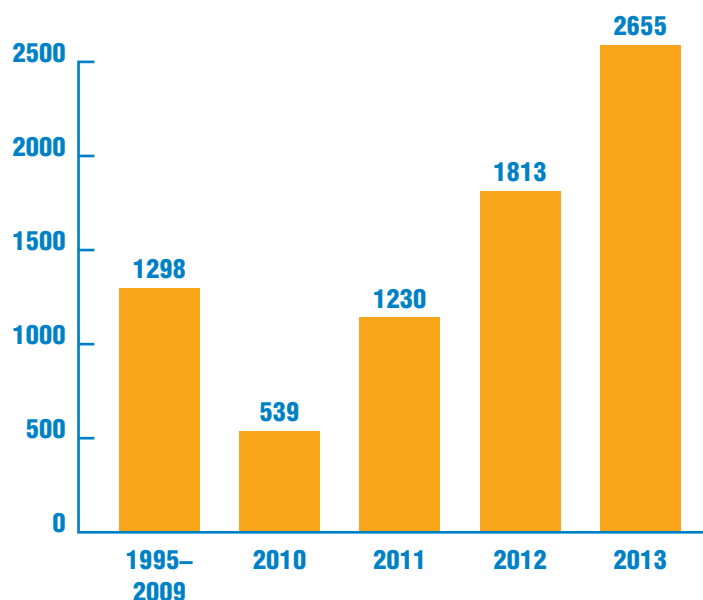
6.2 Financial benefits to the Russian Federation and Sakhalin Oblast

In 1994, Sakhalin Energy signed a Production Sharing Agreement (PSA) with the Russian Federation, represented by the Government of the Russian Federation and the Administration of Sakhalin Oblast. 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.

The PSA provides that some types of taxes and customs duties are substituted with production sharing. This effectively means that instead of some taxes (including mineral extraction tax,

The total amount of payments to the Russian Party from the project, US\$ million

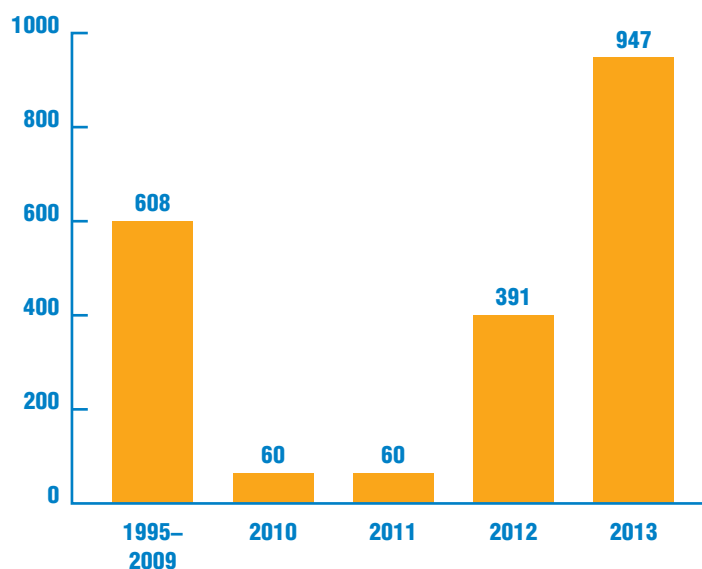


property tax, etc.) and fees, Sakhalin Energy is allocating hydrocarbons as a form of royalty

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 tax payers.

payment, and after the start of product sharing as Russian Party's profit hydrocarbons. Finan-

Taxes and other mandatory payments received by Sakhalin Oblast government and local governments from Sakhalin-2 project, US\$ million



6.3 Russian content

The Russian Content means utilisation of Russian labour, materials, equipment and contract services. In accordance with the PSA requirements, the Russian Content to be measured in labour input (in man-hours), as well as the volume and quantity of 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 level of Russian Content of 70% over the life of the entire Sakhalin-2 project. According to these parameters, in 2013 the company reached a level of 89% measured in man-hours and 88% (the quantity of used materials and equipment), respectively.

cial benefits to the Russian Party include profit tax paid by the company and a number of mandatory payments, levies and fees. In total, for the reporting period, Sakhalin Energy paid over US\$ 2.6 billion (in kind and in cash) to the Russian Federation, which is US\$ 800 million more than in 2012.

Royalties (in kind payment) amounted to US\$ 705 million, and Russian Party's profit hydrocarbons was US\$ 836 million. In addition, the 2012 fiscal year profit tax totalled US\$ 598 million and dividends totalled US\$ 450 million (it was paid by the company in 2013).

Between 1995 and 2013 and including last year's amounts, the Russian Party has received over US\$ 7 billion from the Sakhalin-2 project.

In 2014 the company will pay a profit tax payable and dividend for 2013 in the aggregate amount of approx. US\$ 4 billion.

Taxes and other mandatory payments by Sakhalin Energy make up a significant part of budget revenue for a vast majority of the municipalities involved in the project. The amount of taxes and other mandatory payments paid to Sakhalin Oblast and to local governments totalled US\$ 947 million in 2013, which is US\$ 556 million more than in 2012.

Revenues from the Sakhalin-2 project were a significant part of the total fiscal revenues of Sakhalin Oblast in 2013 (over 30% of the total amount).

Sakhalin Energy has identified its key activities and mechanisms for maximising the Russian Content, which are featured in the Russian Content Policy and Russian Content Development Strategy (both documents are available on the Sakhalin Energy website). The company's efforts are primarily focused on the long-term planning of the Sakhalin-2 procurement and contracting requirements, on the timely identification of opportunities for the Russian Content development, and also on providing targeted assistance to Russian companies in order to increase their competitive potential, and for the development of Russian vendors and workforce.

The total value of contracts awarded to Russian companies since the project was launched through the beginning of 2014 has exceeded US\$ 18.3 billion. In 2013, the value of new contracts and amendments to existing contracts with Russian companies totalled US\$ 1.2 billion, or 86% of the total value of all contracts.

Russian companies involved in the project have unique access to international best practices, global business opportunities and management skills.

In addition to new jobs, personnel and capacity development, Russian companies also benefit from the following:

- Improvement in quality of services and materials, as well as safety standards;
- Introducing technologies that are new to Russia and acquiring unique experience;
- Doing business with international partners and setting up joint ventures; and

Some of the contracts awarded to Russian vendors in 2013:

- **OJSC SOGAZ — various insurance services;**
- **LLC Sakhalin Support Services — catering and office services;**
- **CJSC Krilion Service — network equipment support;**
- **LLC Asia Trans Projects and CJSC NEK — freight forwarding;**
- **CJSC Vostokdorstroy — road construction and maintenance;**
- **State unitary enterprise Avtodorproekt of Sakhalin Oblast — project documentation correction and field supervision services;**
- **LLC ANB private security company — security services at production facilities; and**
- **CJSC Krilion Service — maintenance and repair of telecommunication systems.**

- Higher competitiveness as bidders in other project tenders, both in Sakhalin Oblast and worldwide.

6.4 Contracting and procurement management

The company pays close attention to effective contracting and procurement (C&P).

Our fundamental C&P document is Sakhalin Energy's Contracting and Procurement Policy (hereinafter the Policy). This Policy applies to all the Company employees and contractors, primarily the company personnel, directly engaged in supply chain management. The Policy applies to all activities that involve spending company funds on equipment, materials, supplies, work and services.

The Contracts and Procurement 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 C&P principles:

- Safety: no harm to people or the environment, no damage to our assets; contractor compliance with the company safety standards;
- Anti-bribery and corruption: according to the transparency principle, bribery, corruption and/or personal gain are unacceptable in any supply chain operations;
- Promoting competition via development of a competitive market environment;



- Human rights: ensuring respect for, observance and promotion of human rights by our contractors; and
- Sustainable development: ensuring sustainable development in the process of subcontractor selection and in making supply chain management decisions.

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

In accordance with the above-listed principles, our contracts award and management process follows these steps:

Creating a list of qualified vendors (for certain scopes or supply/service, or for specific tender scopes):

- Conducting workshops for potential vendors (see Section 6.5 Vendor development programme); and
- Implementing potential vendor pre-qualification.

Conducting tenders for the supply of materials/equipment and/or provision of services:

- Should sufficient market capacity exist, competitive bidding is preferred;

- Sending out Invitations to Tender (ITTs) and Clarification Bulletins;
- Submission of bids (proposals);
- Conducting technical bid evaluation (including HSES, etc.); and
- 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 execution of the contract, the company monitors contractor activities by tracking mutually agreed Key Performance Indicators (KPIs) and by organising meetings to review the contractor performance;
- The company raises awareness and conducts training in order to ensure compliance with its requirements (including those related to HSES and social performance, anti-corruption and bribery, and human rights); and
- The company conducts contract performance audits.

6.5 Vendor development programme

Our long-term Vendor Development Programme was developed by Sakhalin Energy in order to increase the competitiveness of Russian vendors and share the unique experience of Sakhalin Energy's international oil and gas project. The Programme contains a number of training modules.

- HSE;
- Work quality assurance; and
- Tendering skills.

In addition to the above topics, workshops concerning specific tenders have been held for potential contractors and vendors since 2013. For

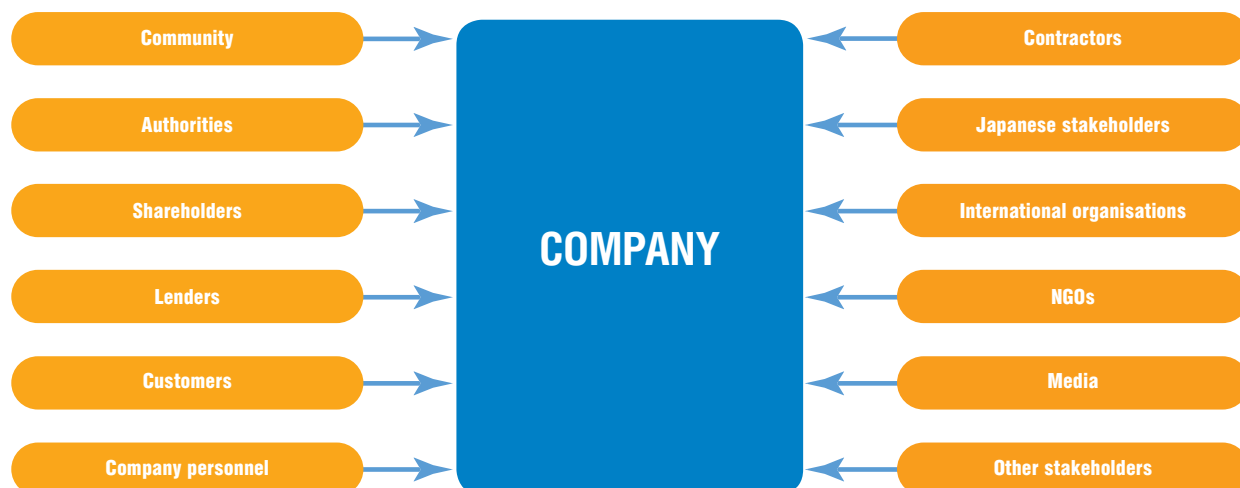
example, in 2013, workshops were held concerning the tender for the construction of a temporary offloading facility as part of the construction of a booster station at the OPF; the tender for providing scaffolding, insulation, painting and fire-proofing; and the tender for providing engineering support for Sakhalin-2 project onshore production facilities.

As part of the Vendor Development Programme, in 2013, the company held nine workshops for both current and potential Sakhalin Energy contractors.

These workshops were attended by more than 70 specialists from 34 Russian companies.

7.1 Stakeholder engagement: strategy, principles, mechanisms and tools

Company's stakeholders



Assuming that regular and meaningful engagement with communities and 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 who have a vested interest in the company or the project it implements, i.e. individuals or entities that are influenced by the company or themselves influence or can potentially influence the company's operations.

The company has defined the stakeholders to include the following groups: personnel, the community, government authorities, Shareholders, Lenders, customers, suppliers and contractors, stakeholders in Japan, international organisations, public organisations and other non-governmental and non-profit organisations, mass media, etc.

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

- Statement of General Business Principles;
- Code of Conduct;
- Sustainable Development Policy;
- HSES Commitments and Policy;
- Social Performance Standard (the Public Consultations and Information Disclosure Specification); and
- Public Consultation and Disclosure Plan (updated annually).

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

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

Stakeholder engagement process



7.2 Stakeholder engagement in 2013

In 2013, the company continued its systematic and consistent engagement with key stakeholders.

The key stakeholder engagement activities in 2013 included the following:

Key statistics of engagement in 2013:

- **Nine public meetings held in communities located near the company's facilities were attended by 74 Sakhalin residents;**
- **3112 people visited the information centres;**
- **13 public meetings held in areas of traditional residence of the Sakhalin Indigenous Minorities were attended by more than 226 of their representatives, representatives of municipal administrations, public organisations, and SIM communities; and**
- **Two rounds of consultations with stakeholders under preparation of the Sustainable Development Report.**

- Engagement with personnel (for more details, see Section 7.3);
- Public, group, and individual consultations to update the participants on the latest developments and other aspects of company's activities, and to receive feedback;

- Information sharing through the following tools: Sakhalin Energy public website, Energy weekly TV programme broadcast in Sakhalin, Vesti monthly newspaper, information reports and other materials distributed in communities, and mass media (radio, newspapers, and TV);
- Work of company's information centres set up in local libraries (for more details, see Section 7.4);
- Engagement with indigenous people in the framework of the Sakhalin Indigenous Minorities Development Plan (for more details, see Section 7.5);
- Engagement with non-governmental and non-profit organisations (for more details, see Section 7.6);
- Engagement with Japanese stakeholders (for more details, see Section 7.7); and
- Engagement with customers, suppliers, and contractors (for more details, see Section 7.8).
In addition, as per GRI international standards, additional dialogues with stakeholders were conducted.

7.3 Engagement with personnel

Engagement with personnel is an important component of strengthening and developing Sakhalin Energy's corporate culture (see Section 5.4 Corporate culture). One way this is carried out is through an internal communication system, which includes the following:

The Workshop 100 was traditionally held in November 2013. This was the fifth annual workshop. It was attended by approximately one hundred employees. Along with the directors, the company's leadership forum members and heads of business units as well as representatives of all directorates took part in the forum. The workshop deliverable is the publication of the company's traditional Journey Book for 2014–2018 with a focus on the next year's objectives. One of the key topic of the new edition is 20th anniversary of Sakhalin Energy that will be celebrated on 18 April 2014.

- Regular staff communication sessions to inform employees about the results of meetings of the Committee of Executive Directors, Board of Directors, and Supervisory Board as well as other important developments at Sakhalin Energy.
- Vesti corporate newspaper and various informational and reference materials. Vesti is circulated not only among the company staff, but also among communities in Sakhalin (the newspaper is regularly distributed through the company's information centres and is on its website).
- Opinion surveys of personnel on a wide range of topics. In 2013, surveys were conducted to study the performance of administration and management, teamwork, employee engagement, levels of responsibility, and respect for ethnic and individual differences. Surveys were conducted to assess employee engagement in charity and satisfaction with the performance of different business units. Moreover, various short polls were posted on the corporate intranet website, including those aimed at gauging employees' interest in sports and willingness to follow safe practices in winter, etc.
- News releases distributed through the daily news bulletin and e-mail from the company's directors.

- Dissemination of printed informational materials — such as posters, booklets, brochures, etc. — to inform employees about various aspects of safety, operational excellence, HR issues, and major scheduled events.
- Special information billboards in company offices for announcements, posters, and other information.
- Workshops and informational sessions to explain the company's new procedures and programmes. For example, lunch-and-learn sessions, which are very popular among company's personnel, are continued. At these lunchtime sessions, employees can learn about the work and achievements of various departments of the company.

- Intranet website available to all employees where information about company activities, including policies, procedures, schedules, etc., is regularly posted and updated.

Another significant tool of engagement with the company staff is the Whistle Blowing and Grievance Procedure. Compliance with this procedure is a mandatory requirement for all Sakhalin Energy staff as well as the personnel of contractors. The procedure is used to address various grievances and claims associated with company operations, including actual or potential breaches of legal requirements, business principles, or the company's commitments. Additionally, the company provides a confidential hotline (telephone number and e-mail address) through which violations of business principles, misconduct and abuses, risks to the company's reputation, etc., can be reported (for more details, see Section 9.4 Human rights).

7.4 Interaction with local communities through the company information centres

The information centre network remained the most efficient and popular tool for interacting with Sakhalin residents in 2013.

The information centres are located in district and village libraries in communities along the route of the Trans-Sakhalin pipeline system and in the vicinity of other company facilities. The information centres are equipped with information stands, office equipment, and furniture and have Internet access, which both helps meet the company's objectives and enhances the functional capabilities of the libraries.

Visitors to the information centres are assisted and served by library employees during the usual library hours.

In order to increase the level of awareness of company activities, in November 2013 the librarians attended a training session and visited Prigorodnoye Production Complex.

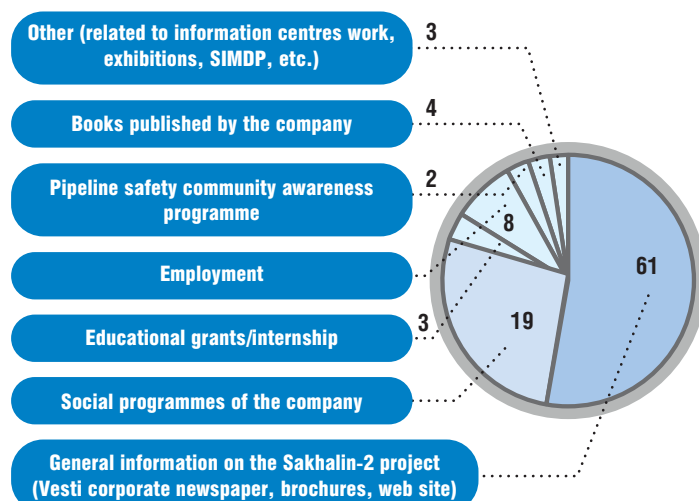
Information centres' personnel are responsible for:

- Regularly updating company materials on the information display stands;
- Providing consultations on information search on the company's website;
- Assisting members of the community in preparing and submitting complaints to the company in accordance with the company's Community Grievance Procedure;
- Providing company information materials (as requested); and
- Providing support for the company's social campaigns (e.g. St. George's Ribbon Campaign).

In order to support libraries and attract visitors to libraries and information centres, the company is implementing The Donated Book project aimed at replenishing library holdings. In 2013, to honour the 400th anniversary of the Romanov dynasty, Sakhalin Energy donated sets of books to 25 Sakhalin libraries. The project was launched in 2010 when it was dedicated to the 65th anniversary of the World War II victory. In 2011, the focus was on the 50th anniversary of the first space flight of Yuri Gagarin, and in 2012, on the 200th anniversary of the Patriotic War of 1812.

Overall, more than 3,000 visitors stopped in at Sakhalin Energy's information centres in 2013. Statistics on their queries is presented on the Statistics about inquiries at the information centres chart.

Statistics about inquiries at the information centres in 2013, %



7.5 Cooperation with Sakhalin Indigenous Minorities (SIM)

Implementation of the Sakhalin Indigenous Minorities Development Plan (hereinafter — SIMDP or Plan; for more details on Plan implementation see Section 9.5.9) has continued. Following the stakeholders' recommendations obtained during preparation of the second 2011–2015 Plan, the partners placed special

Sakhalin Energy has been supporting linguistic research and folklore publications for many years. The publication of Uilta Lexis as a Historical and Ethnographic Source is critical for preserving the ethnic vocabulary of the Uilta language and the rich linguistic heritage of one of the least numerous Tungus peoples in the country. The Uiltas, one of the least numerous peoples of the Russian Federation, are an indigenous people of Sakhalin. According to the 2010 census data, there are 295 Uiltas remaining. The Uilta language is classified by the UNESCO as a nearly extinct language. About 30–40 people can communicate in this language, and it had no writing system before the 21st century.

Lyudmila Missonova, Cand. Sc. (History) and author of the dictionary, supervises the development of the multi-volume encyclopaedia Peoples and Cultures of the Miklukho-Maklai Ethnology and Anthropology Institute of the Russian Academy of Sciences.

emphasis on informing the population about the programmes to be implemented and new opportunities. For this purpose, the following activities were accomplished in 2013:

- Individual, group, and public meetings with SIM representatives were conducted;

- A quarterly information bulletin and other printed materials (booklets, brochures, etc.) pertaining to the Plan were distributed throughout a wide stakeholder audience;
- Information on 11 special information boards used to publish materials on SIMDP, related programmes, news, etc. was regularly updated in all communities of SIM traditional residence and economic activities; and
- The Plan's website (www.simdp.ru) experienced consistent traffic.

In February, the representatives of the Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities, Sakhalin Energy, Sakhalin Oblast Government, and (as recommended by the local community) the Chairman of the Committee of the Traditional Economic Activities Support Programme, as well as members of the Council of the Social Development Fund held public consultations and meetings with the SIM, representatives of the municipal entity administrations, public organisations, and SIM communities in ten settlements where the SIM traditional residence and economic activities. The participants were briefed on the SIMDP status and 2012 results, the implemented projects and activities, the Grievance Procedure, etc. Afterwards, they discussed the above topics and other issues related to the management and implementation of the Plan in general as well as its individual programmes. In all, 226 persons took part in these discussions.

Since 2006, the SIMDP has been a key document used by Sakhalin Energy as a basis for relations with the SIM.

In 2013 the company also supported the following projects:

- Additional financing for the publication of L.I. Missonova's Russian-Uilta Dictionary Uilta Lexis as a Historical and Ethnographic Source;
- Jointly with the Office of the UN High Commissioner for Human Rights in the Russian Federation, the company presented the translation of the Universal Declaration of Human Rights into the Nanai language. The document was translated by Raisa and Sofia Samar and edited by Antonina Kile. The Nanai translation of the Declaration is the 407th official translation of the document into ethnic languages;



Dictionary by Lyudmila Missonova "Uilta Lexis as Historical and Ethnographic source"

- The company published the UN Declaration on the Rights of Indigenous Peoples into the Uilta language. The project was implemented jointly with the Office of the UN High Commissioner for Human Rights in the Russian Federation. It was translated into the Uilta language by Elena Bibikova and Irina Fedyaeva, authors of the Uilta ABC Book, that was the first reading book published in the language by Sakhalin Energy in 2008. The UN Declaration on the Rights of Indigenous Peoples was adopted on 13 September 2007 by the UN General Assembly. About 40 officially recognised indigenous peoples live in the North, Siberia, and Far East of the Russian Federation, and the translation of the Declaration into the Uilta language is the first official translation of the text into an SIM national language;
- The company published Vladimir Sangi's book The Epic of the Sakhalin Nivkh People. The work includes heroic folklore poems that depict the life of one of the most ancient peoples of Sakhalin. The Epic of the Sakhalin Nivkh People is the product of 40 years of research by Vladimir Sangi. The company both financed the book's printing and provided organisational support to prepare and publish it.

The company's dedication to communicating with the SIM was highly esteemed in the course of the following events:

- At the 7th Congress of the Ingenious Peoples of the North, Siberia, and the Far East of the Russian Federation held in Salekhard in March, the company won the Vitus Bering International Award.
The Vitus Bering International Award (Vitus Bering was a famous Russian mariner) was founded by the Russian Association of Indigenous Peoples of the North and the Batani International Fund. The purpose of the award is to recognise and show gratitude to the organisations and companies that have made the greatest contribution to social, economic, cultural, and institutional development of the indigenous peoples of the North. The award is given every four years.
- Sakhalin Energy's support of the SIM was highly praised by the jury of the 3rd Far East International Festival of Artistic Crafts of Indigenous Peoples Live Thread of Time, held in August. The company won the award for the



Translation of the Universal Declaration of Human Rights into the Nanai language

Best Company Contributing to the Preservation and Development of Ethnic Arts and Crafts.
Another first award was received by L.I. Missonova's book Uilta Lexis as a Historical and

Sakhalin Energy was awarded a diploma for cooperation and support of the Ethnographic Tourism as a Means of Preservation and Revival of Ethnic and Cultural Heritage conference as part of the 2013 Treasures of the North 8th International Trade Fair.

Ethnographic Source for Best Publication on the Traditional Culture of Indigenous Peoples.
The book was published with Sakhalin Energy's support.



The Epic of the Sakhalin Nivkh People written by Vladimir Sangi presentation, Moscow, October 2013

7.6 Engagement with non-governmental and non-profit organisations



The first round of dialogue with the community in preparation of 2013 Sustainable Development Report, Yuzhno-Sakhalinsk, November 2013

In 2013 the company continued to cooperate with local, regional, and international NGOs in various ways, including through meetings and written correspondence. The most important consultations and meetings were as follows:

- Collaboration with Japanese stakeholders, such as Hokkaido authorities, associations of fishermen, and other stakeholders in Hokkaido regarding oil spill response and preservation of biodiversity (for more details, see Section 7.7); and
- Collaboration with the Western Gray Whale Advisory Panel (WGWAP) as part of developing optimal solutions to minimise impacts

on whales. A session of the WGWAP was held in May 2013, where representatives of Sakhalin Energy met with member scientists of the group as well as representatives of environmental organisations who participated in WGWAP as observers.

The company will continue its engagement with non-governmental and non-profit organisations. The critical areas of work for 2014 include interaction with Japanese stakeholders, work on preserving Western Gray Whales in coordination with the Advisory Panel, and cooperation with the Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities.

7.7 Engagement with Japanese stakeholders



Meeting with representatives of Hokkaido Fishery Environmental Centre, Sapporo, October 2013

Japanese specialists, businessmen, representatives of NGOs, fishermen, and other stakeholders are concerned about issues related to environmental aspects of the company's activities — for example, oil spill response operations and biodiversity preservation.

The company has been successful in establishing a regular, open, and constructive dialogue with Japanese stakeholders. In 2013, Sakhalin Energy held a range of consultations and meetings with the Japanese stakeholders, including:

- Meeting with the Hokkaido Government representatives and Hokkaido Fishery Environmental Centre (February, October, Sapporo, Japan; November, Yuzhno-Sakhalinsk, Russia);

- Participation in the 28th International Symposium on the Sea of Okhotsk (seminar on oil spill response — February, Mombetsu, Japan);
- Participation in the 9th meeting of stakeholders on safety and prevention of accidents during navigation of tankers as part of Sakhalin projects. The meeting was organised by the Japanese Coast Guard (June, Tokyo, Japan; October, Abashiri, Japan);
- Meeting with the Hokkaido Governor on Sakhalin to discuss the 15th anniversary of the signing of the Agreement on Friendship and Economic Cooperation between Sakhalin Oblast and the Hokkaido Prefecture (September, Yuzhno-Sakhalinsk, Russian Federation); and

- Participation in the Forum on Sakhalin Projects (October, Abashiri, Japan).

In 2014, the company will continue its interaction with stakeholders in Japan. It intends to participate in the 29th International Symposium on the Sea of Okhotsk in Mombetsu, and to hold

Engagement with Japanese stakeholders is of special importance to Sakhalin Energy, considering the geographical proximity of Sakhalin Island to Hokkaido Island.

meetings with the Okhotsk Environment Protection Net, the Hokkaido Fishery Environmental Centre, representatives of the Japanese Coast Guard and representatives of the Hokkaido Government.

7.8 Engagement with customers

Maintaining constructive and respectful relations with customers not only helps resolve possible operational challenges that arise in the course of fulfilling crude oil and LNG contracts, but also helps the company enter into new agreements with the best terms and conditions for both parties.

Sakhalin Energy holds annual forums with customers to discuss topics that help foster constructive relationships. These forums cover issues of transportation and maintenance, safety and environmental protection, and many others.

In March and August 2013, two such forums were held on Sakhalin that were attended by representatives of oil and gas-buying companies

from Japan, South Korea, China, and Singapore. In September 2013, Yuzhno-Sakhalinsk hosted the 9th Annual Shipping Forum, which focused on the commercial export of oil and gas under the Sakhalin-2 project.

The Forum discussed the issues related to the prospects and opportunities in the marine shipping market, shipbuilding development, and ship management improvements. The forum was attended by 18 representatives from the shipowners who provide ships to Sakhalin Energy for short- and long-term charter.

Such forums allow the participants to share the unique experience they have acquired working on the Sakhalin-2 project.



Meeting with LNG customers, Tokyo, May 2013

7.9 International and regional cooperation



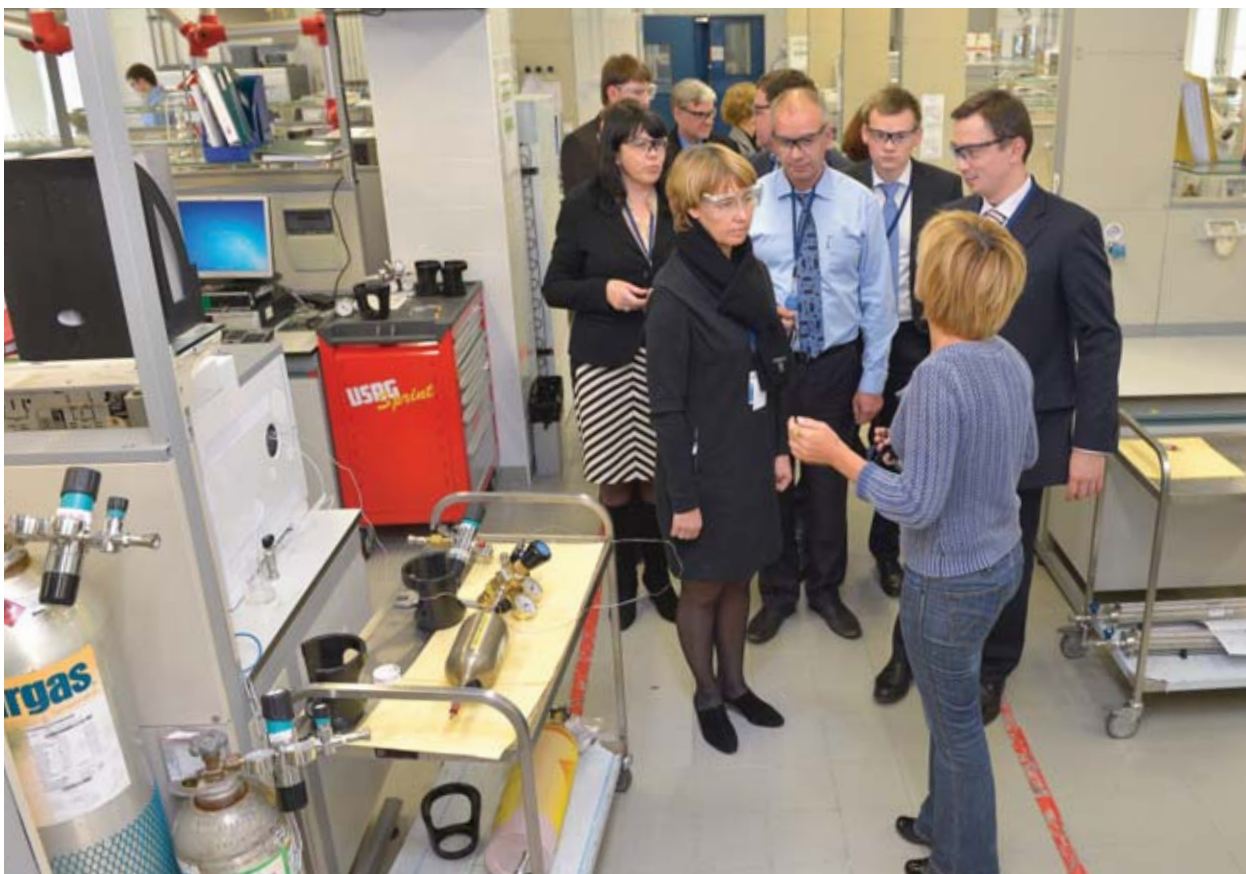
17th International Sakhalin Oil and Gas Conference 2013, Yuzhno-Sakhalinsk, September 2013

In 2013, Sakhalin Energy continued to vigorously promote its business reputation and image as a socially responsible company both within and outside Russia. The company attended a number of important international and regional events, including:

- The 7th Congress of the Indigenous Minorities of the North, Siberia, and Far East of the Russian Federation, 28–29 March, Salekhard (Russian Federation). The Congress focused on the discussion of economic development and support of communities, natural resource use, environmental issues, relations between indigenous minorities and industrial companies, spiritual and cultural heritage, education, and support of indigenous languages, as well as other topics of concern for the indigenous peoples of the North. Sakhalin Energy shared its experience of relations with the SIM and presented the translation of the UN Declaration on the Rights of Indigenous Peoples into the Uilta language.
- Session of the Law, Banking and Finance Committee of the European Business Congress Risk Management: Win during Transformation of the Global Energy Market, 05 April 2013, Tsaghkadzor (Armenia). The company made a presentation on Risk Management in the Oil and LNG Markets in Asia-Pacific Region Countries.
- Workshop on the UN Declaration on the Rights of Indigenous Peoples: Business Guidelines, 30 April, Moscow (Russian Federation). The workshop participants discussed a draft document the development of which was initiated by Sakhalin Energy as part of the Global Compact LEAD. Guidelines were developed by the UN Global Compact in cooperation, partnership, and consultation with the Secretariat of the UN Permanent Forum on Indigenous Issues, the Office of the UN High Commissioner for Human Rights, indigenous organisations, LEAD companies, experts, etc. The purpose of the guidelines is to demonstrate the relevance of the rights of indigenous peoples in terms of business and provide the business community with recommendations on how to respect and support these rights within their area. The final version of the document was presented to the international community at the 2nd UN Forum on Business and Human Rights (see below).
- The 28th Session of the Presidium of the European Business Congress, 30 May 2013, Amsterdam (Netherlands). Roman Dashkov, Sakhalin Energy's CEO, was elected to the Presidium.
- The 16th Annual General Meeting of the European Business Congress, 31 May 2013, Amsterdam (Netherlands).
- Social Lifts and Sustainable Business Development International Conference, 3 June 2013, Moscow (Russian Federation). The company made a presentation on Auditing the Efficiency of Corporate Social Programmes.
- The St. Petersburg International Economic Forum, June 2013, St. Petersburg (Russian Federation). The company traditionally participates in this Forum — one of the leading annual international economics and business summits.
- RAO/CIS Offshore 2013 International Conference, 10–13 September 2013, St. Petersburg (Russian Federation). At the forum, the company presented information on the progress of the Sakhalin-2 project.
- The 17th Sakhalin Oil and Gas International Conference 2013, 23–26 September 2013, Yuzhno-Sakhalinsk (Russian Federation). Over 400 representatives from the largest oil and gas projects, regional and federal authorities of the Russian Federation, and leading experts and analysts of the oil and gas industry attended the Conference this year. At the conference, Sakhalin Energy made several reports on project status, drilling technology, industrial safety, and the company's environmental responsibility.

- Session of the Law, Banking and Finance Committee of the European Business Congress on the Future of Major Gas Infrastructure Projects Subject to European Energy Laws, 27 September 2013, Český Krumlov (Czech Republic).
- Indigenous Peoples and Industrial Companies: Cooperation, Prospects, and Challenges international conference, 02 October 2013, Moscow (Russian Federation). Conference participants discussed ways to apply best practices in cooperation between industrial companies and indigenous peoples of the North, Siberia, and Far East of the Russian Federation. Sakhalin Energy reported on SIMDP implementation.
- Exploration, Production, Processing 2013 International Exhibition and Forum, 18–20 November 2013, Moscow (Russian Federation). At the forum, the company shared its experience of constructing and operating Russia's first LNG plant.
- Round table Business and Human Rights: Respect, Support, and Promote Children's Rights, 20 November 2013, Moscow, Russian Federation. The purpose of the round table discussion was to focus on inter-sector cooperation and socially significant business initiatives aimed at creating a favourable environment in which children can grow and develop as well as respecting and promoting children's rights. The company presented the What to Do in Emergency Situations comprehensive partnership programme aimed at developing a system for training school-children in lifesaving techniques.
- The Second UN Forum on Business and Human Rights, 02–04 December 2013, Geneva (Switzerland). Sakhalin Energy delivered a speech at the session on Indigenous Peoples and Business: Towards Implementation of the Guiding Principles on Business and Human Rights.
- The 29th Session of the Presidium of the European Business Congress, 06 December 2013, Berlin (Germany).

Participating in high-level international forums allows the company to get acquainted with and apply the global experience along with the best sustainable development and CSR practices that are required for the company to maintain leadership in its sphere.



Gazprom and Shell HR personnel visit to Prigorodnoye Production Complex

In its environmental protection activities, Sakhalin Energy follows the Russian Federal Law on Environmental Protection and environmental rules and guidelines, taking into due account the requirements of Russian norms and international standards.

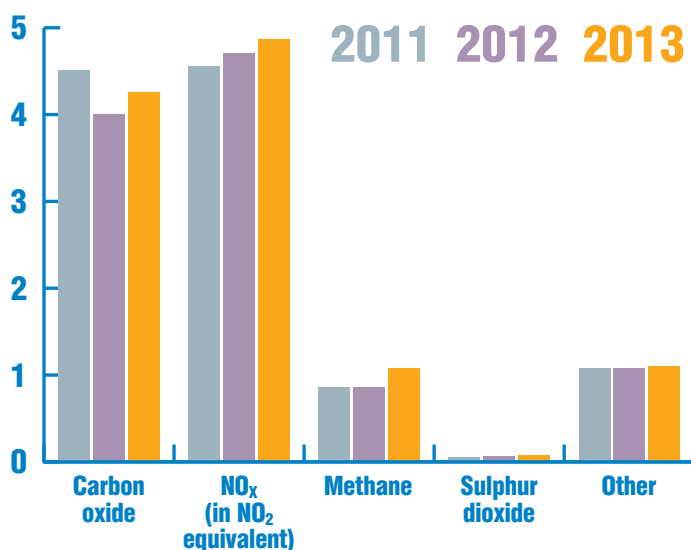
The company's environmental management system is focused on organising and implementing industrial environmental control, environmental monitoring and biodiversity conservation.

The environmental management system is described in Section 3.5 HSE and Social Performance management system.

8.1 Industrial environmental control

Sakhalin Energy has industrial environmental controls in place to ensure it complies with Russian legislation on environmental protection and environmental standards, and to ensure natural resources are efficiently used and the environmental impact is minimised.

Air emissions in 2011-2013, thousand tonnes



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

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

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

8.1.1 Air emissions control

The company seeks to minimise environmental impact from air emissions.

In order to reduce its emissions, Sakhalin Energy uses gas turbines equipped with low-NO_x burners. A system of additional gas supply is used on flaring units to increase the gas

turbulence, which facilitates flaring of gas in soot-free mode.

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

In 2013, the total gross emissions increased by 7% compared to 2012, due to planned shutdown and operations to enhance reliability of equipment.

8.1.2 Water use and discharge control

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

In 2013, the total water intake decreased by 5% as a result of replacing the acid gas treating unit on the LNG plant and installing new and more accurate ultrasonic flowmeters and control optimization.

The 2013 water intake limits were not exceeded.

On the whole, water disposal has reduced by 9%, mainly by reducing consumption of cooling water by de-commissioning of equipment for technical maintenance on the offshore platforms.

Environmental monitoring 2013 in the company production facilities' areas revealed no negative impact on water bodies.

8.1.3 Waste management control

Responsible waste management begins with preventing environmental contamination. Prevention involves avoiding, changing or reducing operating practices that release pollutants into the land, air or water. This should be a basic principle when designing and operating company facilities and in business planning as well.

If waste avoidance is technically impossible, then opportunities to minimise the amount of waste should be investigated. Responsible waste management may be accomplished through

hierarchical application of waste reduction, reuse, recycling, recovery, treatment and disposal.

In its waste management, the company is guided by the following principles:

- Reduce the volume of waste generated and minimise the adverse environmental impact caused by waste;
- Transfer Hazard Classes I-III wastes to specialised organisations for treatment, reuse and neutralisation;
- Dispose of Hazard Classes IV-V wastes to the Sakhalin municipal landfills, upgraded to applicable local legislation and international standards; and
- Seek economically efficient methods of recycling Hazard Classes IV-V wastes in order to reduce the share of waste disposed in municipal landfills.

The company's waste is mostly environmentally non-hazardous (Hazard Classes IV and V). Mainly, it consists of drilling waste, domestic solid waste and waste left after the construction phase.

The total volume of waste generated has increased by 46% mainly due to the increase in drilling wastes after drilling was ramped up.

In 2013, the volume of waste transferred for recycling or reuse decreased by a factor of 2.5 as compared to 2012 because there was a reduction in hazard classes II-III waste generation. The volume of waste buried at Sakhalin landfills decreased by 10%.

At the end of the year there was no temporary waste.

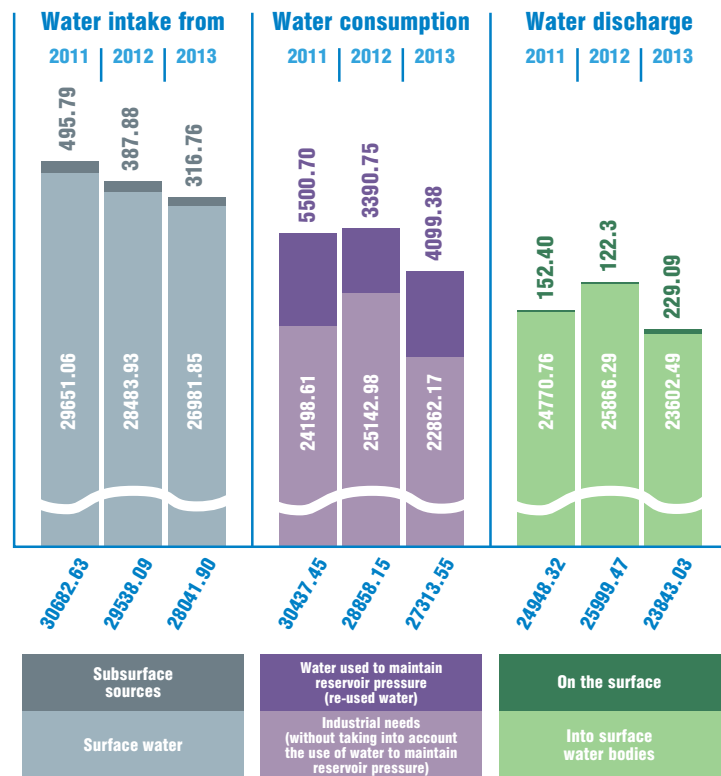
8.1.4 Energy consumption

The company's assets were built based on modern technologies and best oil and gas industry solutions. "Sakhalin Energy" strives to increase energy efficiency throughout its production processes. Most of the assets have recently been put into operation. All production assets have their own autonomous power supply sources that operate on gas, which is the most environmentally friendly fuel. Diesel fuel is used only for standby power supply. Fuel with lower sulphur content is used.

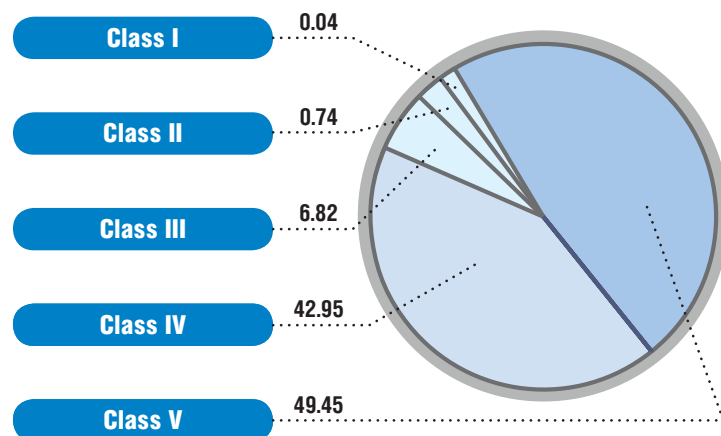
Sakhalin Energy makes all efforts to improve energy efficiency in production processes and to decrease energy consumption.

In 2013, the company produced 867.8 mln GJ (gigajoules) of direct primary energy by hydrocarbon production and sold 758.4 mln GJ.

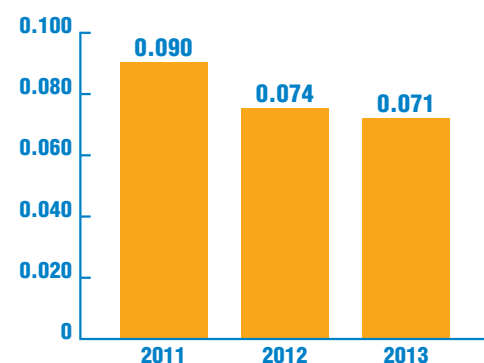
Consolidated figures of water use at company's assets in 2011-2013, thousand cubic metres



Company waste generated in 2013 by hazard class (without drilling wastes), %



Energy consumption in 2011-2013, mln GJ of consumed energy vs. mln GJ of sold energy



Waste management figures for the whole company (including drilling waste) in 2011-2013, thousand tonnes

	2011	2012	2013
Amount of waste at the beginning of the year (all hazard classes)	0.02	0.000097	0
Waste generated in the reporting year (all hazard classes)	73.83	105.37	154.07
Waste used in company production	0.13	0.04	0.04
Transferred to other organizations for use or treatment	4.26	6.86	2.72
Transferred to other organizations for burial at landfills, including:	2.90	4.05	3.60
inside Sakhalin Oblast	2.90	3.22	3.46
outside Sakhalin Oblast	–	0.83	0.14
Waste buried at company sites	66.57	94.42	147.71

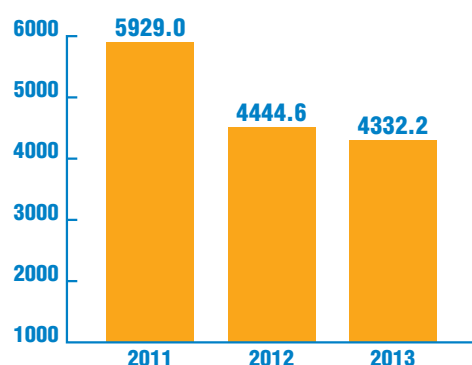
The company's assets consumed a total of 57.8 mln GJ of primary energy, and 0.8 mln GJ of them were purchased as fuel.

The amount of indirect energy (purchased electricity) consumed was 0.12 mln GJ.

8.1.5 Greenhouse gas and ozone-depleting substance emissions

The Russian attitude towards climate change has been evolving over the last few years and therefore regulations are being developed to control GHG/ODS emissions. An integrated plan for implementing the RF Climate Doctrine up to 2020 was approved in 2011. An order of the Presi-

GHG emissions, tonnes of CO₂-equ./mln GJ of sold (exported) energy



Proportion of GHG in 2011-2013, tonnes of CO₂-equ.

Greenhouse Gas Emissions	2011	2012	2013
Fuel consumption	2920229.8	2994142.2	3106242.1
Gas flaring	358045.3	343015.7	256935.6
Uncontrolled leakages	11598.7	9984.2	19946.3
Mobile sources	108356.9	107719.9	112843.5
Gas venting emissions	1790.5	1793.1	6015.0
HFC (hydrofluorocarbon) emission			130.0
Indirect emissions	7361.4	5806.8	6163.5
Total	3407382.5	3462461.8	3508276.0

dent of the Russian Federation on ODS emission reduction was signed in September 2013. Together with the global community, Sakhalin Energy is concerned about climate change and is making efforts to reduce GHG emissions.

In 2013 the total amount of GHG emissions released by the company's assets slightly increased in comparison with 2012 due to an increase in export and transport. GHG emissions were measured in accordance with the manual on GHG measurement in the oil and gas industry of the American Petroleum Institute.

In 2013 the company developed an Action Plan for staged cessation of use of ODS by 2020 in accordance with the Montreal Protocol.

8.1.6 Utilisation of associated gas in production

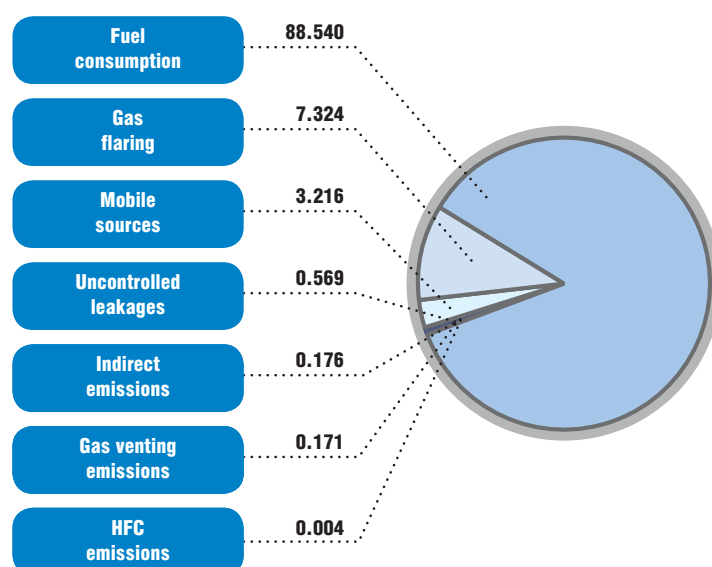
The company aims to maximum reduce gas flaring volumes. Associated gas produced at PA-A, PA-B and LUN-A platforms is transported onshore via subsea pipelines. PA-A and PA-B gas is transported to the Northern Gas Transfer Terminal, and the excess gas goes to the OPF, where it is mixed with LUN-A gas and then transported to the LNG plant and the Southern Gas Transfer Terminal. A part of the associated gas is used as fuel for processing facilities.

Currently the company does not re-inject the associated gas.

The company has included targets for associated gas utilisation in the Reservoir Management Plan for PA-A and PA-B. Actual associated gas utilisation in 2013 was 97%.

In order to minimise the flaring of gas, the company is constantly taking steps to minimise the consequences of unplanned shutdowns of production equipment. The company continues to use all reasonable measures to reduce flaring and correspondingly increase the percentage of utilisation of associated gas.

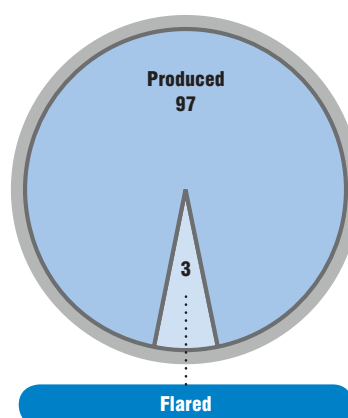
Structure of GHG emission sources in 2013, %



8.1.7 Environmental protection costs and pollution payments

Sakhalin Energy protects the environment in accordance with international and Russian environmental requirements, and spent RUB 1,616,747,000 on it in 2013.

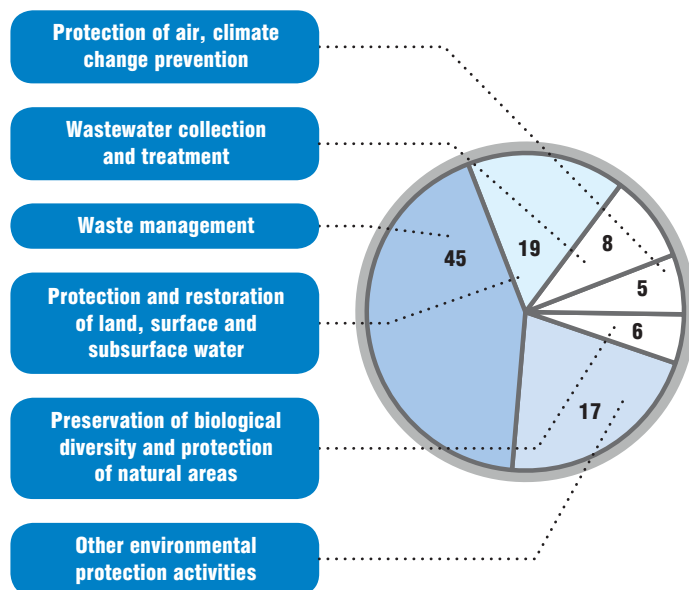
Utilisation of associated gas during production in 2013, %



Pollution payments in 2011-2013, thousands of roubles

Type of negative impact	2011	2012	2013
Emission into the air	1442.0	4664.7	3498.8
Discharge into water bodies	191.6	242.5	127.1
Waste disposal	2251.1	850.2	886.7
Total	3884.7	5757.4	4512.6

Environmental operating expenses breakdown in 2013, %



In 2013, Sakhalin Energy spent two times more on environmental protection than in the previous year, due to the cost of repairing CRI well equipment, purchasing and repairing equipment for compaction, storage and transportation of wastes, and operating OSRVs at PA-B, PA-A and LUN-A platforms.

Fees for negative impacts decreased by 20% and were RUB 4,513,000. Fee payments were lower because associated gas flare volumes were reduced and the amount of associated gas flaring

on flare units was within allowable limits (a resolution of the Russian government set the limit of the volume of produced associated gas at no more than 5%).

The company's environmental activities are overseen by federal and regional authorities, including:

- The Ministry of Natural Resources and Environment of the Russian Federation;
- The Federal Service for Supervision of Consumer Rights Protection and Human Welfare;
- The Federal Agency for the Use of Subsoil Resources;
- The Federal Service for Supervision of Use of Nature (Rosprirodnadzor);
- The Federal Water Resources Agency;
- The Amur Basin Water Directorate of the Federal Water Resources Agency (Amur BVU); and
- The Ministry of Natural Resources and Environmental Protection for Sakhalin Oblast.

In 2013 the regional offices of federal supervisory agencies conducted audits and found violations of associated gas flaring in 2012 in excess of the volume established in project documentation for Astokh Feature, Piltun-Astokhskoye field, as well as failure to comply with flaring targets. In 2013 there were no cases identified of significant environmental non-compliance by the company resulting in negative environmental impact.

8.2 Environmental monitoring and preserving biodiversity

The company's environmental policy is part of its business principles, sustainable development policy and the overall policy in the field of environmental protection, occupational and industrial safety, and social performance.

In 2013 Sakhalin Energy received an award in the category of "Environmental Culture in Industry and Power Economy" for presenting a talk at the "Environmental Culture. Peace and Harmony" international project entitled "Environmental Impact Management in the course of Oil and Gas Field Development under the Sakhalin-2 project".

In order to effectively manage the risks associated with environmental impact, the company runs a number of environmental monitoring programmes at production facilities (local environmental monitoring). The data obtained from

this monitoring are used as a basis for environmental assessment, identification of adverse changes and development of mitigation measures.

In 2012, programmes for further monitoring were improved, based on the past results, and agreed with the Lenders. Ecological programmes are carried out in compliance with the Biodiversity Standard developed in the company.

Two main principles underlie the study rationale for surveys under the programme of environmental monitoring and biodiversity preservation:

- Risk management, and
- Compliance with RF legislation and best available international practices.

8.2.1 Local environmental monitoring

In 2013, environmental monitoring included the following:

- Flora and vegetation monitoring in the area of impact from onshore pipelines, OPF, and Prigorodnoye Production Complex;
- Soil monitoring in the area of impact from onshore pipelines, OPF and Prigorodnoye Production Complex;
- Protected bird species monitoring in the area of impact from onshore pipelines, OPF, BS-2 and Prigorodnoye Production Complex, as well as in the area of Chaivo spit;

Sakhalin Energy is focused on protecting the environment. Local monitoring results showed the following:

- **Construction period mitigation measures appeared to be effective; and**
 - **No significant operational environmental impact was identified around the production assets.**
- River ecosystem monitoring in the area of impact from onshore pipelines, OPF and Prigorodnoye Production Complex;
 - Offshore monitoring in the area of impact from offshore pipelines, platforms and marine facilities at Prigorodnoye Production Complex; and
 - Monitoring of small mammals in the area of impact from Prigorodnoye Production Complex, BS-2 and OPF.

8.2.1.1 Monitoring of flora and vegetation

Vegetation, along with other biotic components, is sensitive to changes in the environment resulting from natural phenomena and human intervention. Human impact can cause chlorosis and necroses on the surface of plant leaves and stalks, and can cause the disappearance of some species and appearance of opportunistic plant species that take over native species.

Sakhalin Energy's ecological monitoring of vegetation has allowed us to assess its current condition and quickly detect any negative influence the operating facilities have on the environment.

The monitoring program tasks include:

- Monitoring of vegetation in the areas adjoining the company facilities;
- Estimating and forecasting natural and anthropological changes (successions) in the vegetative communities;
- Monitoring rare and protected kinds of plants, lichens and fungi; and



Sakhalin Energy's pipeline right of way

- Monitoring of maintaining plant restoration within the allotted land area and developing recommendations for additional work at its separate sites.

A number of sites were chosen to monitor the vegetation in the area of potential impact by the company facilities in various years: 95 along the pipeline route, 15 around the Prigorodnoye asset, and 12 around OPF. The protected species populations were monitored at 19 additional sites along the pipeline route, 7 around OPF, and also in separately found locations: more than 100 along the land allotment and 62 around the Prigorodnoye asset.

In 2011 the first three-year cycle of study of vegetation in the area of potential impact by the pipeline was concluded. The results showed no negative changes in the structure of the plant community or in the species structure of the flora, therefore monitoring was suspended till 2014.

In 2013 no negative changes were revealed in the area of the Prigorodnoye asset and OPF, either, the plant community is stable. The noted year-to-year variability of the wood stock is explained by the natural process of loss of old trees and the entry of young plants into the adult layer. On the

allotted land border where the taiga forests cross, some trees were observed to have dried out as a result of changes in light and air moisture. To improve the microclimate, measures have been developed and recommended to preserve the young growth on the edge of these sites.

The results of studies of species composition and structure of plant communities (phytocenosis), condition of protected plant species and actions taken to minimise anthropogenic impact from the Sakhalin-2 project are publicized in the latest company photo album Flora of Sakhalin.

Monitoring the populations and separate locations of 35 protected species along the pipeline route, 14 species around the Prigorodnoye Production Complex and three species around OPF in 2013 showed them to be in good condition with no loss of integrity at these sites.

The degree and character of the vegetation covering the allotted land on 32 sites was studied in 2013. The results have shown that more than 80% of the surveyed sites show good vegetation cover on the allotted land, with more than 50% of the surveyed sites having dense grass cover, and 30% of the sites having projective covering of not less than 50-60%. Poorly vegetated territories are detected mainly on steep slopes and in the northern regions of the island, due to the low fertility of the soils at the sandy and clay sites. However, some positive trends were observed here as well. Following the monitoring results, plans have been developed and proposed for improving the management of vegetation growth.



Dark coniferous forest

8.2.1.2 Monitoring of soil

Systematic observations of the soil allow us to quickly identify any negative changes.

The objective of soil monitoring is to assess the impact that company operations have on the adjacent ecosystems. The goals of monitoring are:

- To assess the status of the top soils along the onshore pipelines, near Progorodnoye, OPF; and
- To identify and assess processes related to degradation of soil, including mechanical disturbances, compaction, increase in erosion, bogging, and contamination by oil products.

One hundred ten test sites were monitored in 2013. Observations show that soil parameters around Sakhalin Energy assets are close to the baseline parameters for the respective types of soil. Historically, the content of benz(a)pyrene, the key indicator of pollution, was negligible (0.002 mg/kg average) and was within the lowest detection limit, as per GOST requirements (the conventional value for topsoil is 0.02 mg/kg).

The soil ecosystem, in areas adjacent to OPF and Progorodnoye Production Complex, is normal and has higher concentrations of organics in lowland wetlands, average in highland wetlands and low organic concentrations in brown forest soil. The 2013 monitoring campaign did not identify disturbances in soil cover or degradation related to Sakhalin Energy operations. Consequently, no changes were observed in the physical or chemical properties of the soil.

Reinstated lands are recovering across all biological, geological and chemical elements. This has a positive effect on growth of vegetation. In areas with weak growth of vegetation, the company continues to carry out focused reseeded, as recommended by specialists.

Soil at monitoring points near the RoW showed no difference from baseline areas outside the limits of potential impact.

Soil monitoring will continue at key sites so that any changes can be quickly acted upon, if necessary.

8.2.1.3 Monitoring of protected bird species

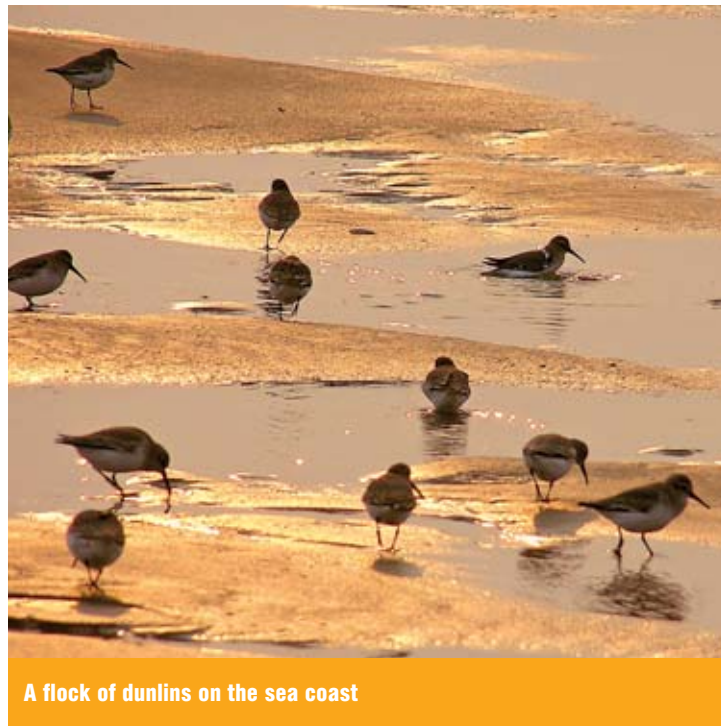
Forty bird species on the Endangered Species List of Sakhalin can be found in the potential impact zone of Sakhalin Energy's industrial facilities. Protected bird species were monitored in 2013 covering four kilometres around the OPF

and four kilometres around Prigorodnoye Production Complex. Additionally, monitoring took place at Chaivo spit and in wetlands inhabited by colonies of endangered migratory birds (the Sakhalin Dunlin and the Aleutian Tern).

The first three-year survey cycle was completed in 2010 in the area of Prigorodnoye Production Complex. Its results demonstrated the bird communities and endangered bird species are in good condition. After that it was decided to suspend monitoring in the area for two years. In 2013 the survey was resumed and seven endangered bird species, of which three are nesting, were found in the vicinity of the LNG plant. The number of Japanese Robin and Common Reed-Bunting couples is the same as in previous years. A growth trend is noted for Japanese snipe, in particular in new meadow habit areas of rehabilitated territories.

OPF and adjacent area surveys had focused on two key objectives – the Siberian Grouse and the Long-billed Murrelet. For the Siberian Grouse, lekking time, population and distribution are generally similar to the previous years' survey results. An increase in distribution density was noticed for the Siberian Grouse in some adjacent forest areas. It is likely due to relocation of the bird from adjacent forest areas affected by third-party pipeline construction activities. The Long-billed Murrelet is globally rare and a poorly studied species in Sakhalin. Reduction of migratory species and their re-distribution was noticed in 2013. At the same time, areas were found where they demonstrated nesting-like behaviour. Further monitoring is required to evaluate the stability of the bird population in the OPF adjacent area.

At Chaivo spit 11 endangered species were observed in 2013 and 3 of the 11 species were seen for the first time (gerfalcon, snow owl and crane). The Sakhalin Dunlin and the Aleutian Tern are typical dwellers of north Sakhalin and nest at Chaivo spit wetlands (including the pipeline area) every year. Since the previous summer had been relatively dry, fewer young birds were expected in 2013. However, the number of nesting pairs was comparable to the long-term average number. Nesting colonies of the Aleutian tern are unstable. The number of nesting couples was low in 2013. A sharp decrease was observed in waterfowl and semi-aquatic birds (ducks, grebes, divers) in lakes. This might be a result of adverse weather



A flock of dunlins on the sea coast

conditions in the previous nesting season or the effect of predatory animals and poachers.

The overall results of endangered bird monitoring show that Sakhalin Energy's production facilities have no impact on the bird population.

8.2.1.4 River ecosystems monitoring

There are more than 61,000 rivers and streams on Sakhalin Island. Over 1,000 water bodies were crossed in the course of pipeline construction. Sakhalin rivers are the area of reproduction of valuable commercial fish species (such as the Pacific Salmon) that are of great importance to the economy of the Russian Far East. Also, rare aquatic species that are included in the Red Book of the Russian Federation and Sakhalin Oblast (such as the Sakhalin Taimen, the Sakhalin Freshwater Pearl Clam, and other species) live and reproduce there.

Special programmes have been developed for river monitoring. These programmes monitor the quality of surface waters and of bed load and detect changes in water bodies due to the influence of natural and man-made factors. Moreover, it is possible both to assess the impact of production facilities on waterways and aquatic ecosystems, and to identify the effect that the environment's response (changes in the river bottom structure and river bed configuration, changing of the hydrological regime, etc.) has on the integrity of the engineering structures.



The Nabil upper river — the natural spawning-grounds of the Sakhalin salmon

The monitoring of river ecosystems includes:

- Determining the hydrological characteristics of waterways;
- Determining the hydrochemical characteristics of water;
- Assessing the condition of the bottom sediments in river beds;
- Identifying hydromorphological changes (river bed and bank erosion in the areas of pipeline route cross-sections);
- Assessing benthic composition and abundance;
- Assessing the area and quality of potential Pacific Salmon spawning grounds; and
- Assessing the ichthyologic community in model waterways.

In 2013, hydrological and hydrochemical studies were done at 26 waterways along the pipeline route from the Askasai River in the north to the Bolshoy Takoy River in the south; the Vabung River and the Bolotny Stream in the area of the OPF potential impact; and the Mereya River and the Goluboy Stream in the area of the Prigorodnoye Production Complex.

Investigations were 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) and downstream monitoring sections.

On most river-crossing sites investigated (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 destruction of utility lines was found.

The physical and chemical properties of surface water met the regulatory criteria in all monitoring periods. The water was odourless in all the studied waterways. The seasonal variations in the concentration of biogenes and suspended matters were due to natural causes, and the investigations did not reveal any differences in these parameters for the upstream and downstream cross-sections.

All the investigated waterways were clean, the studies did not reveal any deviations in the content of oxygen or the amount of unstable organic matter, and there was no contamination of surface water or soil with oil products, phenols, or surface-active substances. The variability of benthic quantitative indicators was caused by natural processes. Differences in the composition and abundance of the benthos at different cross-sections are associated with granulometric characteristics of soil and their variability within the river bed.

In 2013 (in spring, summer, and autumn), a field ichthyic survey was conducted in the basin of the Lazovaya River. The programme was conducted as part of the assessment of a typical salmon river inhabited by the Sakhalin Taimen. During the studies, 14 fish species of 5 families were found in the main river bed and tributaries. The salmon family had the greatest number of species.

In general, it can be noted that fish communities in the basin of the Lazovaya River are relatively stable. The only differences that were found are due to the natural seasonal changes in communities. Wintering migration is one of the most powerful biotic factors contributing to variations in the composition and distribution of ichthyic species.

In 2013, monitoring was continued on Pacific Salmon migration and reproduction at the Goluboy Stream, which, in the downstream part, flows through the territory of the Prigorodnoye Production Complex.

Based on the quantitative assessment of the downstream migration of juvenile Pacific salmon in the spring, it was concluded that in 2013 there

were high rates of Pink Salmon fry migrating from the Goluboy Stream. The monitoring of the quantity of the Pink Salmon coming to spawn in the Goluboy Stream in summer revealed that the spawning areas downstream were populated at levels higher than the normal annual level. Upstream spawning areas outside the production site were poorly populated due to the negative impact of poaching.

In general, River Ecosystems Monitoring in 2013 demonstrated that Sakhalin Energy facilities had no impact on the quality of surface waters, their flora and fauna.

8.2.1.5 Offshore environment and biota monitoring

In 2013, Sakhalin Energy continued the Marine Environmental Monitoring Programme, with a view to analyse the hydrological, hydrochemical and hydrobiological characteristics of the marine environment and biota condition within the area of potential impact from its offshore production facilities.

This type of monitoring is done to assess the spatial distribution of quantitative and qualitative characteristics of marine biota and its habitat

within the local areas of ecosystems being surveyed, and to trace any potential variations of representative environmental parameters in the cross-section area and outside its boundaries.

The following vessel-based surveys were conducted in 2013:

- Monitoring of the areas potentially affected by LNG Loading Jetty and Oil Export Terminal in Aniva Bay;
- Post-construction monitoring of offshore pipelines (Aniva Bay, along Piltun-Astokhskiye and Lunskiye pipeline routes);
- Environmental monitoring of the operational activities in the area of the offshore pipelines from PA-A, PA-B and LUN-A;
- Baseline environmental studies in the South Piltun area; and
- Monitoring of wellheads of appraisal wells.

As regards the environmental impact assessment of offshore ecosystem local areas, the following main conclusions were made based on the results of 2012:

- Hydrochemical characteristics in the area of the offshore facilities complied with the baseline values and standards established for the fishery water bodies;



Sampling in the area of Molikpaq platform

- Concentrations of oil hydrocarbons and heavy metals in bottom sediments had low values, which could result in biological effects;
- The survey regions exhibited rich species diversity of benthos and plankton communities, with high values of their quantitative characteristics, which indicates environmental conditions in the habitats are favourable;
- Well drilling, oil and gas production, transportation and shipment did not make any impact on the environmental parameters of local marine ecosystems; and
- Oil hydrocarbons and methane did not accumulate in the area of the appraisal well heads.

8.2.1.6 Monitoring of small mammals

Small mammals (shrews and murine rodents) are an important element of natural ecosystems. Their high breeding power and number and their short life cycle mean the populations respond quickly to environmental changes. Due to this, small mammals are monitored to estimate the integrated impact of manufacturing enterprises on the neighbouring territories. The company studies the species composition of the small mammal communities to define the parameters of the species diversity, and also the biological, morphophysiological and demographic parameters of the indicator species of small mammals in the area of the Prigorodnoye asset BS-2.

Implementation of the Biodiversity Action Plan by Sakhalin Energy was acknowledged as one of the best environmental practices according to the UN Global Compact Yearbook 2013.

In 2013 a sharp decrease in the number of shrews and rodents was observed near the Prigorodnoye asset, BS-2 and OPF. Structural reorganizations in the communities of small mammals and changes of the age and sex distribution, and also separate morphological and physiological indicators of the populations of rodents and insectivorous were observed. These changes were detected both on test and control sites, which testifies to their natural origin. As a whole, despite the natural non-uniformity of distribution of animals across the territory under study, and the variability of separate biological indicators, in 2013 no negative changes in the populations of the indicator species of the communities of the areas adjacent to the industrial facilities were

observed; however, the low population of small mammals did not make it possible to carry out statistical analysis and to estimate the reliability of the differences.

In the OPF area in 2013 there was a negligible decrease in the number of rodents, and the number of the insectivores increased. Analysis of the structure of the communities of shrews and rodents has not detected any obvious signs of changes in the habitat of small mammals near the plant. The reorganization of the communities of shrews recorded was similar both in the test, and the control monitoring zones and reflected the natural process of multi-year dynamics. The communities of rodents have had a stable structure for many years, both at separate sites, and in the region as a whole.

8.2.2 Conservation of biodiversity

Sakhalin Energy fulfils its commitments with regard to biodiversity and environmental impact in the course of operating the facilities as part of the Biodiversity Actions Plan (BAP) being developed and implemented in line with international best practice.

In 2013 as per the priorities specified in the BAP, monitoring of the Gray Whale population, Steller's Sea Eagle, wetlands, and migratory birds at Chaivo spit was continued and a programme on ballast waters and Aniva Bay quality control was implemented. BAP implementation is supported by all stakeholders, both Russian and international.

In 2013 the Biodiversity Working Expert Group established by the initiative of Sakhalin Energy continued its activities as part of the Environmental Council under the Sakhalin Oblast Governor. Beginning in 2012, the Biodiversity Working Expert Group included representatives of Exxon Neftegas Limited and LLC RN-Sakhalinmorneftegaz. In 2013 representatives of other oil and gas companies operating on Sakhalin joined the Biodiversity Working Expert Group.

At the spring meeting of the Biodiversity Working Expert Group they discussed the results of the industrial environmental control and local monitoring on the main pipelines of OJSC Gazprom on Sakhalin, and the readiness of Sakhalin Energy, Exxon Neftegas Limited and LLC RN-Sakhalinmorneftegaz to respond to an oil spill emergency. The Report Mainstreaming Biodiversity Conservation into Russia's Energy Sector

Policies and Operations was also presented and the Sakhalin Energy initiative on participation in UNDP/GEF project (United Nations Development Programme/Global Environmental Fund) jointly with the Russian Federation Ministry of Natural Resources was approved.

At the autumn session of the Biodiversity Working Expert Group, reports were delivered on the principles of ground and benthos sampling in the waterways and the results of monitoring the ecosystems in the waterways crossed by the oil and gas pipelines. Specific attention was paid to the project being implemented by Sakhalin Energy, Exxon Neftegas Limited and LLC RN-Sakhalinmorneftegaz on setting standards for acceptable levels of oil and its byproducts in Sakhalin Oblast soil. The information on development of the UNDP/GEF Project Collection of Best Innovation Initiatives on Biodiversity Conservation for Oil Production Sector was also provided. The Biodiversity Working Expert Group supported the participation of Sakhalin Energy in the project and recommended other oil and gas companies join it as well.

8.2.2.1 Monitoring of Gray Whale

Over the years the company has devoted a great deal of attention to monitoring and sustaining the population of Western Gray Whales. Presently, Sakhalin Energy allocates considerable resources to the monitoring programme, far more than required by standard procedures. The company has long been committed to the principles of sustainable development. Sakhalin Energy has always believed that risks to marine mammals arising from industrial activities must be considered and mitigated in a timely manner; not only for endangered species, but for all marine inhabitants.

In 2013, as in previous years, Sakhalin Energy (in close cooperation with Sakhalin-1 operator Exxon Neftegas Limited) continued the Integrated Western Gray Whale Population Monitoring Programme near the north-eastern coast of Sakhalin Island. The Program consists of scientific study and research of the distribution of the whale population, including food resources, subsea acoustics, photographic identification of select specimens and assessment of their nutritional status, and gathering biopsy samples for genetic analysis.



Gray whale



Grand Mereya tanker, Prigorodnoye port

All marine components of the Gray Whale Monitoring Programme have been conducted onboard the company's vessels, which was a significant difference in the 2013 monitoring season. Using the company's vessels allowed for a longer research period. This in turn, led to further development and improvement of Environmental Management System. Moreover, the company took the opportunity to collect benthos samples twice a season in both Piltun and Chaivo feeding areas to assess the capacity of their feeding grounds.

In 2013 our scientists observed and photographed six new calves and several new whales not previously seen in Sakhalin waters. All have been recorded in the Gray Whale catalogue, which already includes 217 entries in its list of species. Also in 2013, our scientists were able to re-photograph Flex—the first whale to be tagged using satellite telemetry back in 2010. Tagging Flex has given scientists a completely new understanding of migration patterns of Gray Whales. As in previous years, our scientists were able to observe Gray Whales in both Piltun (coastal) and Morskoy (deep water) areas. Results of the 2013 programme prove that whale population distribution has remained stable over the last few years with no impact from the company's operations.

In 2013 the company's Gray Whale monitoring programme was recognized by the IUCN (International Union for Conservation of Nature) for its innovative approach to protection of marine mammals during a seismic period. This multifaceted methodology has been developed through the collaborative efforts of Western Grey Whale Advisory Panel experts, independent scientists and Sakhalin Energy engineers. Newly developed methods are based on principles of precautionary approach and eco-responsibility. For more information on this great milestone in Sakhalin Energy history, please refer to Marine News and Aquatic Mammals journals published in 2013.

The Environmental Management System successfully implemented by the company in 2010 during geo-physical research also has been highly praised by the Western Gray Whale Protection Interdisciplinary Working Group of the Russian Ministry of Natural Resources and Environment.

8.2.2.2 Ballast water control

The company is taking a whole range of actions to preserve the unique ecosystem of Aniva Bay. Every year, around 200 oil and gas tankers from various worldwide ports arrive at Port Prigorodnoye.

International experience shows that the ballast water taken in at ports for the purpose of vessel stability may contain dangerous invasive species which, if discharged in Port Prigorodnoye, may lead to irreparable damage to the ecosystem existing in Aniva Bay. Today, the most effective way to prevent such a danger is to comply with the International Convention for the Control and Management of Ships' Ballast Water and Sediment. This convention served as a basis for internal corporate ballast water management policy back in 2009. In March 2012, Russia joined this Convention.

In order to monitor compliance with this policy, each vessel is inspected for a number of physicochemical parameters, and discharge is allowed only after it is confirmed that the ballast water was replaced in the open sea.

The efficiency of these control measures is checked by biological analysis of ballast waters in the tankers and by flora and fauna monitoring in Aniva bay. Samples of phyto- and zooplankton were taken from each vessel, when it was technically possible (from April to November) and were analysed by specialists for various characteristics, including availability of potentially hazardous alien species. The same as in previous years, sample analysis has not shown any hazardous species of phyto- or zooplankton in the ballast water of tankers, demonstrating that the company has fulfilled its requirements and, therefore, the requirements of the International Convention.

Aniva Bay monitoring has been conducted since 2007 on a grid of stations, which covers berthing facilities for gas carriers and oil tankers in Port Prigorodnoye. The main purpose of the monitoring is to evaluate the condition of coastal flora and fauna in Aniva Bay in terms of ballast water impact. The experienced specialists take and analyse samples of phyto- and zooplankton and samples of benthos. Therefore, local monitoring of Aniva Bay covers all types and forms of organisms.

Over long-term observations, a significant amount of new data on Aniva Bay flora and fauna has been obtained. Every year scientists discover new rare species of plants and animals that had not been identified earlier, and that are local by their characteristics. Specialists also explore species seasonal abundance, biomass, bio- and geographic characteristics, spacial distribution of those in the water area of study, and reveal variation regularities. Results of the 2013 monitoring have proven that changes in the quality and quan-

tity of the flora and fauna occur due to natural processes.

The company intends to continue paying close attention to protecting Aniva Bay ecosystems.

8.2.2.3 Steller's sea eagles monitoring

In 2004, Sakhalin Energy launched a programme to monitor the Steller's sea-eagles in the north-eastern part of Sakhalin. The aim of the programme is to study the Steller's sea-eagle population dynamics in the area of the Sakhalin-2 project, assess possible effects on the sea-eagle population from the project, as well as other natural and anthropogenic factors. The monitoring focuses on the study of key characteristics that assess the stability and the ability of the Steller's sea-eagles to adapt to a changing environment, and the development of measures to mitigate any effects identified.

The monitoring is conducted at areas within a one-kilometre corridor on each side of the pipeline and a three-kilometre zone around the OPF. An area of two km from the coastline adjacent to the Lunskiy bay is studied as a control zone.

The 2013 breeding season was generally favourable for the Steller's sea-eagles in the area monitored. During field studies 255 Steller's sea eagles and 4 white-tailed eagles were identified.



Steller's sea eagle

The condition of the Steller's sea-eagles nesting area in the impact zone and in the control zone can be considered good; it has not changed significantly over the past ten years. In 2013, ten young birds fledged at nine active sites within the impact zone. It is worth noting that three nests were located just a few tens of meters from the pipeline route and block valve stations; that eagles built two of these nests after the pipeline was constructed and RoW reclamation was completed. This testifies to the effectiveness of the mitigation measures taken and the ability of the species to adapt and live near humans. It was found that 19 young successfully fledged at 16 active sites in the control zone.

Weather and food conditions in 2013 contributed to the growth of the sea eagle population, both within the pipeline area and the control zone.

8.2.2.4 Wetlands recovery monitoring

Wetlands are the most critical type of ecosystems on Sakhalin. Their value is in the water-regulating and water-cleaning functions they perform. They provide habitats for many birds, including protected species, during nesting and migration seasons.

Sakhalin Energy is implementing a long-term programme for monitoring the recovery of wetlands in the RoW, the objective being:

- Monitoring the recovery processes in marshes within the RoW and adjacent territories;

- Assessing all potential adverse impacts on the marshes resulting from construction and operation of onshore pipelines; and
- Mitigating any impact.

In 2013 monitoring was conducted at 29 wetland sites (139 test sites), located along the onshore pipelines from the north to the south of the island. A comprehensive assessment of vegetation and soil conditions demonstrates the wetlands ecosystems recovered.

Recovery of the natural ecosystems of the wetlands along the RoW is observed at sites with deep and medium-depth peat areas in Nogliki, Smirnykh and Dolinsk districts. Areas with shallow peat are recovering too. But wetland and opportunistic species are not sustainable for long periods. Opportunistic species enhanced sod formation along the RoW but now are gradually being replaced by typical wetland plants.

The vegetation on marshes adjacent to the RoW is stable with no negative impact from pipeline operations.

The status of protected plant species like *Pogonia japonica* and *Dicranum viride* Drammund observed at areas adjacent to the RoW is good. The 2013 monitoring season did not identify aggressive invasive species at the crossings of wetland ecosystems.

In general, monitoring of wetlands in the RoW shows good rate of recovery.

8.3 Maintaining onshore pipeline right of way

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

The list of RoW monitoring actions for 2013 included:

- Helicopter fly-overs;
- 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; and
- 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 November 2013, as planned. Work was performed at 50 sites and included eliminating the consequences of natural erosion as well as repairing existing anti-erosion structures. As for four water courses and two landslides which became active, a special subcontractor prepared the drafts for bank protection repair and right-of-way stabilization to be implemented in winter 2013-2014 (rivers) and summer 2014 (landslides).

As per the programme for additional seeding of the right-of-way sections not densely covered by vegetation, in 2013 work was performed on 41 km total of the pipelines right-of-way. Satellite data showed that the seeding programme, originally planned to end in 2014, should be extended.

9.1 Personnel: management and development

9.1.1 HR management and HR policy

Sakhalin Energy's HR strategy provides for establishment of an effective HR management system that meets the highest international standards and enables the fulfilment of complex tasks, rendering the company more efficient and competitive.

The company's objective is to create an organisation that helps all employees feel engaged in its activities, feel the company's support and respect, and have an opportunity to express their best qualities and talents to form a sound basis for the company's success. Therefore, Sakhalin Energy believes its duty is to:

- Manage diversity as a highly important part of business performance;
- Attach great importance to the large spectrum of employees' cultural and individual qualities;
- Respect every employee's intention to achieve an optimal combination of occupational and personal needs;
- Provide all employees with equal competitive opportunities by using well thought-out and consistently applied labour and quality standards, as well as management systems;
- Provide employees with opportunities for personal support, training, self-development and information exchange;
- Show respect and good faith when dealing with external partners, pursuant to the company's business principles;
- Strive to continuously improve labour relationships through the application of best practices; and
- Promote the development of a business culture in which all company and contractor employees can take an equal part in fulfilling these duties.

Sakhalin Energy implements its HR tasks and objectives through its HR policy.

HR policy is a comprehensive strategic policy governing the company's relations with its employees. The HR Director leads the process of developing the company's HR policy and determines its key objectives. Shaping and maintaining the HR policy, including HR cost budgeting, organisation development, administration of HR processes and reporting, recruitment and adaptation of new employees, development and training, appraisal and rotation, compensation and motiva-

tion, corporate culture and social programmes implementation, are some of the issues addressed by Sakhalin Energy's HR Directorate.

The company conducts sociological employee surveys on a regular basis. The feedback received through the surveys is carefully analysed by company management and is accommodated in business objectives and plans, both for line managers and senior management.

Regular surveys allow us to track general trends and establish the company's efficiency and promptness as an employer in reacting to its employees' requests.

For example, in 2013 several sociological surveys were conducted to cover a wide range of issues, including the employees' opinion of the company as an employer, working conditions, accessibility of managers to discuss existing problems, etc.

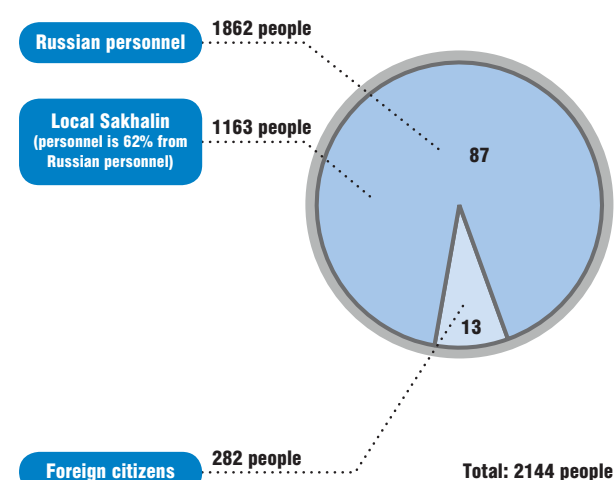
The company devotes great attention to such basic human values as openness, honesty and

The Best Plan Holder

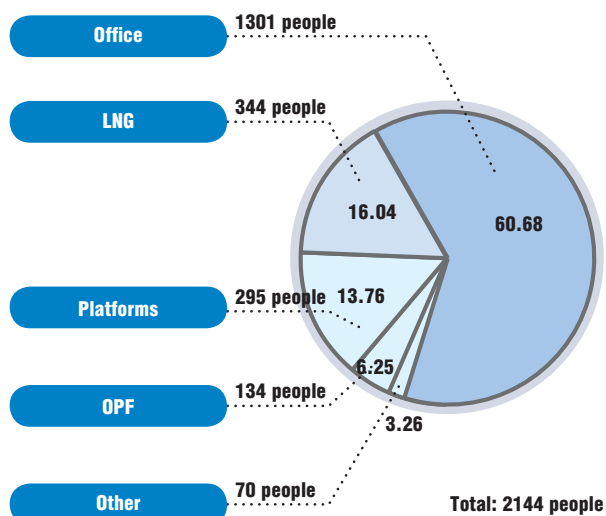
In April 2013, the company won the All-Russian Competition "Best Compulsory Pension Insurance Plan Holder 2012" in the "2012 Best Plan Holder with over 500 Employees" category in Sakhalin Oblast. The competition was established by the Pension Fund of the RF. The main criteria for winner selection were timely payments of premiums to the pension system, timely submission of individual records and premium payment documents, and registration of all employees in the compulsory pension insurance system.

respect for others. Sakhalin Energy encourages diversity among its personnel and values the individual traits of each employee.

Personnel structure, %



Personnel structure per facility, %

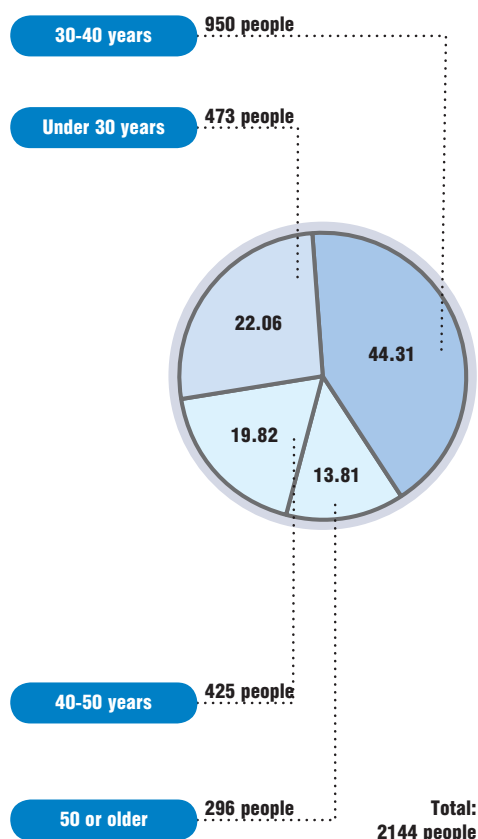


To achieve these objectives, the company has adopted policies, guidelines, procedures and other regulations in line with Russian laws and best international HR management practices.

The basic documents regulating HR management are:

- Code of Conduct;
- Internal Working Rules;
- Human Rights Policy;

Personnel structure per age, %



- Conflict of Interest Procedure;
- Manpower Plan;
- Diversity and Inclusiveness Policy;
- Harassment and Discrimination Procedure;
- Whistle Blowing/Grievance Procedure;
- Learning and Development Guidelines;
- Recruitment Procedure for Russian National, CIS Staff and Expatriate Direct Hires;
- Standard on Protection of Personal Data; and
- Occupational Health Standard.

9.1.2 General information

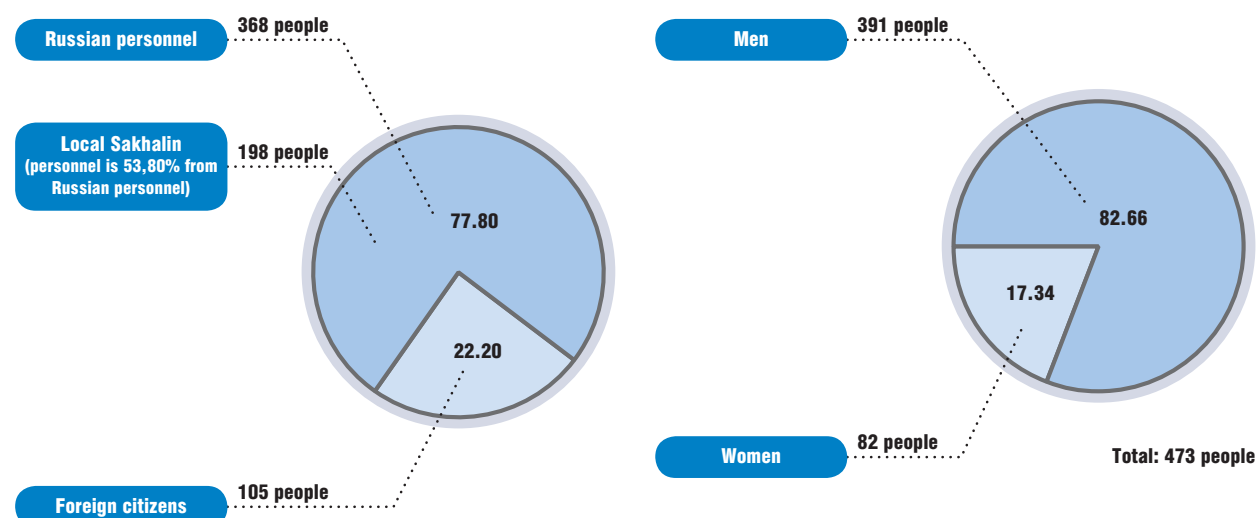
The total number of company employees as of 31 December 2013 was 2,144, of which 87% or 1,862 people were Russian nationals. The number of employees in Sakhalin Oblast was 2,107, and in the Moscow office—37. The company is committed to employing as many Russian nationals as possible, especially residents of Sakhalin Oblast, at the Sakhalin-2 project. This approach is a result of the personnel policy of the company and conforms to PSA terms for the project. As of December 31, 2013, 1,163 employees, i.e., 54% of the personnel, were residents of Sakhalin Oblast.

The structure of the personnel is determined by the character of the company's activities. 85% of the personnel are managers, specialists and clerks. About 61% of employees work in company offices, remaining staff works at project facilities.

As of December 31, 2013, 26% of the company employees worked on a rotational basis and were housed. They were accommodated in fully furnished shared housing facilities, such as hotels and shift camps, established in accordance with Russian legislation and best international practices.

As of December 31, 2013, 368 Russian Federation nationals held managerial positions (see "Managerial Personnel Structure" chart), 198 of whom were residents of Sakhalin Oblast. To increase the percentage of Russian managerial personnel in the company, in addition to professional training, development and promotion of the existing Russian personnel, external skilled Russian specialists are engaged as well as trainees, who are a source of constant junior technical staff at the company (see Clauses 9.1.7.2 The Traineeship Programme and 9.1.7.3 Successors Pool Planning and Development).

Managerial personnel structure, %

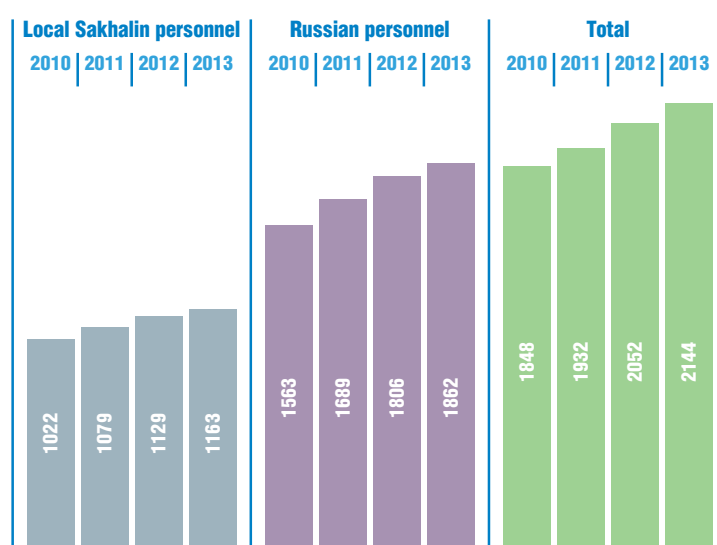


Around 29% of the company's personnel are women (617 women as of 31 December, 2013), of whom 17% (82 women) are managers (see the Managerial personnel structure chart).

Over the past three years, personnel numbers have been deliberately increasing. This is associated with implementation of booster station construction and offshore facilities upgrade projects. However, due to the on-going Russia-nisation process, Sakhalin Energy is looking for Russian specialists, including technical personnel. In 2013, voluntary turnover of Russian employees was 6.93%.

As of December 31, 2013, the average age of employees of the company was 37, and over 66% of the employees were under 40.

Personnel dynamics in 2010-2013, people



9.1.3 Personnel recruitment and adaptation of new employees

At Sakhalin Energy, recruitment of new personnel is based on the Russian staff schedule and a recruitment plan which is developed and approved annually. To advertise new vacancies and attract candidates, the HR Directorate uses various mechanisms, taking into account the host region and the positions' special requirements (to maximise the share of local residents in the company personnel), as well as following methods:

- Posting all vacancies on Sakhalin Energy's official website, including an application form for candidates' convenience;
- Submitting information to the Yuzhno-Sakhalinsk Labour Centre (on a monthly basis);
- Cooperating with recruitment agencies;
- Participating in career fairs;

- Posting vacancies on external Internet resources and in print publications;
- Using social networks to search for candidates;
- Implementing the company employee referral programme, under which employees recommending candidates for employment are paid bonuses if the respective candidates are hired; and
- Utilising the Gazprom recruitment potential, including the Gazprom website, to publish urgent vacancies.

In 2013, Sakhalin Energy took part in three career fairs in Yuzhno-Sakhalinsk and in similar events in Moscow, Tyumen, Tomsk, Kazakhstan and Azerbaijan. As a result, more than 500 applications for vacancies were received.

In 2013, 335 new employees were recruited to the company, of whom 214 are Russian nationals and 98 are Sakhalin residents.

The key indicator of the activity is the dynamics of filling in critical technical vacancies: 79% in 2012 and 84.5% in 2013. The key indicator for 2014 is filling in critical technical vacancies by 85%.

In 2013, Sakhalin Energy continued its adaptation programme aimed at helping new employees get off to a good start.

9.1.4 Remuneration and bonus system

Sakhalin Energy's main principle of remuneration is to pay the employees competitive salaries no lower than the average wage in the Russian oil and gas industry, as well as to use a transparent bonus system for all staff categories.

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 labour 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 regulatory acts; and
- Bonuses payable as per the Regulations on Labour Remuneration, Bonuses and Social Benefits and other local regulations.

Sakhalin Energy's remuneration policy, practices and methods are designed to recognise and encourage excellent personal and production performance in the short and long term.

The existing incentive system uses one unified, standard approach to motivate employees in all the company divisions. 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; and
- Bonus for participation in a research-to-practice conference held by the company on a regular basis.

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

In 2013, the minimum salary at Sakhalin Energy was 4.7 times higher than the minimum wage established by Russian legislation. In 2013, Sakhalin Energy's labour remuneration expenses totalled RUB 9,024.60 million, with award/bonus payments totalling RUB 1494.96 million.

9.1.5 Social guarantees, benefits and compensations

The company makes every effort to provide a competitive compensation and benefits package to attract a highly skilled workforce. The compensation and benefits package provided to Sakhalin Energy 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 a social benefits package that includes:

- Voluntary health insurance for employees and their families;
- Health benefits;
- Accident and sickness insurance;
- Travel insurance;
- Free meals at the company offices and facilities;
- Housing for employees and their families for the duration of their employment (for those



Educational activity for children of the company employees, "Wonder island" center, Zima complex

employed on terms of relocation from other Russian regions and CIS countries, as well as from the Far North and equivalent localities), or payments for housing rent for such employees;

- A mortgage programme;
- Annual payment of round-trip travel expenses to the employees' chosen place of vacation within the RF territory for employees and non-working members of their families (spouses and children up to the age of 18 years) living in Far North regions and equivalent localities;
- Corporate pension programme; Lump cash allowances in case of difficult personal circumstances, and upon the birth or adoption of a child;
- Recreation and sport facilities (also see Section 9.3 Occupational health);
- Additional benefits for female workers on maternity leave; and
- Programmes for company employees' children.

Programmes for company employees' children

Magic Island children's recreation and development centre

To enable preschool development of children, educational groups for children who do not attend kindergarten, as well as afternoon care groups, artistic associations and studios have been operating at the Magic Island Children's Recreation and Development Centre located in Zima Residential Complex since September 1, 2012.

Merry Holidays programme for schoolchildren

For the third year, the Merry Holidays programme has been implemented for company employees' children at Zima sports and recreation facilities.

In honour of the 370th anniversary of the discovery of Sakhalin and the 160th anniversary of hoisting the flag on the island by Russian seafarer Gennady Nevelsky, all sessions in 2013 were dedicated to the history of development of Sakhalin and its multinational culture. A special programme for teenagers focused on professional tryouts, leadership development and teamwork was developed. Overall, almost 500 children attended the five-session programme.

Miscellaneous

To provide safe transportation for children to Yuzhno-Sakhalinsk schools, the company has arranged for special bus routes to depart from the Zima residential complex.



Zima complex

Consultations with a psychologist are available to the company employees and their children to address issues related to school education.

Housing for employees (and their families)

The company provides housing for employees from other regions. The flats and houses are fully furnished and equipped with home appliances. Housing includes satellite TV, perimeter fencing, a security checkpoint at the gate, security and fire alarms in the houses and playgrounds for children.

Presently, the main part of the housing stock of the company is concentrated in Zima residential complex. Zima sports and recreation facilities:

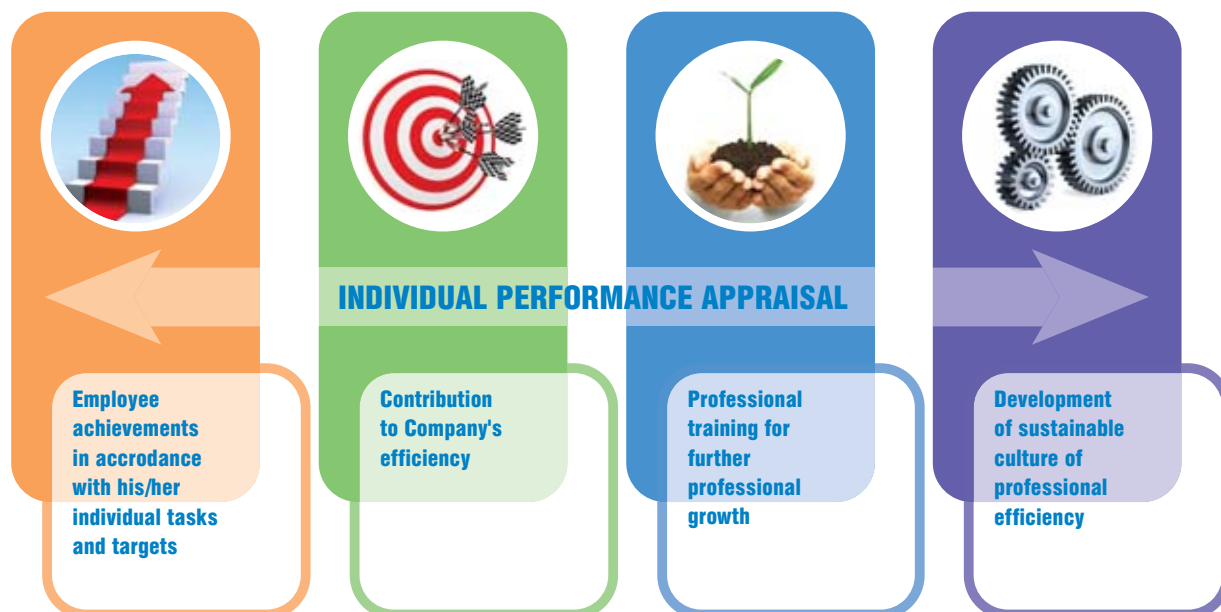
- Oasis recreation and sport complex;
- Hub leisure centre;
- RecCentre Zima-1 sports centre; and
- RecCentre Zima-3 sports and entertainment centre.

In addition, the territory of the residential complex boasts outdoor tennis courts, a basketball court, a football field, three children's playgrounds, a botanic trail, skiing pistes and a barbecue area.

Voluntary insurance

In the end of 2013, the company prolonged contractual relations with SOGAZ insurance group until the end of 2016. The annual amount for medical support per insured person was raised to RUR 35 000. Additional services were included into the insurance plan, and the list of medical institutions in the regions of Russia where our employees and their families live was expanded. According to the terms of voluntary accident and health insurance, the term for notification of

Individual performance appraisal



insurer about occurrence of insured event was increased to 30 days from the day on which temporary incapacity ends.

During three years of cooperation with SOGAZ on this type of insurance, the company employees have received insurance benefits amounting to over RUR 65 million.

All children attending the summer camp located in Zima residential complex are insured against accidents for the whole term of attendance at the camp.

Mortgage programme

The mortgage programme is governed by the Regulations for Payments to Employees. In 2013, 90 Russian employees participated in the company's mortgage programme, which makes up 5% of the total number of staff.

The programme is aimed at partially reimbursing expenses related to payment of interest for mortgage loans used to purchase (construct) living quarters (housing.) Forty percent of interest payments actually paid by an employee during the reference period is compensated, although the amount of compensation may not exceed the company-established level.

Corporate pension programme

As of the end of 2013, 40% of Russian Sakhalin Energy employees are enrolled in the corporate pension programme. The amount of contributions to Gazfond made by the company in 2011–2013 is RUB 92.52 million.

9.1.6 Company employees' performance appraisal

The Individual Performance Appraisal is one of the main tools to achieve strategic goals of the company in building a performance culture.

All employees' performance is appraised annually. Their labour efficiency is evaluated based on their achievements in accordance with the production and individual targets set at the beginning of the year.

This evaluation reveals whether professional training is required for employees' further professional growth and improvement of the company's efficiency in general.

9.1.7 Staff learning and development

Development of Sakhalin Energy staff at all levels is key to achieving and sustaining a highly professional level and motivating employees to ensure maximum production efficiency and maximum use of employees' potential. To this end, the Company applies a principle of diversity and inclusiveness.

The company's comprehensive approach to personnel development includes the following:

- Personnel training planning and implementation;
- Annual competence assessment;
- Career planning and development;
- Recruitment and development of the talent pool;
- Development of young professionals;
- Development of scientific potential;
- Retention of knowledge;
- Educational grant programme; and

- Traineeship and pre-graduation internship programme.

The company uses a competence-based approach to personnel management in which a profile is developed for each employee showing his/her functional, leadership and personal competencies.

The employee competence assessment provides a clear understanding of the professional and behavioural requirements imposed on employees, depending on the reporting level, area of expertise, position and tasks performed. Employees can also assess their own competence and corroborate it with their manager using the Employee/Manager Self Service Portal (ESS/MSS — a SAP system module used by the company to support such processes as training

The project of updating profiles and defining methods of improving the competence level of personnel is expected to take several years and will require the cooperation of all company divisions. Beside employee competence assessment, it will be possible to assess the company as a whole.

nomination, individual document maintenance, personnel competence assessment, etc.).

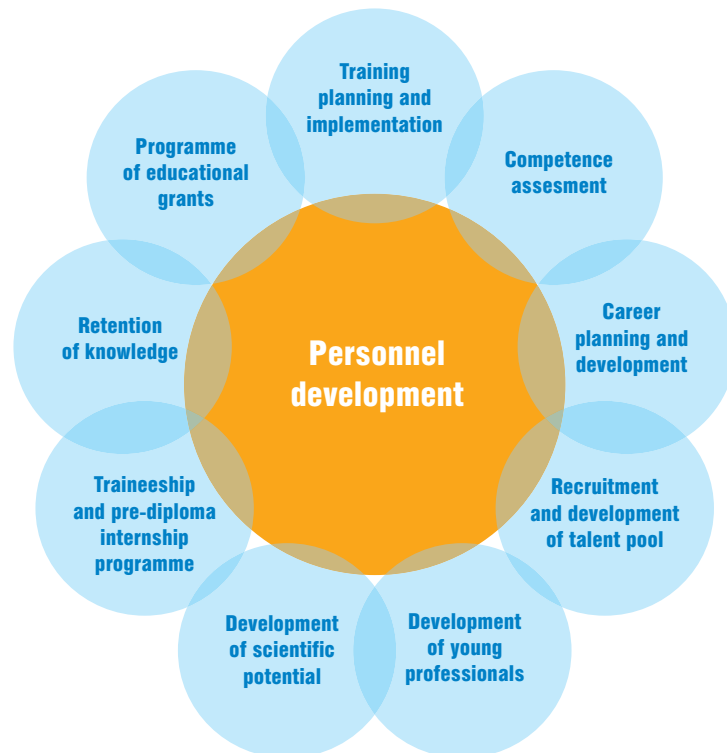
Identifying an employee's competence level in his/her functional area and then developing this competence is key to achieving the employee's performance targets. A competence profile is a standard list of skills established by the company for a certain position. In 2012, the company began updating the job competence profiles for specialists and managers in the SAP HCM system (the system used for storing and tracking job competence profiles and individual employee's profiles). This work was continued in 2013: 93% of competence profiles for company staff (clerks, specialists and managers) were updated in the SAP HCM system, and 61% of company staff completed a full competence assessment.

9.1.7.1 Personnel training

The company prepares annual plans for personnel training and professional development based on production targets, career development plans and personnel competency assessment.

Formats of personnel training include on-the-job training, distance learning, conventional training courses, workshops and case studies. In

Staff development



2013, 2219 people attended training at workshops, class training and advanced training courses (including distance learning), with some trainees attending more than one course. The average duration of training was 10.7 man-days per employee (excluding on-the-job training). In 2013, Sakhalin Energy invested more than RUB 272 million into personnel training.

Sakhalin Energy's training resources are unique and cover the potential of both Russian and foreign training service providers. The fulfilment of training plans is controlled by employees, line managers, the HR Directorate and senior management of company.

The top priority disciplines at Sakhalin Energy are as follows:



SAP Super User Forum

- Health, Safety and Environment (HSE);
- Specialised professional courses in technical and other areas (finance, business, HR, etc.);
- Further education;
- Contractor equipment training (vendor training);
- Management and business administration;
- Managerial and leadership skills development for managers of all levels according to the leadership competences model;
- PC skills, Internet and Intranet training and other IT courses;
- Long-term training programmes for internationally recognized professional certification (CIMA, ACCA, CIPS, etc.);
- Language training.

2013 Projects

Commercial academy

In 2012, the HR Directorate jointly with the Commercial Directorate developed a modular programme, the Commercial Academy, aimed at the Sakhalin Energy talent pool. Sessions are facilitated by the company's Commercial Directorate specialists for over 30 programme participants. The programme

Fifty percent of the professional training of production facility staff is vendor training. It is performed using the equipment installed at company's facilities with equipment manufacturers or their representatives involved. Its principal areas are equipment repair and maintenance, troubleshooting and operation. Good operation knowledge, timely repair and spare parts replacement, best maintenance practices increase the performance of equipment and installations and reduce related operational costs. Correct maintenance of equipment increases its availability rate, minimises unexpected breakdowns, reduces idle periods and eliminates repeated maintenance of the same pieces of equipment. A good example of purchasing cutting-edge equipment and timely training of service personnel by vendor representatives is substitution of metal shutting-off and swing pipeline mechanisms with fibreglass coupling mechanisms produced by Ameron. The more advanced synthetic material increases pipe durability and prevents corrosion. Repair and maintenance performed by specially trained employees save money which would otherwise be used for engaging vendor's specialists.

consists of four modules and a number of recommended online courses. This initiative was supported by participants as well as company management and became a vehicle for promoting knowledge and skills, as well as for creating a talent pool.

In 2013, the second stage of the Programme was successfully conducted. It was attended by representatives of shareholder companies who explained

their views on the development of oil and gas markets, including the LNG market as one of the most promising markets of the Asia Pacific region.

In 2014, the company will continue implementing the Programme, redefining its goals, objectives and expected results with consideration for the following basic issues:

- the lack of "commercial cogitation" and understanding of the complications and opportunities of commercial aspects of oil and gas project implementation, both in young professionals and in experienced senior and mid-level employees;
- and the need for CP specialists to analyse employees' competence gaps to develop a list of specific actions for implementation under the Commercial Academy project.

E-learning

E-learning is becoming ever more important for quick acquisition of knowledge required to perform current tasks set to company employees. Additional courses developed by specialists of the company are added to the SAP HCM portal for employees and managers. In 2013, "Principles of Countering Bribery and Corruption" and "Introduction to Production Management" courses were developed. Throughout the year, 2,037 employees completed one or more web-based learning course.

Retention of critical knowledge programme

A large number of highly experienced foreign and national specialists were recruited to manage the construction, launch and operation of various facilities. There is a risk that the knowledge and experience gained during these years may be lost. Therefore, in the summer of 2012, Sakhalin Energy developed and implemented the Retention of Critical Knowledge Programme in the form of structured interviews with the most experienced employees.

In 2012, 10 people took part in the programme and 15 in 2013.

9.1.7.2 The Traineeship Programme

Most Traineeship Programme participants are graduates of the Sakhalin Fuel and Energy Technical School with specialisations that are valuable to the company and a strong motivation to develop and apply their knowledge.

The key component of the traineeship is gaining hands-on production experience and practical on-the-job skills. Hands-on practical

sessions to develop skills during the training process ensure mastery of the material studied to the required level. The training process is supplemented with techniques such as:

- Involving trainees in projects;
- Assigning trainees to develop and deliver short presentations;
- Simulating and demonstrating various production scenarios; and
- Other activities.

Since 2003, 167 people have completed training under this Programme. In 2013, two trainees completed training and were employed by the company. There are 64 people currently undergoing training as company's apprentices. Graduates of the Programme work at the LNG plant, OPF and offshore facilities.

9.1.7.3 Successors pool planning and development

The HR Directorate sees the successors pool planning and development as a high priority activity for further development of personnel capacity of the company, with the main objectives here being as follows:

- Identification of potential candidates from among Russian personnel to fill positions occupied by Expatriate staff and key technical and managerial positions occupied by Russian Nationals;
- Assessment of the potential successors' readiness to succeed the positions according to the succession plan; and
- Planning the potential successors' development in accordance with the job requirements for the positions planned for succession.

The successors' pool planning and development strategy is approved by the company Leading Team for a five-year period at the sessions of the Management Development Committee, the controlling body for staff development related issues.

In 2013, 554 positions were included into the succession plan, among them:

- Ninety-nine positions held by expatriates and planned for replacement by Russian Nationals within the next five years. In 2013, 85% of expatriate positions planned for Russianisation were succeeded by Russian staff from the internal successors pool; and
- Two hundred and fifty key technical and managerial positions currently occupied by Russian Nationals.



Alexander Sheykin, HR director welcomes participants of Sakhalin Energy Young Professionals Scientific-Practical Conference

During the succession planning process for 2013-2017, potential successors were identified for the short and long term for 444 positions (80% of the total number of all positions planned for succession). For all employees included into the successors' pool, Individual Development Plans were worked out incorporating training and development events to be taken under the company's learning and development framework (professional training, development of leadership and managerial skills, traineeship, coaching, participation in projects, etc.).

Potential successors' readiness to fill the role is evaluated twice a year at the respective management and leading team meetings.

9.1.7.4 Graduate Development Programme

In 2010, the company adopted the Graduate Development Programme to meet Sakhalin Energy's needs for talented staff. In this programme, Sakhalin Energy's candidates are professionals under 27 y.o. who graduated from a university and were hired by the company within the first 3 years upon graduation. The graduates are hired by the



Sakhalin Energy Young Professionals Scientific-Practical Conference

Since 2009, the company has been actively using the Assessment Centre, a technology of expert assessment of personnel leadership competence involving the following elements: business simulation, structured interviews and feedback with detailed analysis of the employee's strengths and development needs.

The target audience of the Assessment Centre is high-potential employees of the company included in the talent pool for strategic managerial roles. All in all, 167 employees have taken part in this programme since 2009.

In 2013, the company developed and implemented special new methods to assess:

- Graduates; and
- LNG technical personnel.

These methods help identify leadership potential and managerial capabilities at the early stages of career development. Eighty-five employees were assessed within these projects.

company for positions established in the company's Manpower Plan especially for this category of employees. In 2013, the company hired 22 graduates under this Programme. Since 2010, 65 employees have participated in the Programme.

In order to raise the competence of Graduates and provide them with basic managerial skills, Five Steps to Leadership, a special module programme, was developed in 2013. The purpose of the programme is to form skills and abilities required for efficient interaction in a team, understand managerial tasks and manager's role; fulfil the employee's potential, choose management style, understand your strengths and areas for development. Seventeen young professionals have completed this course.

The main requirements for candidates to the graduate positions are:

- Relevant academic background;
- Good command of English;

- High Headroom Assessment scores, assigned during the Structured Interview; and
- Excellent recommendation letters.

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

- I. Me and My Company;
- II. Me and My Profession; and
- III. Me and My Career.

Upon completion of the Me and My Career phase, a Graduate prepares a Presentation Report. The Graduate's line manager and mentor jointly prepare a letter of reference for the Graduate, reflecting on his/her strengths and areas for development, as well as providing recommendations on including the Graduate into the company's successors pool.

9.1.7.5 Developing scientific potential

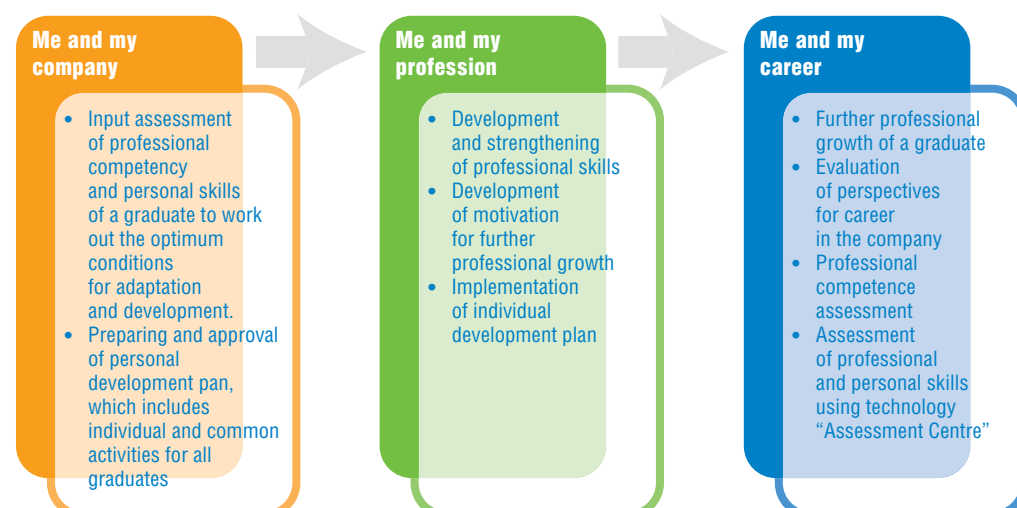
Sakhalin Energy pays great attention to the development of its employees' scientific potential. The company collaborates with universities and research institutes in the frame of development of technical projects. In addition, the company's professionals participate in scientific student associations, give lectures, etc.

One of the activities in this area is the Sakhalin Energy Young Professionals Scientific-Practical Conference, holding annually.

The main objectives of the scientific-practical conferences are:

- Realization the employees' potential, development creativity and promoting the development of managerial competency;

Graduate Development Programme



- Innovative ideas identification and support of the projects contributing to the growth of employees' scientific and technological capacity;
- Providing opportunities to share experience and knowledge, to familiarize colleagues with interesting ideas and technical innovations that may help improve the efficiency of production processes; and
- Involvement of young professionals in solving complex engineering problems using innovative approaches.

Sakhalin Energy professionals under the age of 35 who have worked at the company for 12 months or more, are invited to participate in the conference.

The 5th Scientific and Practical Conference of Young Professionals was held in October 2013. Its programme included presentations of 14 research papers in the following areas: Information Technology and Automation of Production Processes, Supply Chain Management, Production and Maintenance, Industrial Safety, Engineering, Geology, and Reservoir Engineering.

In 2013, the representatives of LLC Gazpromneft Research and Development Centre participated in the conference for the first time.

The Conference Panel was formed out of highly qualified experts from the Production, Technical and HR Directorates.

9.1.7.6 Internship Programme

The Internship Programme has been implemented in the company since 2000 to form an external pool of candidates for young professionals' positions. The Internship Programme enables students of Russian higher education institutions and vocational education institutions to become familiar with the latest production technologies and the best international and domestic business practices, as well as to gain unique hands-on experience working hand-in-hand with highly qualified specialists and engineers of the company.

In 2013, 88 students of higher education institutions and 32 students of vocational education institutions completed internships in the company. Nearly 80% of the 2013 interns were Sakhalin residents.

9.1.7.7 Scholarship Programme

The Scholarship Programme was launched by Sakhalin Energy in 2003.

The Programme's key objectives are:

- To develop an external successors pool;
- To increase the number of highly qualified engineers among Sakhalin residents; and
- To promote a positive company image through extending opportunities for young, talented Sakhalin residents to obtain higher professional education.

The target audience of the Programme's contest are Sakhalin-based high school and college graduates, trainees of regional departments and centres of pre-higher training, wishing to obtain specialised higher technical engineering education with a view to building a career at the company.

Other eligibility criteria are:

- Sakhalin Oblast resident status;
- Average academic score of 4.5 or higher over the last two academic years;
- Willingness to study at one of the universities recommended by the company; and
- Intention of working in Sakhalin Oblast after graduation.

The company awards its educational grants in the form of a scholarship to contest finalists who have been admitted to state-funded university programmes, or as reimbursement of tuition costs to contest finalists who have been admitted to fee-based university programmes.

In 2013, 11 Sakhalin high school and vocational school graduates were accepted to the Scholarship Programme.

9.2 Labour safety and protection

Successful implementation and operation of large projects require special attention to health and safety. Sakhalin Energy's main priority is industrial safety and no harm to people.

At the end of 2012, the Health, Safety, Environment and Social Performance (HSE&SP) Steering Committee decided to revise the existing Life

Saving Rules to adapt them to the company's changed Risk Profile. At present, the company uses eight Life Saving Rules adopted by the company as binding rules. Life Saving Rules violation inevitably leads to serious consequences, and in some cases, dismissal. The updated eight Life Saving Rules entered into force on 31 March 2013.

Life saving rules

- I will not appear at work under the influence of drugs or alcohol;
- I will not smoke, carry or use ignition sources in active hydrocarbon areas;
- I will not walk under a suspended load;
- I will comply with the requirements of permit to work;
- I will wear a seatbelt when travelling in a vehicle;
- I will only drive on company business with a valid defensive driving training and journey authorization;
- I will not exceed the speed limit;
- I will not use communication devices whilst driving.



To achieve this goal, the company uses an integrated approach when handling HSE issues (see Section 3.5 of HSE and Social Performance management). This approach provides both compliance with legal regulations and risk man-

In 2013, the Summer Safety Day took place on 19 June under the motto “Time for Safety”, and on 01 November the company held the Winter Safety Day under the motto “Prepare for Winter”. As in previous years, discussions of safety issues took place in all the offices and facilities of the company, as well as at many contractors’ offices. These meetings discussed the significance of time and its value in our lives, how much time we devote to safety at work, and why it is so important to care not only about our own safety, but also about the health and lives of our colleagues, friends, and family. In addition, a question was raised about how our actions and our behaviour affect the safety of others and how to make work in our company safer. The children of the company’s employees also tackled safety issues by playing games. The children enjoyed the activities offered as part of the Merry Holidays programme and Chudo-Ostrov Children’s Club.

gement to ensure continuous improvement in this area. The company also requires contractors to manage HSE issues in compliance with this approach and the international standards adopted by the company. The company’s main fields of activity in the area of safety remain:

- Industrial Safety;
- Road Safety; and
- Behavioural Safety.

9.2.1 Results

In 2013, some Sakhalin Energy safety performance indicators (such as the total reported incident frequency and lost time incident frequency per 1 million man-hours) deteriorated compared to the previous year (0.89 and 0.3 respectively). Nevertheless, in general, the company’s safety performance indicators are still high, as well as the level of completion of the respective programmes.

In 2013, the company did not have a single registered case of occupational illness as per the Russian legislation.

In 2013, there were no significant incidents relating to process safety at Sakhalin Energy facilities.

9.2.2 Road safety

An important objective of the road safety programme is to spread high corporate road safety standards beyond the company and its contractors, especially to Sakhalin settlements where the company operates. This is implemented via the Sakhalin Road Safety Council, whose establishment was initiated by the company back in 2005 (see Section 9.5.7 Sakhalin Road Safety Council).

In November 2013, Sakhalin Energy reached an important safety performance milestone: it did not have a single injurious road traffic incident throughout two years. During this period, our vehicles drove almost 11 million km. This achievement is particularly notable, considering the difficult situation on the roads of the Sakhalin Oblast.

To sustain and improve its road safety performance, the company continues to implement the following activities:

- Monthly meetings of the Road Safety Steering Committee, chaired by the company’s CEO;
- IVMS report analysis. IVMS enables the monitoring of drivers’ behaviour to detect any non-compliances and prevent traffic collisions. In 2013, IVMS reports demonstrated an impro-

vement in driving. The entire monitoring system covers more than 1200 drivers and 650 vehicles;

- Defensive driving training. Sakhalin Energy continues defensive driving training of all professional and non-professional drivers. In 2013, over 1,600 courses for drivers of various vehicle categories were conducted;
- Vehicle compliance control. All of the company's and contractors/subcontractors' vehicles used for the company's production activity are inspected for technical and other standards' compliance;
- Different areas of Sakhalin have three Road Safety Monitoring teams, which daily monitor the compliance of the company and contractor/subcontractor drivers and vehicles with the road safety rules and requirements, as per the Russian law and the company standards;

Sakhalin Energy employees and contractors pay a lot of attention to communication issues related to HSE, knowledge of risk management at the workplace, following Life Saving Rules, the system of work permits, and control of ignition sources. This is necessary for ensuring a sense of the so-called "chronic unease", associated with creating the necessary level of safety culture and preventing unsafe acts.

- Vehicles replacement. The company is gradually replacing its motor-vehicle fleet, with 6.12% of the total fleet replaced in 2013;
- Interaction with other organisations. The company initiated collaboration with Gazprom Dobysha Shelf (working on the Kirinskoye Field development) to jointly solve road safety issues at the south access road running to Lunskeye Bay. The company takes an active part in various forums on road safety in collaboration with TNK-BP, Shell and Salym Petroleum;
- Vehicle Access to Company Facilities Control Programme. Each Sakhalin Energy production facility has appointed persons responsible for road safety, who daily monitor the operation of all vehicles, including journey management and vehicle inspection for compliance with the Russian legislation and the company requirements; and
- In June 2013, the company received the Shell Road Safety Award for excellence in road safety

and for the implementation of programmes to improve road behaviour and active participation in the Sakhalin Road Safety Council;

In July 2013, the Global Compact International Yearbook 2013 was published. This annual publication of the United Nations is aimed at the promotion of the best practices of UN Global Compact (UNGC) participants, and represents an overview of UNGC international achievements and current trends in corporate social performance and sustainable development. Among the UNGC 43 top international projects in 2013, there were two Sakhalin Energy programmes: the Sakhalin Road Safety Council and the Biodiversity Action Plan (Sakhalin Energy joined the UN Global Compact in 2009 and has been repeatedly distinguished in Russia and worldwide for practicing and promoting its principles and values).

- Information campaigns. In 2013, information campaigns were held on the following topics: reverse movement and U-turns; seat belt wearing; road traffic safety; defensive driving in summer.

9.2.3 Industrial safety

Sakhalin Energy's approach to HSE management is based on strict compliance with Russian norms and rules, as well as conformance to international management system standards. The company focuses on the following three areas: technologies and standards, management systems, and safety culture.

Successful operation is ensured by using the latest technologies and systems. In 2013, we continued to simplify our standards and provide greater clarity to the essential elements required to ensure the safety of people and industrial processes.

We annually update HSE risk analyses for each facility and review risk controls for all important HSE activities. This allows continuous improvement with the use of HSE management, which includes various audit levels, incident investigation, health and safety training, analysis of industrial hazards, emergency response procedures, work safety systems, and many other instruments to manage safety at all facilities.

9.2.4 Labour safety culture

It is one of Sakhalin Energy's priorities to develop, both in the company and in contractor organisations, a corporate culture aimed at reducing the accident rate and promoting proactive behaviour in the area of health and safety.

The diagram shows the safety culture evolution ladder, where safety cultures develop towards a Generative level, at which the company employees have sufficient trust in the managers to share information and thus prevent accidents. Achieving this level of corporate culture is the primary target of all the behavioural programmes implemented by the company in the area of labour safety.

A shift in employees' behavioural motivation, where safe behaviour becomes the norm at production sites, at the office and at home, is a tremendous step toward achieving a Generative HSE culture.

The key factor of success in developing a safety culture is the commitment of the company's senior management to HSE culture. In 2013, 75 leaders — directors, contract holders and production facility managers — visited the

employees and contractors to demonstrate their commitment to labour safety. This serves as an important element of employee motivation and an overall improved safety culture.

It was decided in 2013 to develop a separate comprehensive HSE leadership programme for line managers. The purpose of the programme is to achieve a common understanding of the current HSE situation and create conditions for employees to seek continuous HSE improvement; to create deep understanding of the company's requirements for HSE leadership, including the importance of each individual element in practice; to define behaviours for managers and ensure achievement of results with a subsequent follow-up.

The programme is under development. Training of line managers, HSE specialists and HSE-critical contract holders is expected to start in 2014.

The company continues to maintain the effective observation and intervention programme. The programme's objective is to prevent serious incidents through a timely response to potential risks.

The purpose of effective observation and intervention is creating and improving safety culture, including that of contractors and subcontractors. This is why intervention is the right and duty of every employee, as stipulated in the Health, Safety, Environment, and Social Performance Policy and Commitment.

The programme is being successfully implemented at all company facilities. For example, in 2013, company and contractor employees registered 33,427 cases of intervention at all company facilities. Now observation and intervention cards can also be filled in when an employee identifies positive examples of safety compliance or cases of applying best practices at the workplace. In 2013, 26,720 cards were filled in with demonstrative safety culture examples.

Training based on programmes for developing a safe behaviour culture was continued at all the company production facilities. Over 1000 Sakhalin Energy employees and contractors completed training in 2013.

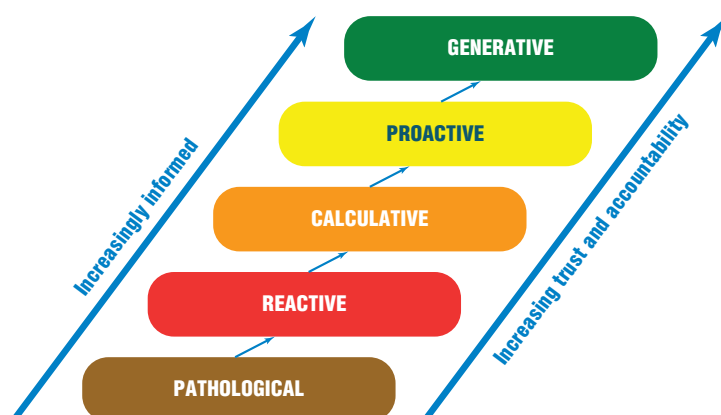
The year 2013 saw the development of the Dropped Objects Prevention Programme (DROPS), and in April 2013, the Dropped Objects Prevention Standard was issued. In order to manage and oversee the implementation of the Standard, a Committee was created that included representatives of various facilities. In 2013, two

Safety is Sakhalin Energy's main priority. It is the foundation of our daily work, whether at the office or at the production facilities. In April 2008, the CEO Award was established to promote safe behaviour and HSE achievements. The company and contractor employees receive monthly awards for contributing to the development of the safety culture through their excellent and safe work, timely response and prevention of hazardous situations.

In 2013, we received a total of 41 applications for this award. It was awarded to seven company employees, one company unit and seven company contractors.

company's production facilities, according to a plan approved by the company CEO to develop managers' commitment to production safety. While visiting the facilities, the managers focused on communicating with numerous company

Safety culture evolution ladder



meetings of the Committee were held on 12 July and on 27 September. In 2012, 30 employees were trained to become DROPS instructors. Training of about 50 employees, including those from contractor organisations, is planned for 2014. In 2013, the instructors held 11 Basic Trainings on Dropped Objects Prevention at their facilities, with 219 persons trained at production and non-production facilities. The training included inspections to identify potential hazards and implement preventive controls. In order to improve communication regarding the programme issues, the DROPS website was developed and works effectively, where employees can find information on incidents that include falling of objects (within the company, as well as within local and regional industry), the programme information materials, information about the company's activities in this area. For the same purpose, two information campaigns were organised in 2013. The first one is Using Tools at Heights. It involves testing bags for tools, used during works at heights, to be performed under the project conditions. After this testing, recommendations indicating the best models of such toolbags will be produced.

The second campaign includes the translation of the Safely Secured Objects booklet into Russian, which will be distributed throughout the company facilities. In addition to the above, a DROPS information module will be included in the interactive online course International Minimum Industry Safety Training.

At one of the production facilities, information about the DROPS programme is included in the Hazard ID Cards. Employees use these cards to record hazardous conditions, factors or technical failures which they cannot remove themselves on site. The cards are reviewed immediately. A quick response helps prevent major incidents.

The International Minimum Industry Safety Training (IMIST) is an interactive online course developed for operator companies and their contractors. It covers basic safety concepts for oil and gas industry, potential dangers and control measures for the whole staff, helps to reduce the number of injuries and incidents by providing the personnel with the necessary knowledge on safety and basic skills for identification and minimisation of risks. In 2013, Sakhalin Energy signed a contract with the international organisation Atlas to provide an interactive IMIST (International Minimum Industry Safety Training) course. More than 250 people were trained in 2013.

To gain the skills required to carry out their professional duties in the field of industrial safety and environmental protection, Sakhalin Energy employees have the opportunity to study and receive the NEBOSH (the National Examination Board of Occupational Safety and Health in the UK) international certificate. NEBOSH training is based on the best international HSE practices and respective national laws and government standards. NEBOSH is a leading international authority for training, testing, and certifying labour safety experts. In 2013, 66 persons were trained for NEBOSH certificates.

9.3 Occupational health

The company applies a structured approach to protecting the health of its personnel. To this end, it has developed and approved internal standards for occupational health and hygiene, including the following standards:

- Assessment of Health Risks;
- Medical Emergency Response;
- Medical Examinations;
- Requirements for contractors; and
- Prevention of alcohol and substance abuse, etc.

The company's Occupational Health and Hygiene Standard was updated in 2013 to include specifications for food hygiene and risk management for raw food material quality. The Workplace Alcohol and Drugs Abuse Control specification was

updated as well, according to the recent changes in the RF legislation. A specification for control of ionising radiation at production premises was developed. Specification for on-the-job health condition control was updated to include basic conditions for periodic clinical examination of the personnel. The company keeps paying particular attention to the impact of chronic fatigue. Additional measures to assess this risk were developed and are being implemented. Interactive information materials on managing risks related to chronic fatigue are available to the personnel.

All the company facilities have health risks assessment and harmful occupational factors monitoring systems implemented.

Cause-effect analysis between indicators recorded while measuring occupational environment factors (vibrations, noise, microclimate, ionising radiation etc.) and data on personnel's health is being performed. Based on the obtained data, corrective measures are developed at the production facilities; their implementation is controlled by Fountain, an automated incident registration system.

In 2013, the frequency of reported occupational diseases remains relatively low (rates of overall frequency of reported cases of occupational diseases and of lost time occupational diseases.).

Both the standard and performance indicators are constantly reviewed in order to develop and implement measures to improve the working conditions, prevent illness and promote a healthy lifestyle.

Data analysis and comparison with statistics of other oil and gas companies confirm the effectiveness of the occupational health and hygiene management system.

In 2013, ever more contractors used the company's approach to assess the cardio risks and body mass index, and to control the risk of acute coronary syndrome development. Jointly with the Logistics Department, software containing information on completion of medical examination and on first aid training was implemented.

Besides mandatory health programmes, in 2013 the company continued its policy of encouraging staff to maintain physical fitness and prevent diseases.

The following additional measures were carried out for this purpose. These include the following:

- Measures for the prevention of acute respiratory viral infections and flu, including informational campaigns and vaccination;
- A programme for promoting sports and healthy lifestyle;
- An initiative group of company employees has developed and implemented a schedule of activities aimed at improving general health and promoting fitness and sports. According to this schedule, employees participated in sports events and competitions, both within their divisions and at the corporate level, as well as in open local and regional championships in various sports;
- company employees and their families have access to the corporate sports and recreation centre in Yuzhno-Sakhalinsk, which has a gym, a swimming pool, a soccer field and tennis courts. In addition, there are various gyms and athletic fields available at the remote company facilities. Employees residing outside of Yuzhno-Sakhalinsk receive financial compensation to pay for sport centre memberships;
- Occupational stress management programme designed to help employees understand the causes of stress and find the way out of stressful situations. The programme has been updated and is now available to company employees as a "Stress Management" presentation;
- An alcoholism and drug addiction prevention programme that raises awareness of the dangers of alcohol and drugs;
- Alcohol Abuse Prevention online training developed in 2013;

Rates of frequency of reported occupational diseases

Overall frequency of reported cases of occupational diseases	2009	2010	2011	2012	2013	2013 Target
TROIF (company only)	2.4	5.9	0.6	0	0.56	5.0
TROIF (company & contractors)	0.6	3.8	0.6	0.8	0.5	5.0
TROIF with temporary disability (company only)	0.8	1.6	0	0	0.28	–
TROIF with temporary disability (company & contractors)	0.1	0.1	0.2	0.1	0.07	–

- An active campaign against smoking. Each year on 31 May, Sakhalin Energy celebrates the World No-Tobacco Day. In 2013, on this day, as in previous years, employees gathered to discuss the problem of tobacco addiction. Smokers were offered free medical consultations and supportive medical care treatment. There is also a strong advocacy campaign with posters and leaflets. In November 2013, the company held another anti-smoking event which involved meetings of ex-smokers with colleagues still addicted to tobacco, to discuss ways and opportunities to stop smoking;

- On 1 December 2013, the World AIDS Day, an annual internal information campaign was held.

The company continues to implement high standards of medical emergency response. In 2013, 339 company and contractor employees completed a first-aid training session.

The company has held an open tender for provision of medical works and services for a 3-year period. The contract was awarded to CJSC AEA International (Sakhalin) that provides high-level services to both company and contractor personnel at remote facilities and in Yuzhno-Sakhalinsk, as well as abroad.

9.4 Human rights

9.4.1 Human rights: principles and management system

One of Sakhalin Energy's key business principles is to run business in a socially responsible manner, including observance of the laws of the Russian Federation and the countries where Sakhalin Energy operates, as well as supporting the fundamental human rights within the legal business framework.

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

- Statement of General Business Principles;
- Human Rights Policy;
- Code of Conduct;
- Contracting and Procurement Policy;
- Whistle Blowing Procedure / Community Grievance Procedure; and
- Sustainable Development Policy.

Appropriate training and awareness sessions are held at the company offices and facilities to ensure compliance with the human rights principles and procedures, as set forth in the above documents. The human rights principles control system requires the company management to provide employees with a safe and confidential setting when raising any concerns and reporting non-compliance. On their part, all Sakhalin Energy employees are required to inform the company of any identified violations of the General Business Principles. The Whistle Blowing/Grievance Procedure is a key mechanism to implement that.

The Human Rights Policy defines Sakhalin Energy's approach and principles regarding the observance, support and promotion of human rights, as well as to review the risks associated with actual or potential impact on human rights caused by the company's activities. This includes the following areas:

- **Personnel relations;**
- **Interaction with local communities;**
- **Interaction with business partners; and**
- **Security.**

In each of these areas, Sakhalin Energy strives to:

- **Raising all relevant parties' awareness of human rights policy issues;**
- **Exercising due diligence approach to all Sakhalin Energy activities, which may lead to a violation and/or limitation of human rights; and**
- **Keeping close control of compliance with requirements, and provide respective reporting.**

9.4.2 Community grievance procedure

The Grievance Procedure (hereinafter 'The Procedure') provides for effective and timely resolution of grievances, reduction or avoidance of a repetition of similar grievances, as well as ensuring careful documentation of grievances and remedial actions to enhance accountability and reduce liability, and supports the long-term goal of building strong and effective relationships with all those impacted by the Sakhalin Energy activities.

The key principles of the Sakhalin Energy Grievance Procedure are:

- **Legitimacy and incorporation into management systems** (grievance procedure consists of elements and mechanisms that ensure trust

by stakeholders and affected groups targeted by this procedure).

Assessment of grievances and their resolution process are controlled by an independent unit of the company. The status and progress of each case is controlled by the company's top management. The grievance resolution process is subjected to both internal and external audit. The process is documented and tracked via an automated incident reporting system.

The company's Public Grievance Procedure remains an illustrative example of good practice that serves as a benchmark in the oil and gas industry.

Extract from the report of ENVIRON UK, an independent consultant for Lenders, following the 2013 audit

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

There are different channels for lodging grievances, thus making the company maximally accessible in communicating with complainants. Among those channels are the company's Information Centres set up in 23 Sakhalin communities, Community Liaison Organisation, dedicated hotline, email, etc.

In 2012, the European Commission initiated a project for the development of guidelines for oil and gas industry, which would determine how to conduct the activities according to the Guiding Principles on Business and Human Rights. Sakhalin Energy joined the advisory panel and took an active part in consultations and preparation of recommendations for this document. In 2013, the project was successfully completed. The Oil and Gas Sector Guide on Implementing the UN Guiding Principles on Business and Human Rights was published in April 2013.

Information about the Procedure is always available at the company website and at its informational centres. In addition, every year detailed information on the Grievance Procedure is published in local newspapers. Posters and brochures concerning the Procedure can be seen in all information centres of the company and at all the construction facilities. Training sessions are provided for contractor/subcontractor organizations, and informative talks on how to use the Procedure and how to file a complaint are held with particular vulnerable groups.

- **Transparency and openness.**

The company regularly informs stakeholders about the status and progress of grievance handling. Besides, information on grievance review is included in the Sustainable Development Report and Public Consultation and Disclosure Report.

- **Engaging stakeholders and ensuring dialogue during grievance handling.**

Sakhalin Energy conducts regular consultations with stakeholders on the effectiveness of the grievance handling process. Such consultations are part of community engagement and meetings with stakeholder groups, as well as of internal social performance monitoring.

- **Application of established time limits and provision of concerted actions for the resolution of complaints** (predictability is ensured by establishing a clear and straightforward procedure, with set time limits for each stage).

The Procedure sets clear time limits for grievance handling and communication with the complainants throughout the process of its resolution.

- **Confidentiality.**

All grievance-related issues are addressed confidentially. Information of complainants is not to be disclosed without their written consent.

- **Applicability for company and contractors.**

The company's Grievance Procedure is mandatory for all company divisions, as well as for contractors and subcontractors.

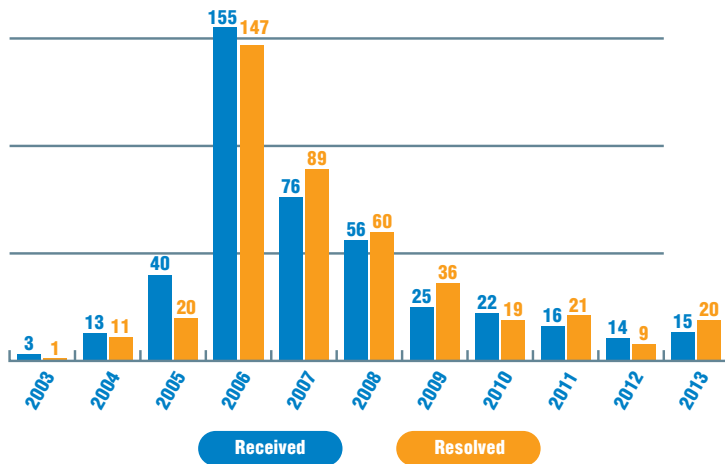
- **Using the experience gained for preventive and proactive measures and continuous improvement.**

All grievances filed with Sakhalin Energy are tracked and trends are analysed. Based on such analysis, recommendations are formulated to the company's relative functions and contractors/subcontractors, with respect to impact mitigation and preventive measures.

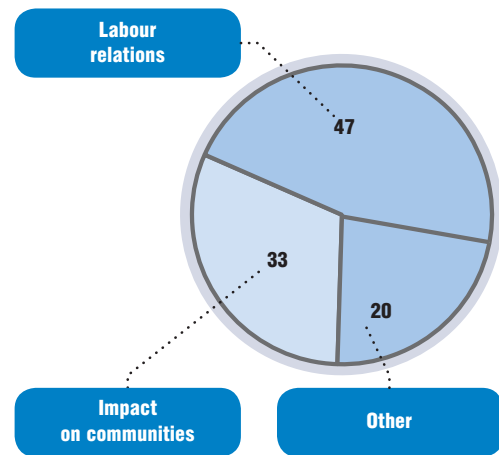
9.4.3 Grievance handling in 2013

In 2013, the company received 15 grievances, 33% of them concerned project's impact on local community (for instance, road condition, impact on local infrastructure), 47% concerned labour disputes (contractor organisations), 20% were related to other issues (implementation of the

Grievance handling activities in 2003-2013



Categories of grievances in 2013, %



Sakhalin Indigenous Minorities Development Plan, issues with employee behaviour.) More details are presented in the chart.

As of the end of 2013, 13 grievances out of 15 received were resolved. In addition, the company resolved seven grievances that were received in 2012. All 20 grievances were resolved within the time provided for by the Grievance Procedure (less than 45 working days).

Nine grievances were resolved, and their initiators signed statements of satisfaction. The company made all reasonable effort to resolve the other 11 grievances, but the initiators either did not agree to express their opinions concerning the company's efforts (10 cases), or did not accept explanations provided by the company (one case). These grievances were closed by deci-

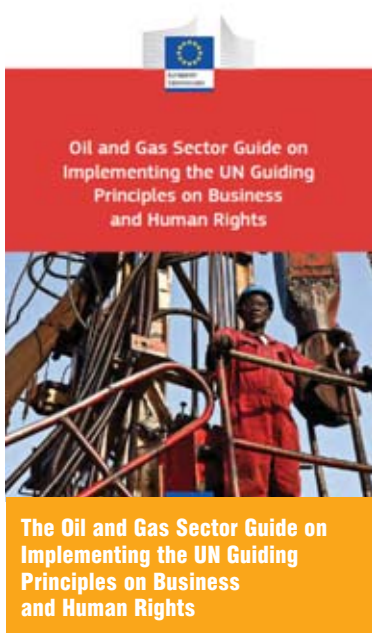
sion of the Business Integrity Committee, in accordance with the Grievance Procedure.

As of the end of 2013, two grievances received in December remain unresolved.

Sakhalin Energy initiated the development of the guidelines which would provide companies with recommendations on how to observe and support the rights of indigenous peoples while conducting business.

The document was jointly developed by representatives of UN Global Compact, the Secretariat of the Permanent Forum on Indigenous Issues, the Office of the UN High Commissioner for Human Rights, specialists of White & Case consulting company, companies participating in the LEAD Initiatives and, naturally, representatives of organizations of indigenous peoples.

On December 2, 2013, during the second Forum on Business and Human Rights in Geneva, a representative of Sakhalin Energy presented the final version of the Guide.



9.5 Social investment and contribution to sustainable development of the host region

9.5.1 Social investment and sustainable development: Sakhalin Energy's principles and approaches

Since the company was founded in 1994, it has paid a lot of attention to implementation of socially significant programmes in Sakhalin. Sizable and consistent investments in social

based on the shared contribution model and is beneficial for all stakeholders.

In 2013, the company invested over RUB 36.5 million (over US\$ 1 million) in community social programmes in Sakhalin Oblast.

The Social Investment Strategy is part of the Social Performance Management Standard. In accordance with the Social Investment Strategy and the company's internal audit requirements, Sakhalin Energy conducts continuous internal monitoring and a biennial independent external evaluation of social investment projects.

The social investment management system used by the company is similar to its management of other business activities. It involves clear prioritisation and detailed descriptions of the programme implementation plans, decision-making processes and social investment management procedures.






Sakhalin Energy's social investment programmes are aligned with the company's long-term goals in its host region, Sakhalin. They are also agreed with local authorities and are integrated into the company's general business strategy.

Sakhalin Energy's social investment programmes support 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 connect to the company's activity, however, contribute to economic, environmental and social development of Sakhalin; and
- Contribute to the sustainable economic, environmental and social development of Sakhalin and demonstrate to stakeholders the company's commitment to sustainable development.

sphere, as well as a long-term policy focused on addressing social issues, are the core of Sakhalin Energy's commitment to sustainable development principles. Sakhalin Energy's policy in this area is

Focus on strategic long-term partnership projects

 <p>SAKHALIN INDIGENOUS MINORITIES DEVELOPMENT PLAN</p> <p>Partners: Company, Sakhalin Oblast Government and Regional Council of Authorised Representatives of Sakhalin Indigenous Minorities</p> <p>FPIC (Free, Prior and Informed Consent). SIMDP case has been included into the Stakeholder Engagement Handbook, issued by the International Finance Corporation. The Plan was recommended at the parliamentary hearings in the Russian Council of Federation as an example for Russian regions</p>	 <p>WHAT TO DO IN EMERGENCY SITUATIONS</p> <p>Partners: Company, Sakhalin EMERCOM, Sakhalin Ministry of Education</p> <p>A complex educational programme, targeted on schoolchildren and aimed at teaching system development in the sphere of life safety</p>	 <p>KORSAKOV SUSTAINABLE DEVELOPMENT PARTNERSHIP COUNCIL</p> <p>Partners: Company, Korsakov Administration, public</p> <p>Initiated by the Company in one of the most critical and malcontent communities on the island. Now the partnership of the public, business and authorities contributes a lot to local sustainable development and is moving to a new level of interaction with UNDP expertise</p>	 <p>SAKHALIN SALMON</p> <p>Partners: Company, Sakhalin NGO Boomerang Club, Institute for Education Development of Sakhalin Oblast, Sakhalin Puppet Theater</p> <p>Salmon is one of the symbols of Sakhalin and has a great importance for life and culture of Sakhalinians. The initiative aims to raise the educational level of the population through the development and enlargement of educational programs aimed at the preservation of salmon and their ecosystems.</p>	 <p>ROAD SAFETY PARTNERSHIP</p> <p>Partners: Company, Sakhalin Oblast Government, State Traffic Safety Inspection, public</p> <p>The first partnership of such kind established on the territory of the Russian Federation with support of Global Road Safety Partnership. Later on this successful example was replicated in other regions</p>
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The main focus of the company's social investment activities is the implementation of flagship long-term partnership projects with the participation of external stakeholders. Priority is given to programmes with clearly defined objectives, targets and deliverables.

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

- Education,
- Safety,
- Environmental protection and biodiversity,
- Health, and
- Arts and culture.

9.5.2 The Energy Social Initiatives Fund

In 2013, the Small Grants—Big Deeds programme, the most diverse and geographically spread out social programme of Sakhalin Energy, celebrated its 10th anniversary. During the anniversary celebration event, held on 30 January, awards were given to the most active participants of the programme who had implemented the largest number of projects over the programme's history. Also at that time, the company announced that the competitive programme would be converted into the Energy Social Initiatives Fund.

As part of the Fund activities, the competition for funding local socially significant social, educational, cultural, environmental, and sports projects continued in 2013.

As 2013 has been named the Year of the Environment in Russia, the priority in considering applications was given to environmental projects.

Two rounds of the Fund competition were organised in 2013. The competition selects the most interesting ideas for funding. The grant application selection procedures are simple and transparent. Applications are evaluated not only by company employees, but also by government representatives, as well as NGO members and external experts. These evaluators make up the Experts Committee, which makes decisions on an objective basis. The distinguishing features of the grant contest programme for supporting socially significant projects are the focus on socially valuable results and/or promotion of innovative social technologies.

In 2013, a total of 36 projects from different areas of the region were supported. They were selected from 107 applications submitted to the grant contest. Since 2003, a total of 386 projects in 62 towns and villages have been funded at a total cost of about RUB 29 million.

Below are some of the projects funded in 2013:

- Rites and Holidays of the World: Holland, the Association of Sakhalin Museums. 2013 was designated as the Year of the Netherlands in Russia. In connection with this, a number of events dedicated to the culture and traditions of the Kingdom of the Netherlands was orga-

All social programmes are successful and meet the established goals and objectives. The mechanisms and technologies used to implement the programmes are effective for achieving the goals. It should be emphasised that the company views stakeholder engagement and effective partnership as extremely important at all stages of implementation of long-term social programmes. All the programmes include a mechanism for regular monitoring and assessing the effectiveness.

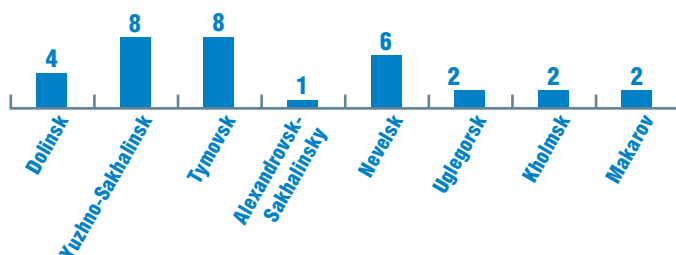
From the report on independent evaluation of company's social programmes, September 2013

nised in the Sakhalin Regional Museum. These included: the Year of the Netherlands in Russia exhibition, a children's craft contest, a contest of creative bicycles dedicated to Cyclist Day, and a Flower Parade. These celebrations included knowledge contests, educational games, lectures and presentations on the history of festivals and national ceremonies.

Helping flood victims in the Russian Far East Pursuant to the decision of the Committee of Executive Directors, Sakhalin Energy helped flood victims in the Russian Far East. The company donated RUB 10 million to the Russian Red Cross. The company also held an internal fundraising campaign for those who suffered during the flood. The RUB 950,000 raised by the employees were matched by the company and also donated to the Red Cross.

- Art to Flame up Hearts (integrated project presenting different genres), Kholmsk Central House of Culture. The touring concert programme incorporated all kinds of art expressions, from classical singing to youth contemporary art. Art events attracted people of all ages, and there was something to enjoy for everyone: Russian folklore, sports competitions, arts and crafts workshops, and much more. All artistic groups of Kholmsk participated in the large-scale events of visiting performers that united the town and the villages of Kostromskoye, Chekhov, and Chaplanovo. At the final concert in Kholmsk Cultural Centre, groups of dancers and singers as well as theatrical groups showed their talents.

Number of projects financed in the framework The Energy Social Initiatives Fund in 2013



- River of our Childhood, Sakhalin Oblast Institute for the Development of Education. During a three-day workshop, 25 biology and ecology teachers from different parts of Sakhalin Oblast learned methods of studying the flora and fauna of aquatic ecosystems and coastal areas, as well as how to use educational games in the teaching process.
- Stop and Look Around, People, Makarov Centre of Arts, Culture, and Leisure. Thanks to this project, in June a new environmental show, Neznaika and the Nature Festival, was added to the repertoire of the Community Theatre for Young Spectators. Seventeen young actors (7–16 years old) took part in this new show. All the sets and costumes were designed and made by specialists of the community theatre.

9.5.3 What to Do in Emergency Situations Programme

The What to Do in Emergency Situations Programme has been implemented in partnership with the Sakhalin Department of the Ministry of

Emergency Situations and the Sakhalin Ministry of Education since 2005. The programme is being developed in several areas, among which one of the most important is the creation of animated educational videos on safe behaviour in different situations. In 2013, two new videos were released—one on water safety issues and one entitled Beware of the Flu. The video on water safety issues was presented in July at the Forest Lake children's summer camp located on the Tunaycha lakeshore.

In an episode of the Safety is Important cartoon entitled Beware of the Flu, the protagonist, a boy named Senya, tells what to do if one gets sick. The video was first shown at the Yuzhno-Sakhalinsk Cadet School in November.

In October 2013, on the eve of the International Day for Disaster Reduction, the fourth annual Safety Day holiday for children took place on Sakhalin Island as part of the Programme. The event was attended by 15 teams of 11 and 12-year-olds from 15 Sakhalin districts. During the two days, the schoolchildren were expected to show both theoretical knowledge and practical skills of safe behaviour in different situations: on water and while camping, at home and in case of natural disasters, or while providing first aid. The children were also tested in their knowledge of road traffic and fire safety rules. They were evaluated by different experts: rescuers, fire-fighters, medics, inspectors of the State Small Vessels Inspection and the State Traffic Safety Inspectorate, and experts of the Yuzhno-Sakhalinsk Youth Tourism Centre. The Korsakov District team won the competition.

In 2013, the company continued to implement a project titled Warning from Senya: awareness billboards in tsunami-hazardous communities and avalanche-hazardous areas of the Sakhalin Oblast. New information boards were installed in 2013 in Dolinsk, Makarov and Tomari districts.

In addition, the Winter with Senya comic book dealing with safety issues in winter was published based on the cartoons that are well-known to children. It tells, in simple terms, how to behave on ice, during New Year celebrations, and on the street when roads are covered with ice. The presentation of the book is planned for January 2014.

In October, the Yuzhno-Sakhalinsk Cadet School opened a new Life Safety resource classroom. These specialised classrooms host different events: workshops for employees of educational institutions, open days for local residents, and classes and after-school activities for schoolchildren. In



Winners of literature contest Safety is Priority

total, 12 such classrooms were created as part of the programme. In 2013, four schools upgraded their Life Safety resource classrooms. New interactive and multimedia equipment as well as modern software were purchased for these classrooms.

On 8 November, the winners of the Safety is Important literature and art contest were awarded at the Sakhalin Regional Art Museum. More than 500 projects from 14 districts of Sakhalin Island took part in the competition. The age of the participants varied from four (the youngest participant) to 16. Twelve winners in two age-based categories received certificates and prizes.

On Universal Children's Day, 20 November, the What to Do in Emergency Situations Programme was presented at a roundtable entitled Corporate Respect and Support for Human Rights: Observation, Dissemination, and Promotion of Children's Rights, organised in the framework of the UN Global Compact Network Russia. The roundtable was devoted to practices of intersectional cooperation and examples of socially significant business initiatives aimed at providing an enabling environment for the life and development of children.

9.5.4 Hurry up for Good Deeds

The company actively integrates corporate volunteering activities into its social policy by involving employees in its charitable programmes and providing support to employee-initiated volunteer initiatives.

The Hurry Up for Good Deeds programme was launched in 2003. Originally, the programme's objective was to help company employees implement their own charitable initiatives through grant funding for projects that were selected on a competitive basis.

Today, the programme has three main focus areas, which are:

- Initiating and implementing charitable initiatives;
- Participating in Volunteer Days, where volunteers work free of charge for the benefit of a public social institution located on Sakhalin Island; and
- Corporate fundraising campaigns in which employees can participate either by making a financial contribution or volunteering to help organise and hold the campaign.

In 2013, the Sakhalin Oblast Children's Hospital received aid as part of corporate fundraising campaigns. company employees raised over RUB 1.56 million with two fundraising campaigns held



New sports equipment for gymnastics and acrobatics in Ozerskoye children sport school, Korsakov District

prior to and during Sakhalin Energy's Birthday and the Oil and Gas Workers' Day celebrations.

The funds were used to purchase new endoscopic equipment for young patients and for the playroom at the neurology department.

Two eco-events took place in 2013. The summer event took place at the Yuzhno-Sakhalinsk Botanical Garden, and the autumn one at the Yuzhno-Sakhalinsk Nursing Home. The company's employees and their families volunteered to take part in the events.

The annual Christmas Miracles project traditionally focused on children with disabilities and lonesome elderly people. The company employees organised a festive tea party for elderly and disabled residents of the Yuzhno-Sakhalinsk Nursing Home and presented them with Christmas gifts. Santa and Snow Maiden teams consisting of company employees delivered presents to children with disabilities. Just before the holiday season, employees of the Centre of Community Social Support presented 150 lonely elderly people with Christmas gifts purchased with funds donated by company employees.

On 6 June, 200 children from Sakhalin juvenile social rehabilitation centres and orphanages were able to see a production of Thumbelina by the Obraztsov State Academic Puppet Theatre that came to Yuzhno-Sakhalinsk from Moscow as part of its tour. The arrival of the children was made possible thanks to the Theatre for the Children project.

Several charity events were initiated by employees throughout the year. Thanks to the charity project organised by the employees of Prigorodnoye Asset, the libraries of Novikovo, Ozerskoye, Razdolnoye, Okhotskoye, and Lesnoye villages received board games. Three more charity initiatives helped volunteers of the Hospital Clowns project, the Children's and Youth Ski School, and

the Preodoleniye Rehabilitation Centre for Children with Disabilities.

9.5.5 Korsakov Sustainable Development Partnership Council

In line with one of the company's main sustainable development concepts aimed at ensuring that the needs of the present generation are met without compromising the ability of future generations to meet their own needs, Sakhalin Energy launched its Sustainable Development and Social Investment Programme in Korsakov Municipal District (Korsakov SD programme). As part of this programme, the company provides large-scale funding to support various social projects, including the Korsakov Initiatives Grant Programme.

The programme is managed by the Korsakov Partnership Sustainable Development Council. It is comprised of nine members from Sakhalin Energy as well as Korsakov District authorities and community representatives, three members each.

In addition to being a stakeholder engagement tool and expert council to review social projects, the Korsakov Council also plays a role in monitoring social development in the district.

On 7 February, 2013 the Administration of the Korsakov District and Sakhalin Energy signed a Partnership Agreement on Implementation of the Social Investment Programme in Korsakov District. As the programme was developed with input from public consultations, the following main project funding areas were identified:

- Safety;
- Environmental protection and biodiversity;
- Education, arts and culture; and
- Health.

In 2013, the Council approved eight projects, including three projects under the Korsakov Initiatives Grant Programme. The Korsakov Initiatives winners were selected by Korsakov residents at the Project Fair, where projects were presented to the public.

Large projects implemented in 2013 include:

- Ensuring people's safety and health on Vaviskoye Lake (a rescue station was opened in July 2013);
- The Healthy Water Project (in 2013 drinking fountains were installed in all educational institutions in the Korsakov residential district); and
- Safe Training is a Guarantee of the Health of Russia's Children (new equipment for the Ozeriskoye sports gymnastics and acrobatics department of the Korsakov Children's and Youth Sports School).

Public consultations took place in all settlements in Korsakov District. The residents were informed about the results of the Partnership Council's activities, achievements, completed projects, and future plans.

9.5.6 Sakhalin Memory Ribbon

On 22 April, in two towns on the island, Okha in the north and Nevelsk in the south, the Sakhalin Memory Ribbon awareness campaign was launched. It covered 15 districts of Sakhalin Oblast. Each district centre organised a festive programme involving performance teams as well as a mobile photo exhibition on the WWII veterans of Sakhalin. District Veterans Societies received gifts from the company. The campaign ended on 30 April on the square next to Sakhalin Oblast Government Building. Following the previous years' tradition, the company donated RUB 300,000 to the Sakhalin Veterans' Council. Volunteers distributed St. George ribbons during the festive events.

The company has been a partner of the St. George Ribbon Campaign on Sakhalin since 2008. Over the five years, almost 200,000 ribbons have been distributed as part of the programme with the company's assistance. In 2013, 68,000 ribbons were delivered to the island through its community information centres set up at local libraries in 23 Sakhalin communities.

9.5.7 Sakhalin Road Safety Council

In 2011, the Sakhalin Road Safety Partnership established in 2005, was transformed into the Sakhalin Road Safety Council. This initiative was



Outdoor photo exhibition dedicated to the veterans of Sakhalin

implemented through a partnership comprised of the Government of Sakhalin Oblast, Sakhalin Regional Department of the RF Ministry of Internal Affairs, and Sakhalin Energy.

The Council develops and implements special projects that help reduce the number of road traffic accidents, traffic accident injury and fatality rates.

The Council's priorities in 2013 were:

- Road safety educational/informational projects;
- Contributing to the development of the road accident emergency response system; and
- Improving the road infrastructure.

In 2013, the results of the Council's activities included:

- Regional competitions in rescuing victims from damaged vehicles took place on 19–20 August 2013 in Yuzhno-Sakhalinsk. The competition was organised by the Sakhalin search and rescue team named after V.A. Polyakov. The goal of the competition was to enhance the professional training level of rescuers. The situation was modelled as close as possible to an actual road traffic accident in order to practice responding to the accident by rescuing victims from damaged vehicles and providing first aid. The personnel of the federal fire-fighting service and emergency response teams of the Sakhalin Department of the Ministry of Emergency Situations from six southern districts of Sakhalin participated in the competition;
- The Smart Crosswalk project was launched in November 2013. As part of it, 15 pedestrian crossings in Korsakov and Yuzhno-Sakhalinsk will be equipped with autonomous impulse indicators for traffic signs, and three pedestrian crossings will be equipped with special warning lights. The project will make pedestrians at pedestrian crossings more visible for drivers and will increase the visibility of traffic signs indicating pedestrian crossings for drivers;
- The two-month Be Bright, Be Seen! awareness campaign encouraged teenagers and young people to wear clothes with reflective elements to ensure safety on roads and pedestrian crossings. The campaign included TV commercials and banners, radio contests, newspaper and internet publications, workshops, and street events. A break dance band called P.S. Crew became the campaign's spokesmodel, later joined by active youth from the journalist associations of the Yuzhno-Sakhalinsk Children's and Youth Creativity Centre. Attention Crew, a break

dance band from the Regional Centre for Extra-curricular Education, also actively participated in the campaign. One of the key elements of the campaign was the Bright Fashion photo/video contest, in which 40 children and teenagers from nine districts of Sakhalin participated;

One of the sections of the 2013 UN Global Compact International Yearbook of best practices collection is devoted to the activities of the Sakhalin Road Safety Council.

- Six road safety classes were created in four districts (Yuzhno-Sakhalinsk, Kholmsk, Korsakov, and Okha). The class rooms were equipped with modern interactive equipment and software that allow hosting classes and activities for all age groups, from preschool children to adults.

The Sakhalin Road Safety Council won an award at the Leaders of Corporate Philanthropy 2013 Annual All-Russia Contest, a joint project of the Donors Forum, PwC, and the business daily Vedomosti, in the nomination of the Best Programme (Project) of Corporate Philanthropy in a Corporate Development Strategy.

9.5.8 Sakhalin Salmon

The Save the Salmon Together project is the continuation and development of activities aimed at protecting the salmon and its habitats, which started as part of the Sakhalin Salmon Initiative. With the company's support, this project is being implemented by the Boomerang Club, a Sakhalin Oblast non-governmental organisation, in several areas:



The presentation of Salmon Friend interactive website at school № 6, Yuzhno-Sakhalinsk

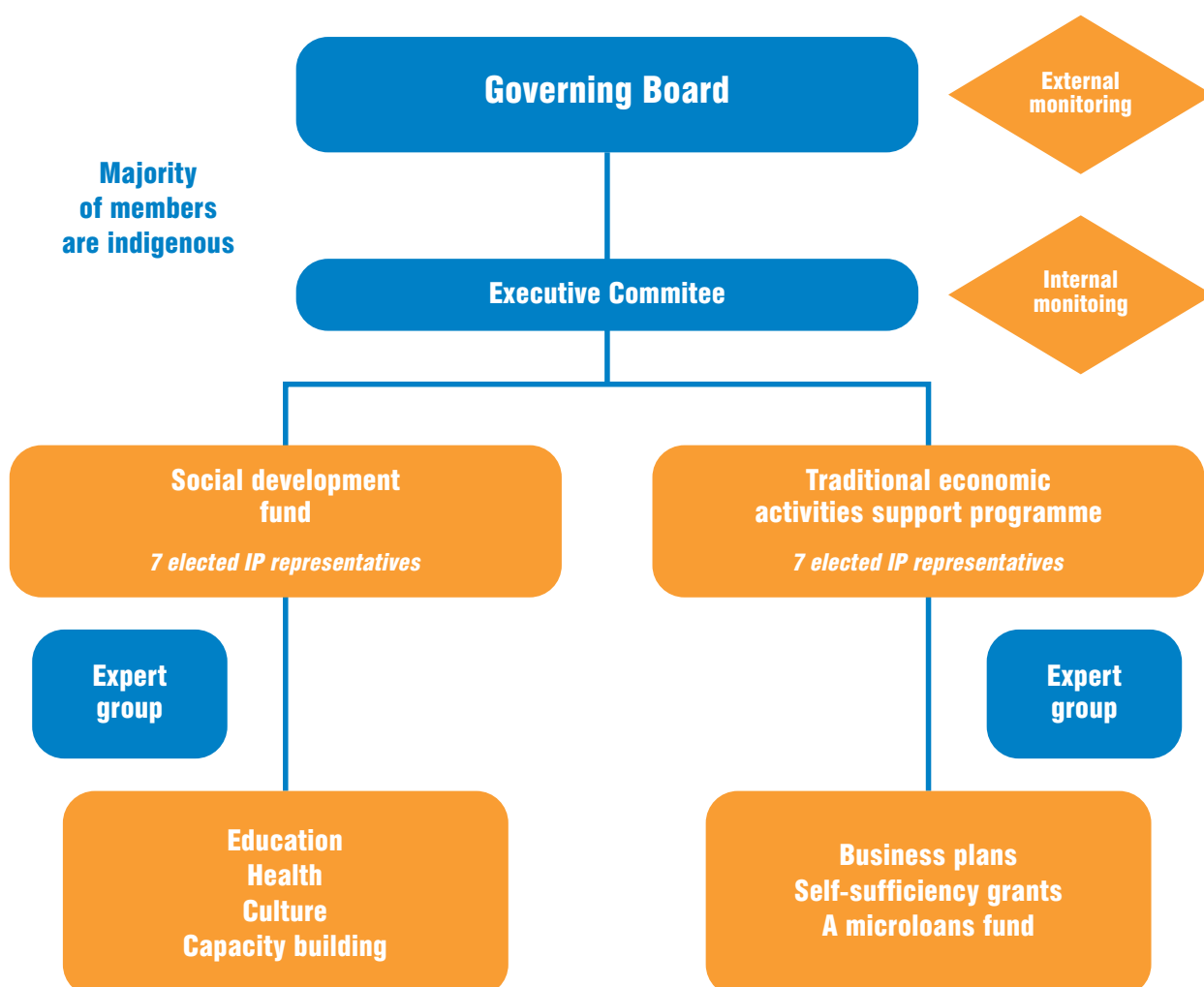
- In May, the How Ivan Saved the Wonder Fish puppet show premiered at the Sakhalin Puppet Theatre. This new show aimed at raising environmental awareness was directed by Antonina Dobrolyubova, an honoured employee of culture in Sakhalin Oblast, and was based on a fairy tale written by Elena Andrianova. The fairytale became part of the theatre's repertoire, having been performed already 12 times over a period of six months. More than 1,100 local children watched the show.
- Field eco-training sessions attended by more than 200 children and young people took place in Tymovsk, Smirnykh, Korsakov, and Uglegorsk districts. The programmes were developed by teachers and volunteers of the Boomerang Club. Many families came to watch various environmental awareness films shown in the evening as part of the field workshops.
- In December, a new educational and informational website salmon-friend.ru was launched. One of the most interesting parts of the website is an interactive game entitled The Salmon's Big Trip. After playing through all of its eight levels, one can learn a lot about the salmon's habitat, protection, and interesting facts about the salmon's life. In addition, the site has a variety of educational and training materials, which can be useful for both children and teachers.

9.5.9 Sakhalin Indigenous Minorities Development Plan (SIMDP)

9.5.9.1 SIMDP goals and structure

The Sakhalin Indigenous Minorities Development Plan (hereinafter SIMDP or Plan) is a partnership programme implemented jointly by Sakhalin Energy, the Regional Council of the Authorised Representatives of Indigenous

SIMDP governance structure





Scholarship awards ceremony to Sakhalin indigenous students, Yuzhno-Sakhalinsk, September 2013

Minorities of Sakhalin Oblast and the Sakhalin Oblast Government since 2006.

The key objectives of SIMDP are:

- Improving the lives and livelihoods of indigenous minorities in Sakhalin Oblast through social development programmes in a culturally appropriate and sustainable manner;
- Enhancing the capacity of indigenous communities and individuals to actively participate in the management of the SIMDP and, by extension, similar socio-cultural and economic programmes;
- Assisting Sakhalin indigenous minorities to prepare for the eventual establishment of an independent Indigenous Minorities development fund; and
- Preventing or minimising the potential adverse impacts of the Sakhalin-2 project on the indigenous peoples.

SIMDP is implemented under the Governing Board's supervision. The Board is supplemented by the Executive Committee, Committee of the Traditional Economic Activities Support Programme

(TEASP) and Council of the Social Development Fund (SDF). Distribution of funds allocated for implementation of projects is carried out by representatives of indigenous minorities elected from each district to work in the SDF Council and TEASP Committee, which has become an

The Plan is based on international standards concerning indigenous peoples. The implementation procedures and management structure of the second Plan (2011–2015) reflect the requirements of new international standards. The second Plan was developed in accordance with the 'free, prior and informed consent' (FPIC) principle contained in the United Nations Declaration on the Rights of Indigenous Peoples (2007).

important distinguishing feature of the second Plan. The same funds were allocated for the TEASP and the SDF Programme for 2013. The budget of the Plan is divided in half between both. RUB 4,786,080 were allocated for each programme.

Every year, the company organises workshops for the members of the SIMDP bodies. In autumn, the Basics of Tender Management and Evaluation of Competitive Bids workshop was organised in Yuzhno-Sakhalinsk.

The active participation of Sakhalin indigenous minorities is a critical component of the approach employed by the SIMDP three partners to the development of Sakhalin indigenous people. To this end, the entire decision-making process, programme management and monitoring functions under SIMDP are performed exclusively by representatives of Sakhalin's indigenous communities.

In summer 2013, halfway through the SIMDP 2 term, there was a rotation of the members of the SDF Council, the TEASP Committee, and the two representatives of the indigenous minorities on the Governing Board. In seven districts of traditional areas of residence of the SIM, local meetings chose new representatives to work on the Plan committees. The two representatives of the indi-

In the town of Poronaysk, a non-state educational institution of secondary professional education started offering courses for training qualified personnel of coastal fisheries and fishing fleet sailors. The training was made possible thanks to the SIMDP, the long-term target programme for the sustainable development of the Sakhalin indigenous The training was made possible thanks to the SIMDP, the long-term target programme for the sustainable development of the Sakhalin indigenous The training was made possible thanks to the SIMDP, the long-term target programme for the sustainable development of the Sakhalin indigenous minorities, the Poronaysk District Administration, and the initiatives and efforts of S.P. Tsikrik, the head of the training class. Equipment for the school was purchased under the SIMDP. The Fishing School also received funds under the Microloan Programme. The loaned funds were used to purchase computer equipment for the school's branch in Yuzhno-Sakhalinsk. In 2013, 11 representatives of Sakhalin indigenous minorities were trained at the Fishing School.

genous minorities, as recommended by the Regional Council of the Authorised Representatives of the Indigenous Minorities of the Sakhalin Oblast, started their work on the Governing Board.

Independent monitoring of SIMDP is conducted on an annual basis and provides the Plan partners and indigenous minorities with an independent review of SIMDP and the outcomes of its programmes. It also helps to identify

problems in a timely manner so that corrective actions may be taken. Monitoring is conducted by Gregory Guldin, an expert on social issues with extensive international experience in indigenous minorities project development and implementation. Midway through the SIMDP 2, the Midterm Review was carried out in 2013, based on two different methodological approaches: public opinion poll and qualitative interviews and observations conducted by the Midterm Review team, which was represented by the independent expert Gregory Guldin, the independent representative of the indigenous peoples Tatyana Matveeva, and the sociologist Alexander Konkov. The report on the independent review of the programme is available at the Plan's website: www.simdp.ru

The internal monitoring of the SIMDP is carried out by the internal monitoring team, which includes representatives from each of the three partners to the Plan. In November, the internal monitoring of the implementation of 51 projects and individual consultations were carried out in all traditional areas of residence and economic activities of the SIM.

9.5.9.2 SIMDP TEAS Programme

The Traditional Economic Activities Support Programme has been developed to solve issues related to employment and business development of indigenous minorities. Representatives of Sakhalin indigenous minorities emphasized the importance of the traditional use of natural resources (reindeer herding, fishing, gathering, artistic crafts) for preservation of their cultural heritage. In 2013, the company allocated RUB 4,786,080 for the programme projects.

Resources of the programme are distributed in the following areas:

- Business planning,
- Self-sufficiency grants, and
- Microloans.

A total of 81 applications were received in 2013 in the first two areas, of which the Committee selected 21 for funding. These projects were designed to support clan and family enterprises, obschinas (communities), other indigenous minorities associations, and to support representatives of indigenous minorities. They were implemented in six Sakhalin districts which are home to indigenous communities. Boat engines, fishing tackles and nets, Buran snowmobiles, a motor crane, consumables, and certain types of electrical appli-

ances used for traditional economic activities were purchased under the programme. Detailed information about the projects implemented under this programme is available at www.simdp.ru.

The Programme of microloans has been set up with the aim of developing traditional economic activities of Sakhalin indigenous minorities and improving access of communities to financing sources. It is implemented by the Batani International Development Fund for Indigenous Peoples of the North, Siberia and the Far East of the Russian Federation. Five loan applications with requested loan amounts ranging from RUB 250,000 to 400,000 were received under the programme in 2013. The Fund signed a contract and transferred funds to three SIM organisations. In 2013, the first case of non-payment occurred since the launch of the programme: the leader of a tribal community received a loan in the amount of RUB 500,000 in June 2012 and failed to repay both the principal amount and the interest on the loan.

9.5.9.3 SIMDP Social Development Fund

These funds are distributed in a number of areas:

- Education, health care, indigenous peoples' capacity building; and
- The Continuity competitive programme.

In 2013, the Social Development Fund Council supported 26 projects with a total amount of RUB 4,786,080. The partner organisation for implementation of many projects of the Fund was the Kykh-Kykh ("Swan") Centre for SIM Traditional Culture Preservation and Development Okha local non-governmental organisation. The projects were developed and selected by representatives of the indigenous peoples (programmes in the area of education, health care, preservation, and studying languages of the indigenous peoples). As part of the educational component, 54 vocational school and college/university students received financial support. Detailed information about the projects implemented under this programme is available at www.simdp.ru.



Chir An (Pitul) Nature Festival, Nogliki, June 2013

10

Company plans for 2014 and the development strategy up to 2018

2013 | Sustainable Development Report

The pathway to the goal which has been determined and codified in our mission statement is identified with ethically, socially and environmentally responsible business. Growth and development are the main drivers of our way forward.

The priorities for 2014 remain the same: safety, reliability, cargos, costs and growth all underpinned by operational excellence.

As ever, safety is the main priority for the company. The principal goals of the company related to this priority are reducing the reported incident frequency and improving competence and skills.

The main production projects for 2014 involve:

- Active work at three offshore platforms: optimising drilling, maintaining consistently high hydrocarbon and LNG production; and
- Additional gas compression at the OPF, the gas delivery point in the Tymovsk District.

Besides this, Makarovsky and Dolinsky gas delivery points will be designed and a detailed road map for developing project documentation for the construction of LNG Train 3 will be prepared in 2014.

The main long-term plans are related to:

- Optimising production of oil and of LNG and gas supplied to the internal market, as well as improving the facilities' operation;
- Increasing production capacity; and
- Expanding new project development opportunities.

The priorities in Human Resources management in 2014 and subsequent years include:

- Attract, employ and retain the best talent that is available in the global energy market, according to the business needs;
- Create and implement programmes for training and development of Russian specialists capable to fill in managerial and technical expert roles in the company;
- Deliver an attractive and competitive value proposition; and
- Deliver high quality HR information systems and simplified processes to meet the company needs.

In 2014, projects concerning health, safety, and environmental protection (HSE) will be continued. As always, the company will take a responsible attitude towards complying with HSE and Social



Performance commitments and standards. In this area, Sakhalin Energy aims to maintain its leading position in the world by complying with the highest international standards.

Regular and meaningful engagement with stakeholders remains an important component of Sakhalin Energy's successful performance. The strategy and plans for engaging with the public for 2014 are included in the Public Consultation and Disclosure Plan (see the company's website). The key indicator in this area is the number of grievances resolved within the specified period (85% in 2014, continuously increasing up to 90% in 2018).

In its social investment and sustainable development programmes, Sakhalin Energy will continue to give priority to long-term partnerships with external stakeholders. The company will continue participating in partnerships such as What to Do in Emergency Situations, the Sakhalin Indigenous Minorities Development Plan, the Korsakov Sustainable Development Partnership Council, the Sakhalin Road Safety Council, etc., and grant programmes, such as the Energy Social Initiatives Fund.



Sakhalin Energy Journey Book

Sakhalin Energy will continue conducting its scheduled business activities in compliance with the adopted General Business Principles, Sustainable Development Policy, and corporate social responsibility standards. Sakhalin Energy will endeavour to make further improvements in sustainable development.



Appendix 1. GRI guidelines compliance table (rev. 3.0)

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
1. Strategy and Analysis					
1.1	Statement from the most senior decision-maker of the organisation	Full	Message from the chief executive officer	4-5	
1.2	Description of key impacts, risks, and opportunities	Full	Message from the chief executive officer Risk management HSE and Social Performance management system Economic impact management Environmental Impact Management Social Impact Management Company plans for 2014 and the development strategy up to 2018	4-5 35-38 15-16 39-42 52-66 67-95 96-97	
2. Organisational Profile					
2.1	Name of the organisation	Full	About the company	18	
2.2	Primary brands, products and/or services	Full	About the company	24-25	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	Full	About the company	18 32	
2.4	Location of organisation's headquarters	Full	On the outside rear cover http://www.sakhalinenergy.com/en/feedback/feedback.wbp		
2.5	Number of countries where the Company operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	Full	About the company	18	
2.6	Nature of ownership and legal form	Full	Corporate governance	31	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Full	About the company	18 24-25	
2.8	Scale of the reporting organisation	Full	About the company Economic impact management Personnel: management and development	18-25 39-42 68-69	
2.9	Significant changes during the reporting period regarding size, structure, or ownership	Full			No significant changes of the company size, structure or ownership form occurred in 2013
2.10	Awards received in the reporting period	Full	Corporate social responsibility and sustainable development About the company Stakeholder engagement management Environmental impact management Social impact management	13 19-25 47 56-62, 64 67, 79, 91	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
3. Report parameters					
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	Full	About the report	6	
3.2	Date of most recent previous report (if any)	Full	About the report	6	
3.3	Reporting cycle (annual, biannual, etc.)	Full	About the report	6	Annual
3.4	Contact point for questions regarding the Report or its contents	Full	About the report Appendices 5-6	6 115 116	
3.5	Process for defining report content	Full	About the report	6-8	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	Full	About the report	9	
3.7	State any specific limitations on the scope or boundary of the report	Full	About the report	7-9	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	Full	About the report	7-9	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	Full	About the report	7-8	
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such re-statement	Full	About the report	7-8	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Full	About the report	7-8	
3.12	Table identifying the location of the Standard Aspects in the Report	Full	Appendix 1	98-104	
3.13	Policy and current practice with regard to seeking external assurance for the Report	Full	About the report	9	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
4. Governance, Commitments, and Engagement					
4.1	Governance structure of the organisation, including main committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	Full	Corporate governance model	31-33	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Full			The Chair of the highest governance body is not an executive officer
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Full	Corporate governance model	31	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Full	Corporate governance system and structure Corporate culture Engagement with personnel	29-30 33-34 44-45	
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements) and the organisation's performance (including social and environmental performance)	Full			There is a unified compensation system in place in the company base on performance evaluation (including social and environmental performance)
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Full			Avoiding any conflict of interests with regulative authorities/committees have been stipulated in the shareholders agreement. All company employees must comply with the Conflict of Interest Procedure
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social sustainable development issues	Full			One single system of competence evaluation acting in the company
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation	Full	Sakhalin Energy's CSR system Sustainable development policy Company mission, vision, values and principles Corporate culture Code of conduct HSE and Social Performance management system	12-13 14-15 29 33-34 34 15-16	
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	Full	Corporate governance system and structure Risk management HSE and Social Performance management system	29-30 35-38 15-16	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	Full			Performance evaluation by the highest governance body takes into consideration economic, environmental, and social performance achieved against the planned performance indicators
4.11	Explanation of whether and how the precautionary approach or principles is addressed by the organisation	Full	Sakhalin Energy's CSR System Sustainable development policy Risk management Impact assessment	12-13 14-15 35-38 17	
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or endorses	Full			The company supports the UN Global Compact principles. The company applies international health, safety and environment standards, as well as standards in addressing social issues (see Section 3.3 "Performance standards"). In preparing the Sustainable Development Report, the company uses the Global Initiative Sustainable Reporting Guidelines (GRI, G3). When preparing this report, the company holds dialogues with its stakeholders according to the AA1000SES
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: <ul style="list-style-type: none"> • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic 	Full	International and regional cooperation	50-51	In November 2009, the company joined the UN Global Compact. The company is a participant of the UN Global Compact Network Russia. In 2013, the company representative was a member of Steering Committee of the UN Global Compact Network Russia. In 2013 the company is a member of: <ul style="list-style-type: none"> • Global Compact LEAD, • Working Group on Human Rights of the UN Global Compact, and • European Business Congress (EBC)
4.14	List of stakeholder groups engaged by the organisation	Full	About the report Stakeholder engagement management in 2013	6 44	
4.15	Basis for identification and selection of stakeholders with whom to engage	Full	Stakeholder engagement management	43	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Full	Stakeholder engagement management	43-51	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	Full	Stakeholder engagement management	43-51	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
5. Management Approach and Performance Indicators					
Management Approach					
DMA EC	Disclosure on management approach—economic	Full	About the company Corporate governance model Economical impact management	18 31 39-42	
DMA EN	Disclosure on management approach—environmental	Full	HSE and Social Performance management system Environmental impact management	15-16 52	
DMA LA	Disclosure on management approach—labour practices and decent work	Full	HR management and HR policy Labour safety and protection Occupational health	67 77-78 81-82	
DMA HR	Disclosure on management approach—human rights	Full	Human Rights: principles and management system	83-84	
DMA SO	Disclosure on management approach—social	Full	Stakeholder engagement: strategy, principles, mechanisms and tools Social investment and sustainable development: Sakhalin Energy's principles and approaches	43 86-87	
DMA PR	Disclosure on management approach—product responsibility	Full	About the company Engagement with customers	24-25 49	
Economic performance					
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payment to capital providers and governments	Full	About the company Economic impact management Remuneration and bonus system Social investment and sustainable development: Sakhalin Energy's principles and approaches	24-25 39-42 70 86	
EC3	Coverage of the organisation's defined benefit/pension plan obligations	Full	Social guarantees, benefits and compensations	70-72	
EC4	Significant financial assistance received from government	Full			In 2013, the company received no financial assistance from government
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Full	Remuneration and bonus system	70	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Full	Russian content	40-41	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Full	General information Personnel recruitment and adaptation of new employees	68-69 69-70	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Full	Importance of the Sakhalin-2 project for the Russian Federation and Sakhalin Oblast Social investment and sustainable development: Sakhalin Energy's principles and approaches	39 86	

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Full	Economic impact management	39	
Environmental performance					
EN3	Direct energy consumption by primary energy source	Full	Energy consumption	53	
EN4	Indirect energy consumption by primary energy source	Full	Energy consumption	54	
EN8	Total water withdrawal by source	Full	Water use and discharge control	52-53	
EN9	Water sources significantly affected by withdrawal of water	Full	Water use and discharge control	52	No water sources are materially affected by the company's withdrawal of water
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Full	Environmental monitoring and preserving biodiversity	56-66	
EN13	Habitats protected or restored	Full	Environmental monitoring and preserving biodiversity	56-66	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Full	Environmental monitoring and preserving biodiversity	56-66	
EN16	Total direct and indirect greenhouse gas emissions by weight	Full	Greenhouse gas and ozone depleting substances emissions	54-55	
EN17	Other relevant indirect greenhouse gas emissions by weight	Full	Greenhouse gas and ozone depleting substances emissions	54-55	
EN19	Emissions of ozone-depleting substances by weight	Full	Greenhouse gas and ozone depleting substances emissions	54-55	
EN20	NOX, SOX and other significant air emissions by type and weight	Full	Air emissions control	52	
EN21	Total water discharge by quality and destination	Full	Water use and discharge control	52-53	
EN22	Total weight of waste by type and disposal method	Full	Waste management control	52-53	
EN23	Total amount and volume of significant oil spills	Full	Oil spill prevention and response preparedness	26	No considerable oil spills were recorded
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Full	Environmental monitoring and preserving biodiversity	56-66	The company evaluates environmental impacts and develops impact mitigation measures. The results are presented in impact assessment reports and in HSE and Social Action Plan, which are publicly available on the company's website

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
EN28	Amount of significant pecuniary penalties and total of non-monetary penalties imposed for failure to comply with environmental laws and regulations	Full	Environment protection costs and pollution payments	55-56	There were no significant fines or nonfinancial penalties imposed because of noncompliance with the environmental legislation and regulatory requirements
EN30	Total of environmental protection expenditures and investments by type	Full	Environment protection costs and pollution payments	55-56	
Labour practices and decent work					
LA1	Total workforce by employment type, employment contract, and region	Full	General information	68-69	
LA2	Total number and rate of employee turnover by age group, gender, and region	Full	General information	68-69	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Full			In accordance with the Labour Code of the Russian Federation, federal laws and other normative legal acts containing norms of labor law, agreements and employment contracts
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	Full	Labour safety and protection Occupational health	78 82	
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	Full	Occupational health	81-83	
LA10	Average hours of training per year per employee, by employee category	Full	Personnel training	73	Average duration of training was 10.5 training man-days per one employee (without regard to training at the workplace). Duration of one training day is no more than 8 hours at average
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Full	Staff learning and development	72-77	
LA12	Percentage of employees receiving regular performance and career development reviews	Full	Company employees' performance appraisal		100%
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Full	General information	69	
LA14	Ratio of basic salary of men to women by employee category	Full			Basic salaries of men and women do not differ

GRI index	Aspect	Disclosure	Report section	Page	Comments and references to other sources
Human rights					
HR3	Total hours of employees training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Full			100%
HR4	Total number of incidents of discrimination and actions taken	Full			No registered cases of discrimination during the reporting period
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and action taken to support these rights	Full			No operations in which the right to exercise freedom of association and collective bargaining may be at significant risk
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	Full			No operations risk of involving child labour
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	Full			No operations risk of involving forced or compulsory labour
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Full			No registered cases of violation of rights of indigenous people
Society					
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	Full	Impact assessment Social investment and contribution to sustainable development of the host region	17 86-95	
SO3	Percentage of employees trained in the organisation's anti-corruption policies and procedures	Full			99%
SO4	Actions taken in response to incidents of corruption	Full			No cases of corruption in the reporting period
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Full			As per company's Statement of General Business Principles and Code of Conduct Sakhalin Energy does not support any political parties nor any individual politicians
Product responsibility					
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Full			Impact on health and safety of production and services are evaluated according to Russian legislation requirements and the company's standards

Appendix 2. Sakhalin Energy's answers and commitments, as part of its dialogues with stakeholders on the 2013 Sustainable Development Report

While preparing the Sustainable Development Report, the company remained committed to regular dialogues and detailed discussions with the company's stakeholders. During these dialogues and discussions, the participants can share their opinions on the company's activities, in areas such as environmental protection, social initiatives, stakeholder engagement, personnel development, etc., and make comments and suggestions on our production, environmental and social performance.

In November 2013, Sakhalin Energy held its first dialogue as part of preparing the Report for 2013, during which the company offered stakeholders information on activities and achievements of the company for the reporting period.

In February 2014, the second dialogue was held, during which the company answered the comments, suggestions and questions raised by stakeholders during the first dialogue. During the second dialogue, the participants also had additional comments, suggestions and questions that were answered during the meeting.

The outcomes of these dialogues are included in the 2013 Sustainable Development Report and are provided below. The questions, comments or criticism raised during the dialogues with stakeholders are on the left side of the table. The company's responses given during or after the dialogues are on the right side of the table (some questions required additional time to explore the issue and/or to prepare a response).

	Comment, question, or criticism	Response and/or commitment
Ekaterina Alekseevna Korolyova, Head of Division for Sakhalin Indigenous Minorities, Sakhalin Oblast Governor and Government Office		
1	The question concerns your personnel. You have mentioned that 54 percent of the personnel are natives of Sakhalin. Is this number growing? Is the number of locals employed by the company higher now in comparison with previous years?	The number of Sakhalin residents employed by the company in 2010–2013: <ul style="list-style-type: none"> • 2010 — 1,022 people; • 2011 — 1,079 people; • 2012 — 1,129 people; • 2013 — 1,163 people. For details on manpower and its structure, see Section 9.1.2 General information.
2	The question relates to the Sakhalin Indigenous Minorities Development Plan. This question was raised many times before: Can we expect an increase in funding for SIMDP?	In 2011–2015, the Sakhalin Indigenous Minorities Development Plan is being implemented based on the Cooperation Agreement between the Sakhalin Oblast Government, Sakhalin Energy and the Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities dated 14 December 2010. <p>Under the terms of this Agreement, the company grants US\$ 312,000 per annum to support SIMDP projects. The company also allocates additional funds for administrative support of the Plan, meetings of coordinating bodies, monitoring, public consultations, etc.</p>

	Comment, question, or criticism	Response and/or commitment
3	<p>Good coverage of the company's interaction with indigenous community. (Note: during the presentation and the report by a Sakhalin Energy representative during the dialogue).</p> <p>The second Sakhalin Oblast Festival of tribal enterprises and SIM communities took place last week. This event is very important for the Sakhalin Indigenous Minorities Development strategy. We were able to organize this festival thanks to the company's sponsorship (note: Sakhalin Energy) and consolidation of budgets.</p> <p>On behalf of the representatives of tribal enterprises and communities, I'd like to thank the company. Representatives of municipalities and places of traditional residence and economic activities of indigenous ethnic groups are grateful to the company, as thanks to SIMDP implementation the life of indigenous communities has significantly improved.</p> <p>Today we heard details about all the interaction and new development, such as the microloans project. The representatives of both tribal enterprises and communities expressed their gratitude to the company because they have learned how to develop business plans and applications as part of the state-private sector partnership, the SIMDP. Now they have begun to develop their own strategies for further sustainable development, and I am very pleased to tell you about it.</p>	<p>The company is grateful for the feedback. We value the fact that the partnership in the framework of SIMDP contributes to the development of the Sakhalin Oblast indigenous community.</p> <p>For details on cooperation with Sakhalin Indigenous Minorities and SIMDP 2013 results, see Sections 7.5 and 9.5 respectively.</p>
4	<p>In 2011 our state-private sector partnership experience (note: partnership between Sakhalin Indigenous Minorities, Sakhalin Energy and the Sakhalin Oblast Government under SIMDP) at the UN Forum on Indigenous Issues was recognised the best practice of the interaction between the indigenous community represented by the Regional Council of the Authorised Representatives of Indigenous Minorities of Sakhalin Oblast, Sakhalin Energy and the Sakhalin Oblast Government. Many regions and constituent units of the Russian Federation in which indigenous ethnic groups reside are adopting our practice, and we are pleased to share it with them.</p> <p>And to summarize this preliminary report (note: an overview of activities and preliminary results of Sakhalin Energy for 2013, provided in a presentation during the first dialogue on November 28, 2013), we can say that we are going in this direction together, all three parties, we interact and develop, and continue to go further. We have things to think about and to work on. The company complies with international standards on indigenous peoples of the North, and this is reflected in the report.</p>	<p>The company is grateful for your feedback on interaction between the Sakhalin Oblast indigenous community, Sakhalin Energy and the Sakhalin Oblast Government.</p> <p>For many years our partnership model has proven itself to be effective and viable. Internal and external monitoring show there are positive results and achievements, as well as areas for further improvement. In this regard, it is important that all partnership parties are willing to continue to learn based on accumulated experience and to develop new ways and methods of cooperation.</p>
Igor Georgievich Minervin, Rector of Sakhalin State University		
5	<p>I am pleased to welcome you to this event dedicated to the interaction between the business community, business structure and the public. It is very important when business is focused not only on mineral resources extraction and profit, but is also interested in social development.</p> <p>We work closely with the company and are happy to be involved, and our scientists are engaged in various projects (note: in the framework of cooperation with Sakhalin Energy).</p> <p>This year we held the Conference on Sustainable Development without your (note: Sakhalin Energy) participation, because the funding ran out.</p> <p>The University has a Sustainable Development Chair, and we seek other, private sources to fund our activities to continue this project. This project is very interesting, and maybe we could continue our cooperation in this area.</p> <p>The Conference on Sustainable Development that took place this year turned out to be quite interesting. We had the funds to invite experts from different places, not only from Russia, but also from abroad, Spain, for instance. This is why this cooperation allowed us, the entire Sakhalin Oblast community, to benefit from social partnership.</p>	<p>The company is grateful for the feedback. We appreciate successful cooperation with SSU and look forward to continuing this in the future.</p> <p>The company works with the University in many areas, including archaeology, wetlands, Western Gray Whales and other environmental monitoring and biodiversity projects. Also, over the years we have partnered with SSU on conducting public opinion surveys.</p> <p>Company representatives actively participated in the Conference on Sustainable Development, held by SSU in 2013, with reports in the abovementioned areas.</p> <p>The Sustainable Development Chair was created at the initiative of the company. Sakhalin Energy was supporting the Chair's activities for many years. We are pleased that the project is sustainable and does not require special funding from the company.</p> <p>As for individual projects of the Chair, SSU can apply to the Fund of Social Initiatives "Energy". To do so, the SSU Department needs to write specific proposals and apply for funding. We have not received any specific proposals or project ideas from SSU yet.</p>
6	<p>SSU proposes starting an academic periodical together. For example, the University already publishes the Scientific Bulletin, and we could start another periodical. May I suggest that we discuss this proposal?</p>	<p>The company is willing to consider proposals under the programmes and projects run by the company.</p>

	Comment, question, or criticism	Response and/or commitment
Valery Nikolayevich Efanov, PhD in Biological Sciences, Professor, Dean of SSU Natural Science Department		
7	The Report (note: Sakhalin Energy Sustainable Development Report) contains the following subsection: Environmental Impact Management. I would refer to it as Anthropogenic Impact Management or Management of the Impact on the Natural Environment, as this would be more correct from the scientific point of view.	The Environmental Impact Management subsection reflects the current terminology in the Russian language, which in this context does not claim scientific accuracy.
8	Regarding our cooperation with the company (note: with Sakhalin Energy): our students undertake internships in projects on wetland studies and vegetation studies. Our graduate students participate in the project on Western Gray Whales. I initiated publication of a book series; this is a very good project. But these are non-fiction books for general public. They are important because they give ideas about what should be protected, and what we have here and what is protected on Sakhalin. I would like to continue working on this, not only in popularizing certain topics, but also in the area of academic presentation of research conducted within the Sakhalin-2 project: on topics such as Western Gray Whales, vegetation, birds, wetlands, etc.	Thank you for interesting proposals and feedback on our cooperation. The company does not conduct scientific and research activities, therefore it does not plan to publish specialized academic publications. The company believes that popularizing the results of environmental monitoring promotes environmental education and public awareness, biodiversity protection and sustainable development. In 2011–2013, Birds of Sakhalin, Steller's Sea Eagle, Rivers of Sakhalin and Western Gray Whales were published. In the beginning of 2014, another book, Sakhalin Flora, will be published.
9	I believe the time has come to jointly publish a special academic publication on sustainable development and biodiversity that would cover not only popular, but also scientific issues. Then scientists would have the freedom they need, because under the contracts (note: with Sakhalin Energy) the materials we gather during research belong to Sakhalin Energy and cannot be published. I would like to thank the company for the cooperation that we have developed.	The company does not prohibit academic publication of research results; there is a clause in the contracts that scientific results cannot be published without the company's consent. Scientists apply to the company and receive permission to publish the results of various environmental monitoring and biodiversity programmes.
Natalia Petrovna Sharukhina, Sakhalin EMERCOM, Head of Department		
10	The Sakhalin EMERCOM, Sakhalin Energy and the Sakhalin Oblast Ministry of Education have been working on a partnership programme since 2005 (note: What to Do in Emergency Situations Partnership Programme). We were told in detail about the events that took place in 2013 (note: in the framework of the presentation during the first dialogue as part of preparing the Sustainable Development Report 2013). On behalf of the Sakhalin EMERCOM I would like to thank the company (note: Sakhalin Energy) for the tremendous amount of work completed under the partnership. We have a very close relationship with the company. I hope that in 2014 the programme will develop further, and we will be able to organize an event for older children (up to 16 years old). At present the programme is aimed at children under 12. In my opinion, Senya needs to grow up some more.	The company is grateful for the feedback on cooperation and looking forward for further results. This partnership is also very important for the company. All activities and events carried out under the What to Do in Emergency Situations Programme are being developed and implemented in partnership with the Sakhalin Department of the Ministry of Emergency Situations and the Sakhalin Ministry of Education.
11	Last year, the What to Do in Emergency Situations project won the All-Russian Sozvezdiye Muzhestva (Constellation of Courage) contest. Last year I participated in training and methodological meeting of EMERCOM territorial bodies involved in educating the public. The representatives of FERC (note: the Far East Regional Centre) asked us to give them some materials. The company gave me permission to provide them with study materials and DVDs with animated cartoons for all the Far East regions. I also recommended they visit the programme's website that contains all the information on the partnership programme (note: the programme's website www.senya-spasatel.ru). I know that the animated cartoons are already being used in Magadan, Khabarovsk, and Vladivostok.	The company appreciates the feedback and is pleased to hear that the outcomes of the What to Do in Emergency Situations programme are in such demand. It is good to know that the programme's materials are being used in other regions. All the comics, videos, and other materials are available for the general public on www.senya-spasatel.ru . Besides, materials (DVDs and comic books) are regularly being distributed at the EMERCOM meetings both on the regional and the Far East levels.
12	During the first dialogue in November 2013 we proposed to expand the target audience of the programme to include 13–16 year-olds. In December 2013 under the What to Do in Emergency Situations programme we developed a new project—Senya Teaches. The main objective of this project is for municipalities' teams to participate in Safety School regional competitions and to persuade students to participate in the programme activities. The company financed the purchase of expensive equipment for municipalities team members. This equipment will be delivered to 10 municipalities. Safety School competitions will take place in September 2014 and we expect the number of participating teams to increase up to 12–13 teams. Last year, 6 teams participated in the competitions. High school students who receive Safety School training will then participate in informational events for putting up notices in tsunami- and avalanche-prone areas, and will be able to act as instructors and assistants on the traditional Safety Day. I would like to thank the company's leadership for their prompt decision-making. I believe the project will be effective and will be growing as the programme in general.	The company is grateful for the feedback on cooperation and looking forward for further results.

	Comment, question, or criticism	Response and/or commitment
Alexander Vasilyevich Buryka, Director of Sakhalin Regional Museum of Art		
13	<p>Today we discussed an event that is important for the entire Sakhalin Oblast, an exhibition of art from the collection of the Russian Museum.</p> <p>It is no secret that it is always very difficult to organize events that involve delivery of works of art from the mainland, especially from famous museums. Sakhalin Energy successfully completed the challenging negotiations with the Russian Museum.</p> <p>Now we are getting ready for the opening of this exhibition. People keep asking about the opening. This proves the public is very interested in this exhibition.</p> <p>This event would not be possible with the cooperation and financial support of the company.</p> <p>We would like to congratulate the company on the forthcoming anniversary that it will be celebrated this year, and wish further development of our joint efforts, and more wonderful projects.</p>	<p>The company appreciates the feedback on the company's activities. We are very pleased to cooperate with the Sakhalin Regional Art Museum. We are sure that the Five Centuries of the Russian Art exhibition, which will be held in celebration of the 20th anniversary of the company, will become a significant event in the cultural life of Sakhalin.</p>
Natalia Stanislavovna Gustova, Deputy Head of Korsakov City District Administration, Head of Social Development Department		
14	<p>This is not my first time at Sakhalin Energy events, and each time Sakhalin Energy provides us with more profound, comprehensive and interesting information.</p> <p>The Sustainable Development Council is active in Korsakov District, and this year we are celebrating our 10th anniversary. The Council's work has been very productive. The participants of the Council value its high performance.</p> <p>This year the Council reviewed about 20 projects in different areas, i.e. culture, education, children's safety and health, sports, etc. Almost all projects implemented were important not only for the targeted group, i.e. children, but also for the community, parents, and authorities.</p> <p>At present, the Korsakov Sustainable Development Council regularly initiates new activities, although so much was accomplished over the last 10 years. The company's representatives bring in new activities. How do they do this? They show initiative that is being supported by the Council's members, and they suggest new projects to raise public awareness of the Council's activities, and to attract more people to participate.</p> <p>We now have the Project Fair, an amazing event that helps us to involve people with no previous experience in receiving grants or working with the Korsakov Sustainable Development Council. This allows us to assess not only the Council's activities, but also the company's activities. And this work results in accepted projects.</p> <p>On behalf of the Korsakov Administration I would like to thank the company and the company's members of the Korsakov Sustainable Development Council for their active and important work. This work will definitely be continued.</p> <p>As for suggestions, we asked Sakhalin Energy several times to participate in our big events not as investors, but as guests of honour.</p> <p>Last year Korsakov celebrated its anniversary. Sakhalin Energy invested significant funds in Korsakov's development, and we wished the company's representatives could attend the anniversary events. This year we invited you to our new event, awarding the best teachers in Korsakov District. We would like to see the company's representatives attending this event, as the company also funds our educational institutions. This is why I would like to ask you to find an opportunity to participate in our events as guests of honour, and not only as investors.</p>	<p>The company appreciates feedback on activities of the Korsakov Sustainable Development Partnership Council. This is our joint programme, and we need to note the significant contribution of the public and the municipal government of Korsakov District to the development of the Council. This partnership is important to us.</p> <p>The company is willing to participate in celebrations, when possible.</p>
Roman Borisovich Shatrov, Field Work Specialist of the Sakhalin Environmental Watch Regional Public Organisation		
15	<p>This question is about the Nogliki landfill (Solid Waste Landfill) that does not meet the standards and in fact is not legal. Sakhalin Energy uses it to dispose its solid waste. Does the company have plans to build its own landfill as was done in the beginning of the project in other districts?</p>	<p>The company uses an assigned area at the Nogliki Solid Waste Landfill where it takes and disposes its solid waste. The issue of building the company's own Solid Waste Landfill is not within the company's exclusive jurisdiction. There is no decision on construction of the solid waste landfill yet.</p>
16	<p>Will there be OPF expansion in Nogliki District (note: OPF front end compression project in Nogliki District)? Will there be an Environmental Impact Assessment (EIA) and State Expert Review?</p>	<p>The company plans OPF compression construction in Nogliki District and has started the development of the project documentation. At present an integrated Environmental, Social and Health Impact Assessment is being carried out.</p> <p>All necessary public consultations, including hearings related to implementation of the project, will be carried out in accordance with the requirements of Russian law and international standards that the company is in compliance with. Moreover, the first public consultations were carried out in Nogliki District in autumn 2012.</p> <p>State Expert Review will be conducted in accordance with the requirements of the Russian law.</p>

	Comment, question, or criticism	Response and/or commitment
17	A question on Prigorodnoye Production Complex: did the company exceed air emission limits in 2013 and the limits for discharging into Aniva Bay?	<p>Discharge limits were not exceeded in 2013; however, there were three times when maximum permissible concentration (MPC) of pollutants emitted into the air was exceeded for short durations.</p> <p>The monitoring of air quality and noise levels at the Stroitel dacha plots in June and July 2013 revealed that formaldehyde MPC was exceeded.</p> <p>However, the monitoring at the other set locations within the boundary of the sanitary protection zone and flaring monitoring did not show the exceedance of formaldehyde in June or July. In this regard, the company believes that other factors, unrelated to the LNG plant, could have caused the increase of formaldehyde concentration in the air.</p> <p>Air quality monitoring conducted on October 20 showed that nitrogen dioxide MPC had been exceeded. Limits were exceeded for a short time due to the planned start-up of the LNG train after the completion of the technical maintenance works.</p> <p>Subsequent monitoring at set locations within the boundary of the sanitary protection zone and flaring monitoring did not show any exceedance.</p> <p>Treated sewage was discharged into Aniva Bay in accordance with the established limits, no exceedance registered.</p>
18	Everybody knows about the planned LNG Train 3 construction. When will the Environmental Impact Assessment (EIA), public hearing and Environmental Expert Review be carried out?	<p>No decision has been made on the construction of the LNG Train 3 under the Sakhalin-2 project. Currently, shareholders have only asked the company to develop the design documentation.</p> <p>The Environmental Impact Assessment, Environmental Expert Review and public consultations including public hearings regarding implementation of this project will be carried out in accordance with the requirements of Russian law and international standards that the company is in compliance with, once the decision to proceed with construction is made.</p>
Vladlen Valerievich Malkov, the City Duma Deputy in Yuzhno-Sakhalinsk		
19	I am also the chairman of the Regional Council of the supporters of the United Russia party. As part of the Council activities we launched and operate the Russia for Life on the Road project, as we are interested in promoting road safety among young people and children. My question is: Would it be possible to consolidate our project and your Road Safety Partnership?	As part of the Sakhalin Road Safety Council there is a public council that includes public organisations, companies, and other entities. The company is ready to discuss possible cooperation within the Council's activities.
Svetlana Ivanovna Rudenko, Regional Centre for Extracurricular Education, Head of Department		
20	<p>I would like to express my support for all the positive comments that were made today regarding the partnership activities. I would like to focus on three important issues of our partnership.</p> <p>We have been partners for a long time, and the first thing I want to mention is that the projects that we implement under the partnerships involve the most current and vital issues of safety of children. Another fact of our cooperation that I would like to point out, is that the programme engaged a huge number of Sakhalin children. I would also like to note that not only children actively participate in contests and activities of the programme, but parents and teachers are also engaged. Children show their talents in different ways, participating in literary and art contests, and safety events. This way they express their attitude and show they understand safe behaviour. Such involvement of children in fostering a culture of safe behaviour in society, meaningful participation of children in safeguarding their lives and the lives of others will help them to be prepared for any difficult situations in their lives.</p> <p>I would like to thank Sakhalin Energy employees that are able to address issues arising during the programmes with a high level of competence. In partnership, so many things depend on effective interaction. If partners agree, they all win, which guarantees good results.</p> <p>If we ask parents and children today about Sakhalin Energy activities in this area, we will receive very positive reviews.</p>	The company is grateful for the feedback on cooperation and looking forward for further results.

	Comment, question, or criticism	Response and/or commitment
Vladimir Gennadyevich Makaseev, Senior Inspector of Traffic Safety Promotion Department, Yuzhno-Sakhalinsk Inter-municipal Administration of the Russian Ministry of Internal Affairs, State Road Traffic Safety Inspectorate		
21	<p>It is difficult to overestimate Sakhalin Energy's contribution to Road Traffic Safety: the company's programmes offer many activities and events. This includes the Safe Route to School and Safety with a Seatbelt and a Child Seat projects, and interactive classes. Plans for the future are extensive.</p> <p>Besides Sakhalin Partnership, where we are involved as both organizers and executors, we work with Sakhalin Energy on grant projects. For example, the Children's Creativity Centre received a grant in the framework of the Fund of Social Initiatives "Energy" and held an event with the participation of kindergarten children and their parents. The company's management and employees understand that the earlier we teach traffic rules and safe behaviour to children, the easier, better and safer their future will be.</p> <p>The partnership activities are very effective, and we hope to continue our cooperation.</p>	The company is grateful for the feedback on cooperation and looking forward for further results.
Elena Anatolievna Stepankaya, Chairperson of the Public Chamber of the Sakhalin Oblast		
22	<p>I would like to comment on activities of the Fund (note: the Fund of Social Initiatives "Energy"). It represents resources center and helps the non-profit sector, which shows how Sakhalin Energy contributes to the development of civil institutions in Sakhalin Oblast.</p> <p>At present, there is an active discussion of the law On Volunteering. Given that the company supports volunteering among employees, I would like to ask if you have discussed this draft law within the company, and to clarify the company's position in this respect, because we usually think of volunteering as something that should come from the heart, but this law would make it something unified and placed within rigid bureaucratic boundaries.</p> <p>Do you plan to change your volunteering policy?</p> <p>The next hearing for this draft law will be held in March. Now proposals are being actively collected, to be given first to the Oblast Duma, and then to the Federal Assembly. Now you have the opportunity, if you have not done so already, to plan the development of such proposals.</p> <p>In turn, we are ready to provide you with all the necessary assistance and support in this matter.</p>	<p>We are aware of the draft law On Volunteering. The document undoubtedly attracts the interest of those involved in organizing the volunteering process in the company.</p> <p>We do not plan to participate in the discussion of this draft law at our own initiative.</p> <p>However, we are ready to express our opinion, as we have done on other issues, such as when we were approached by the Russian Ministry of Foreign Affairs for our expert opinion on the UN Guiding Principles on Business and Human Rights.</p> <p>When the law On Volunteering passes, the company will comply with its requirements.</p>
Elena Gennadiyevna Chernyavskaya, Counsellor of Division of State Registration and Fauna and Protected Areas Cadastre, Department of Hunting and Use of Fauna, Sakhalin Oblast Ministry of Forestry and Hunting		
23	<p>In addition to the company's social programmes, I would like to suggest a series of programmes on environmental education, instilling a culture of environmental awareness, and respect for nature. I consider particularly important the problem of littering in residential areas and places of public recreation. We could use Senya, the familiar character who is loved by many children, as a character for these series of programmes.</p>	The company appreciates the proposal. Currently, a series of animated videos featuring the main hero of the What to Do in Emergency Situations programme includes a number of videos on the topic, including behaviour on specially protected territories (e.g., animated videos about Chekhov Peak natural monument, and behaviour during hiking, outdoors, when encountering wild animals). Also many animated videos encourage respect for the environment, including covering issues of waste handling.
Masao Hirano, Chairperson, Hokkaido Fishery Environmental Center		
24	<p>Do all the oil and LNG tankers involved into operations under Sakhalin-2 project have AIS on board?</p>	All oil and LNG tankers involved into operations under Sakhalin-2 project have AIS installed.

Appendix 3. The list of participants of dialogues with stakeholders for preparation of the 2013 Sustainable Development Report

1. Korsakov Municipal Administration, N. S. Gustova, Deputy Head of Korsakov Municipal Administration, Head of Social Development Department.
2. Yuzhno-Sakhalinsk Municipal Administration, Territorial and Environmental Monitoring Department, N. E. Samarina, Head of Natural Resources Department.
3. Yuzhno-Sakhalinsk Municipal Administration, Local Self-Government Department, N. V. Belyaeva, Category 1 Chief Specialist.
4. Yuzhno-Sakhalinsk Municipal Administration, Economic Development Department, N. N. Salandina, Chief Specialist of Industry Prospective Development Section.
5. Sakhalin Fishermen Association, S. A. Siyanov, President.
6. Regional Centre of Extracurricular Education, S. I. Rudenko, Head of Department.
7. Sakhalin Regional Museum of Art, A.V. Buryka, Director.
8. Sakhalin Regional Museum of Art, A. V. Lapteva, Head of Education and Scientific Department.
9. Sakhalin Regional Museum of Art, I. G. Malkova, Deputy Director.
10. Sakhalin Regional Folk Arts and Crafts Centre, G. A. Samenko, Head of SIM Traditional Culture Department.
11. Yuzhno-Sakhalinsk Duma, V. V. Malkov, Deputy.
12. Yuzhno-Sakhalinsk Duma, N. D. Artemenko, Deputy Chairman.
13. Sakhalin Department of the RF Ministry of Emergency Situations, N. P. Sharukhina, Team Lead.
14. Ministry of Forestland and Hunting of Sakhalin Oblast, B. D. Permyakov, Minister.
15. Ministry of Forestland and Hunting of Sakhalin Oblast, E.G. Chernyavskaya, Category 1 Chief Specialist, Division for State Registration and Cadastre of Wildlife and Specially Protected Areas, Department of Hunting and Wildlife Management.
16. The Public Chamber of the Sakhalin Oblast, E. A. Stepanovskaya, Chairperson.
17. Yuzhno-Sakhalinsk State Road Traffic Safety Inspectorate of the RF Ministry of Internal Affairs, V. G. Makaseev, Senior Inspector of Traffic Safety Promotion Department.
18. Administrative Office of the Public Chamber of the Sakhalin Oblast, L. V. Golubeva, Director.
19. Sakhalin Oblast Government, A. P. Antonenko, Lead Advisor of Public Safety Department.
20. Sakhalin Oblast Government, E. A. Koroleva, Head of Sakhalin Indigenous Minorities Division.
21. Sakhalin Oblast Government, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, E. D. Nevenchina, Head of Environmental Protection Department.
22. Sakhalin Oblast Government, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, N. V. Starodubtseva, Principal Advisor.
23. Sakhalin Oblast Government, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, T. K. Rokotova, Principal Consultant.
24. Sakhalin Oblast Government, Ministry of Natural Resources and Environmental Protection of the Sakhalin Oblast, N. V. Nikitina, Head of Estimate Documents Review and PSA Implementation Department.
25. Sakhalin Environmental Watch Regional Public Organisation, R. B. Shatrov, Field Work Specialist.
26. Regional Council of Authorised Representatives of the Sakhalin Indigenous Minorities, I. E. Gromilin, Council Member.
27. Sakhalin State University, V. N. Yefanov, Dean of Natural Science Department.
28. Sakhalin State University, I. G. Minervin, Rector.
29. Sakhalin Regional Council of Veterans of War, Labour, Military Forces and Law Enforcement Authorities, A. A. Shabelnikov, Chairman.
30. Indigenous Minorities Council of the Yuzhno-Sakhalinsk Municipal Administration, A. Ya. Nachetkina, Deputy Chairperson.
31. Sakhalin Road Traffic Police Department of the RF Ministry of Internal Affairs, N. D. Sergeeva, Inspector.
32. Sakhalin Road Traffic Police Department of the RF Ministry of Internal Affairs, S.E. Khon, Inspector.
33. Hokkaido Fishery Environmental Center, Masao Hirano, Chairperson.

Appendix 4. Useful links

About the company	http://www.sakhalinenergy.com/en/company/overview.wbp
Company public website	http://www.sakhalinenergy.com/en/index.wbp
Contracting with us	http://www.sakhalinenergy.com/en/contractors/index.wbp
Energy TV programme	http://www.sakhalinenergy.ru/ru/media-centre/tv.wbp
History	http://www.sakhalinenergy.com/en/company/history.wbp
Job and Career	http://www.sakhalinenergy.com/en/vacancy/index.wbp
Media centre	http://www.sakhalinenergy.ru/en/media-centre/news/index.wbp
Sustainable Development	http://www.sakhalinenergy.ru/en/social_responsibility/sustainable_development.wbp
Vesti corporate newspaper	http://www.sakhalinenergy.ru/en/media-centre/newspaper.wbp
Whistle blowing procedure	http://www.sakhalinenergy.ru/media/0862f785-560a-4d69-8c29-b449c43dce79.pdf
Company documents and material referred to in the Report	
Biodiversity Action Plan	http://www.sakhalinenergy.ru/en/library/folder.wbp?id=913257bc-5294-453e-ac7f-bf987fda66f2
Code of Conduct	http://www.sakhalinenergy.com/media/17d42136-e60a-43cf-8948-b2dd7f7723e1.pdf
Company social performance management standard	http://www.sakhalinenergy.ru/media/dd044e00-9d7a-42e8-9b77-3cc183579fce.pdf
Contracting and Procurement Policy	http://www.sakhalinenergy.ru/media/fe993007-602b-40f7-bc95-7bf9b6646843.pdf
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/en/library/folder.wbp?id=548ea44f-dbb2-4ef4-9e3d-3e7d10fa6c2f
Human Rights Policy	http://www.sakhalinenergy.com/media/13f555c4-7444-4e44-bc11-3233ffdc7da2.pdf
Lenders' Independent Environmental Consultant Reports on Conducted Monitoring	http://www.sakhalinenergy.ru/en/library/folder.wbp?id=09946bc1-9839-4dd2-aa3d-1e89b64d377f
Public Consultations and Disclosure Reports	http://www.sakhalinenergy.ru/en/library/folder.wbp?id=af6ce7b7-6662-47f3-bd84-bf1c9c8f0d93
Public Consultations and Information Disclosure Plan (updated annually)	http://www.sakhalinenergy.ru/en/library/folder.wbp?id=af6ce7b7-6662-47f3-bd84-bf1c9c8f0d93
Sakhalin Energy Commitment and Policy on Health, Safety, Environment and Social Performance	http://www.sakhalinenergy.ru/media/d85bf75e-6c6d-44b7-9238-5d500ffaf269.pdf
Statement of General Business Principles	http://www.sakhalinenergy.ru/media/f7b65bed-7489-4a69-bb5a-71488212c793.pdf
Statement on application of ISO 26000:2010 Guidance on Social Responsibility	http://www.sakhalinenergy.ru/media/9ba6300a-9d46-43da-a17c-4ced287ee2ec.PDF
Sustainable Development Policy	http://www.sakhalinenergy.com/media/6c172dc9-8316-41e3-b4e8-79c37a3633d4.pdf
Sustainable Development Reports	http://www.sakhalinenergy.ru/en/media-centre/reports.wbp

Projects and Programmes websites	
'What to Do in Emergency Situations' Programme	http://senya-spasatel.ru/
Korsakov Partnership Council for Sustainable Development	http://www.korsakovsovet.ru/eng.php?PHPSESSID=c0a46093e1da26f26ad3dd8627055f89
Sakhalin Indigenous Minority Development Plan	http://www.simdp.ru/eng.php
The Energy Social Initiatives Fund	http://www.fondenergy.ru
The Save the Salmon Together project	http://salmon-friend.ru/
Printed Materials	
ABC-book of the Uilta language	http://simdp.ru/?id=56
Birds of Sakhalin Island	http://www.sakhalinenergy.ru/media/196ff17d-c135-4705-ad09-cb24763e8822.pdf
EA. Best Practices Book	http://www.sakhalinenergy.ru/media/6321d2ab-7457-4081-b5cb-63ce637de087.pdf
EA. Best Practices Book. Vol.2	http://www.sakhalinenergy.ru/media/9044596e-f032-431f-8779-b1797b86747b.pdf
Gray Whales. The Sakhalin Story	http://www.sakhalinenergy.ru/media/1eb02cec-298a-4788-a846-ba1cefb88def.pdf
Liquefied natural gas (collection of interesting facts)	http://www.sakhalinenergy.com/ru/documents/LNG_brochure_100_facts.pdf
Photo album 'the World through a lens'	http://www.sakhalinenergy.ru/media/0e2d5fdb-c381-46fd-845e-55c9a7f3d0a7.pdf
Poisonous Plants and Fungi	http://www.sakhalinenergy.ru/media/ddb9000f-3301-4f38-a8f9-2c086bea0494.pdf
Resettlement: experience of Sakhalin Energy	http://www.sakhalinenergy.ru/media/84ef16e9-82eb-434c-8fe5-49e2a75c3764.pdf
Rivers of Sakhalin Island	http://www.sakhalinenergy.ru/media/47482647-ed24-49f0-9a55-0be9fe844438.pdf
Sakhalin Birds (photo album)	http://www.sakhalinenergy.com/ru/documents/Birds_of_Sakhalin_Island.pdf
Sakhalin-2 Encyclopedia	http://www.sakhalinenergy.ru/media/d3f4146a-79db-41ac-b5db-e22da05fd93a.pdf
Steller's Sea Eagle	http://www.sakhalinenergy.ru/media/ff7bf627-7f81-4e57-a761-edf3ab261c57.pdf
The Epic of the Sakhalin Nivkh People	http://www.sakhalinenergy.ru/media/de82093d-9ee6-46c0-9ad4-46e389be0a8a.pdf
Universal Declaration of Human Rights in the Nivkh language	http://simdp.com/uploads/files/Declaration_NIVH_v2.pdf
Universal Declaration of Human Rights in the Uilta language	http://simdp.com/uploads/files/FINAL_Declaration_Uilt_v4_RE_2.pdf
Эпос сахалинских нивхов	http://www.sakhalinenergy.ru/ru/library/folder.wbp?id=eb6f3db2-6e91-4bd2-98b2-7cee4a59f806
Ядовитые растения и грибы	http://www.sakhalinenergy.ru/media/27280244-8037-4b1f-a6d1-934daf731667.pdf
Reference Material and Other	
Global Compact LEAD	http://www.unglobalcompact.org/HowToParticipate/Lead/index.html
Global Initiative Sustainability Reporting Guidelines	http://www.globalreporting.org
UN Global Compact	www.unglobalcompact.org
UN Global Compact in Russia	http://www.undp.ru/index.php?iso=RU&lid=1
UNGC Network, Russia. Corporate Social Responsibility Practices	http://www.undp.ru/index.php?iso=RU&lid=1&pid=160
Western Gray Whale Advisory Panel (WGWAP)	http://www.iucn.org/wgwap/wgwap/

Appendix 5. Company information centres list

District	Locality	Organisation	Address
Aniva	Troitskoye	Rural library, Branch No.7, Sub-division of the Municipal Institution Aniva Municipal Centralised Library System	13, Sovetskaya Str.
Dolinsk	Vzmorye	Rural library, Branch No.6, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	22, Pionerskaya Str.
	Sovetskoye	Rural library, Branch No.10, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	127a, Tsentralnaya Str.
	Dolinsk	Dolinsk Central City Library, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	31, Lenina Str.
	Sokol	Rural library, Branch No.5, Sub-division of the Municipal Institution Dolinsk Municipal Centralised Library System	26, Sovkhoznaya Str.
Kholmsk	Kholmsk	Central Regional Library named after Yuri Nikolayev, Sub-division of the Municipal Institution of Culture Kholmsk Centralised Library System of Kholmsk Municipality	124, Sovetskaya Str.
Makarov	Vostochnoye	Rural library, Branch No.2, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	8, Privokzalnaya Str.
	Makarov	Makarov Central Library, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	9a, 50 Let Oktyabrya Str.
	Novoye	Rural library, Branch No.4, Sub-division of the Municipal Institution Makarov Municipal Centralised Library System	11a -7, Tsentralnaya Str.
Poronaysk	Poronaysk	Poronaysk Central Library, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	45, Gagarina Str.
	Gastello	Rural library, Branch No.4, Sub-division of the Municipal Institution of Culture Poronaysk Municipal Centralised Library System	42-2, Tsentralnaya Str.
	Vostok	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Poronaysk Central Library System	10a, Gagarina Str.
Smirnykh	Onor	Rural library, Branch No.3, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	21, Sovetskaya Str.
	Pobedino	Pobedino Rural Library-Museum, Branch No.4, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	60, Tsentralnaya Str.
	Smirnykh	Smirnykh Central Library, Sub-division of Municipal Institution of Culture Smirnykh Centralised Library System	12, Lenina Str.
	Roschino	Rural library, Branch No.6, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	4, Komsomolskaya Str.
	Buyukly	Rural library, Branch No.7, Sub-division of the Municipal Institution of Culture Smirnykh Centralised Library System	1, Kosmonavtov Str.
Tymovsk	Molodezhnoye	Rural library, Branch No.17, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	13, Sovetskaya Str.
	Tymovskoye	Central District Library, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	68a, Kirovskaya Str.
	Yasnoye	Rural library, Branch No.13, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	2, Titova Str.
	Kirovskoye	Rural library, Branch No.8, Sub-division of the Municipal Institution of Culture Tymovsk Centralised Library System	70, Tsentralnaya Str.
Nogliki	Nogliki	Nogliki District Central Library, Sub-division of the Municipal Institution of Culture Nogliki Centralised Library System	5a, Pogranichnaya Str.
Korsakov	Korsakov	Korsakov city Youth Library, Branch No.13, Sub-division of the Municipal Institution of Culture Korsakov Centralised Library System	7, Molodezhny Per.

Appendix 6. Feedback form

DEAR READERS,

You have just read 2013 Sakhalin Energy Sustainable Development Report (hereinafter – Report).

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

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

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

Please provide comments in support of your answer

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

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

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

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

Please provide comments in support of your answer

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

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

Please provide comments in support of your answer

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

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

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

8. Please provide general comments on the Report:

9. Are you or your organisation interested in participating in dialogues about preparation of the 2014 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 stakeholders or persons do you belong to?

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

☐ Shareholder ☐ Representative of authorities ☐ Mass media ☐ Other group stakeholders (please specify)

Please indicate your contact information below:

Name:

Job title:

Telephone:

Organisation:

Fax:

Address:

E-mail:

12. What type of communication is preferable?

☐ By mail ☐ By e-mail

Please return the completed Form on the 2013 Sustainable Development Report to:

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

You may also send this Form by e-mail: Ask-sakhalinenergy@sakhalinenergy.ru

or leave it in one of the Company's information centres

List and addresses of information centres are given in Appendix 5 to the Report.

THANK YOU FOR YOUR FEEDBACK!

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 Investment Company Ltd.

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

The detailed RUIE Council conclusion regarding public endorsement of 2013 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. 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. 050.01.004.01.13

Signed:

RUIE President A. Shokhin,
Russian Union of Industrialists and Entrepreneurs

Moscow, 2014



Appendix 8. Conclusion on the review of Sakhalin Energy's 2013 Sustainable Development Report by the RUIE Council for Non-Financial Reporting for the Purpose of Public Endorsement

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

Conclusion on the review of Sakhalin Energy's 2013 Sustainable Development Report by the RUIE Council for Non-Financial Reporting for the Purpose of Public Endorsement

The Non-Financial Reporting Council of the RUIE (the Council), established by a decision of the Bureau of the Board (Resolution dated 28.06.2007), has reviewed, on request of Sakhalin Energy Investment Company Ltd. (Sakhalin Energy, or the company), its 2013 Sustainable Development Report (the Report).

The company asked the RUIE to arrange for a public endorsement process by the Council for Non-Financial Reporting, which issues its opinion on the relevance and fullness of information submitted on the company's performance based on the Social Charter of Russian Business promoting responsible business practices.

During the period from 21 February to 06 March 2014, the Council reviewed the company's Report and prepared this Conclusion based on the Council-approved Rules for Public Endorsement of Non-Financial Reports. The Council members possess all the required competencies in such areas as corporate responsibility, sustainable development and non-financial reporting; abide by ethical requirements for independence and objectivity of assessment; and express their personal opinions as experts, but not the opinions of their respective organisations.

The Report was assessed for information relevance and fullness based on the following criteria:

Relevant information demonstrates the company's compliance with responsible business practices as set forth in the Social Charter of Russian Business (www.rspp.ru).

Full 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, stakeholder engagement processes, major achievements and key performance and efficiency indicators. The Council notes that its Conclusion reflects progress in terms of information disclosure as compared to the previous Report.

Compliance with international reporting principles used by the company is taken into account as part of the public endorsement process. However, the assessment of compliance with international reporting principles is outside the scope of this Conclusion.

Sakhalin Energy bears all responsibility for the information and representations provided in the Report. The authenticity of the factual data provided in the Report is outside the scope of the public endorsement process.

This Conclusion is issued for Sakhalin Energy. The company may use this Conclusion for corporate purposes, as well as for its engagements with stakeholders, provided the Conclusion is published as is, without any changes.

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

FINAL OPINION

Based on the review of the Report and the public information published on the company's web-site, and following the discussion of the independent review of the Report by the RUIE Council for Non-Financial Reporting, the Council confirms the following:

The 2013 Sustainable Development Report of Sakhalin Energy Investment Company Ltd. contains material information and covers key areas of the responsible business practices according to the Social Charter of Russian Business, providing sufficiently detailed information on company activities in such areas.

RUIE Council recommendations, issued on the basis of the previous Sakhalin Energy 2012 Sustainable Development Report review, have been addressed in the 2013 Report.

The company's 2013 Report contains important and significant information regarding the following aspects of responsible business practices:

Economic Freedom and Responsibility: The Report informs on the company's production and economic results for 2013 and key performance indicators in the main areas of work, including the high production and financial results that were achieved. The company's role in the economy of the Russian Far East and the growing number of Russian companies in the total amount of contracts concluded by Sakhalin Energy are shown in the Report. There is a brief overview of the growth projects aimed at optimising production of oil, LNG and gas supplied to the domestic market. It is reported that a new corporate model of operational excellence covering eight key areas was developed in late 2013. The company's corporate governance and organisational structure, its risk management system and assurance framework, as well as corporate culture and values supported by internal standards and procedures are described in the Report. The Report also covers key provisions of the company's fundamental documents, such as the General Business Principles, the Sustainable Development Policy and the Code of Conduct.

Business Partnership: The Report emphasises that stakeholder engagement is the foundation of the company's operation in all areas of sustainable development. The key stakeholders of the company are named and the principles of engagement are stated in the Report. The engagement process and the main areas of work in 2013 are also described. Special attention is paid to personnel: developing a successors pool, creating safe working conditions, providing health care, and developing social programmes for employees and their families. Particular attention is given to explaining the way employees are informed and can provide feedback. The annual forums the company conducts with oil and gas customers and shipowners and the awareness-raising campaigns for suppliers prove that the company is dedicated to developing constructive relationships with its business partners. The Report covers the company's interaction with suppliers, including the efforts aimed at helping them develop and anti-bribery campaigns. There is also a brief overview of shareholder engagement, as well as the areas, mechanisms and results of cooperation with state authorities and local government in Sakhalin. According to the Report, several dialogues have been held with stakeholders for development of the sustainable development report. The fact that representatives from the company attended international, national and regional public events shows that the company is dedicated to disseminating best practices of stakeholder engagement in the project operations area.

Human Rights: The Report states that observing human rights is fundamental to the company's operations. The Report describes the management system and regulatory documents, as well as main directions of work with the stakeholders in 2013. The Report gives a brief overview of the Human Rights

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Policy and describes the main features of the Grievance Procedure and the results of the efforts in this area since 2003. The document reflects the efforts taken to promote human rights issues in the business community and among Sakhalin indigenous minorities. For instance, Sakhalin Energy initiated the development of business guidelines containing recommendations on observing the rights of indigenous peoples in the process of doing business. The UN Universal Declaration on the Rights of Indigenous Peoples is being translated into the languages of the Sakhalin indigenous peoples. The Report tells about the company's participation in the Advisory Group of the European Commission for the development of recommendations for the oil and gas sector on applying the Guiding Principles on Business and Human Rights, and in the work of Russian and international forums.

Environmental Preservation: The Report provides detailed information on the impact of the company's activities on the environment. Ensuring environmental and industrial safety, preserving the environment and/or rational using natural resources are named as key company's priorities. The company's environmental aspects management is considered to be an integral part of the comprehensive system of sustainable development management. The Report states that all facilities and activities have again been certified in accordance with ISO 14001 and OHSAS 18001 international standards. The information on measures taken to prevent and respond to oil spills offshore and onshore Sakhalin-2 facilities and the measures to improve the reliability of equipment and growth projects are especially significant. It is stated that funds spent on environmental programmes have doubled compared to 2012, and fees paid for negative impact have declined by 20%, partially due to reduced flaring of associated gas. The Report contains information about the 2013 Action Plan for gradually phasing out ozone-depleting substances by 2020. This reflects the company's concern about climate conservation. Environmental impact statistics (pollutant emissions, greenhouse gases, waste management) are given for the last three years, with comments concerning the factors which influenced the performance in the reporting year compared with the previous period. As usual, considerable attention is given to local environmental monitoring and preservation of biodiversity. The Report points out international recognition of the success achieved in this area, and cooperation with other oil and gas companies operating in Sakhalin and with the Sakhalin Oblast Government.

Local Community Development: The Report provides information on the company's activities in the area of operations, including support for transport and social infrastructure, helping to solve problems based on proven approaches to social investment, and creating multi-stakeholder partnerships. The management system characteristics are given with references to regulating documents; the events and results of the company's internal and external social programmes and projects are described. The Report focuses on long-term strategic partnership projects with the participation of stakeholders. It discusses the Small Grants—Big Deeds contest programme, which has been held for 10 years, and has been transformed into the Fund of Social Initiatives "Energy" and its activity. The Report provides examples of activities in the corporate volunteering programme. There is information given on a number of publishing projects aimed at supporting the culture and preserving indigenous languages. Other long-term social investment areas within the Korsakov Sustainable Development Partnership and the Sakhalin Road Safety Council are described in the Report. There is also data on social investment expenditures, including the programmes that are part of the Second Sakhalin Indigenous Minorities Development Plan (2011–2015). According to the Report, the network of information centres established by the company remains the most effective and popular way for residents of the Sakhalin Oblast to interact with the company. The Report provides information indicating that international and Russian state bodies and public organisations highly value the work of Sakhalin Energy in promoting the social and economic development of the Sakhalin Oblast.

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In general, the Report provides a sufficiently comprehensive overview of the information about Corporate Social Responsibility management as well as integration of the sustainable development principles into Sakhalin Energy strategies and current operations.

The Report explains in details the company's position regarding corporate social responsibility and principles of operation in order to achieve sustainable development. The implementation of these principles is ensured by a framework of the company's policies, procedures and standards and is controlled by the Committee of Executive Directors and shareholders. The company management's commitment to CSR principles is confirmed in the Report by the information on inclusion of CSR training into the programme of corporate training of the company's management.

The Report communicates information about completion of a comprehensive review in 2012 and about the subsequent self-assessment of the company's organisational management and governance systems with regard to their compliance with the provisions and principles of the international ISO 26000 standard. The results of these exercises were posted in the Internet public domain, which is an important achievement which speaks volumes for the company's responsible business practices. The company has committed to regularly carrying out such an assessment of its activities (once every three years).

Presentation in the Report of an integrated approach to coverage of the company's human rights activity in the manner in which this topic is treated in modern international documents is unique for the Russian practice.

The Sakhalin Energy 2013 Sustainable Development Report is the fifth report of this kind which demonstrates the company's consistency in non-financial reporting and its commitment to transparency and openness. The Report discloses a considerable number of performance indicators in economic, environmental and social fields of activities. It has been prepared on the basis of recommendations issued for Russian and international reporting practices, resulting in that information continuity and comparability is provided across reporting cycles, as well as ensuring comparability with other companies' reports.

RECOMMENDATIONS

Recognising the merits of the Sakhalin Energy 2013 Sustainable Development Report, the Council would like to bring to the company's attention a number of aspects related to the informational value and completeness of disclosure that are essential for the stakeholders. It is recommended to consider this advice in subsequent reporting cycles. The recommendations based on the results of the review of the previous non-financial reports of the company will also be useful in further work.

The Report provides a wide range of indicators, most of which are shown over time. It contains the targets for a number of performance indicators, which helps compare actual progress with the planned objectives. At the same time, the Report discloses plans for the coming year and the mid-term; however, these plans do not contain quantitative indicators and are given in qualitative categories. It is advisable to include measurable targets for the forthcoming planning period in subsequent reports. This will make it possible to fully evaluate the achievements and progress towards the set goals.

It is recommended to provide a more robust analysis of the economic aspects of activities and impacts in this area by expanding the view of the industry context to include challenges of the oil and gas and power industries that are relevant to the country's economy, as well as global challenges.

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For a more comprehensive coverage of the relationships with all the groups highlighted by the company as key ones, it is recommended to provide more information about interaction with the shareholders and customers on the main subjects and relevant issues, and present the interaction with government agencies in a more systematic manner. Also, it is advisable to include information about how the stakeholders' feedback is used in order to take their interests into account and improve the company's activities. Specific examples of any decisions that were made on the basis of stakeholders' proposals, including those obtained during the dialogues that were held to prepare the reports, should be provided.

To ensure the information on energy efficiency is clear and complete, it is recommended to extend the chapter on energy consumption, to give detailed information about the components of the energy consumed, and to provide an explanation of the meaning of the indicators cited and an evaluation of the company's achievements in this area.

In the next reporting cycles, it would be useful to focus more on major themes, and to more clearly emphasise and substantiate the priorities and selected essential aspects outlined in the reports.

It is recommended to expand the section on the diagnostics and self-assessment carried out by the company based on ISO 26000:2010 Guidance on Social Responsibility. Given the importance of this information for a wide range of stakeholders, it would be useful to reflect in the Report on ways the diagnostics and self-assessment have contributed to improving the company's operation, including developing a reporting process.

The RUIE Council for Non-Financial Reporting expresses a positive opinion of the Report, and, supporting the company in its adherence to the principles of corporate social responsibility and noting the consistency of the reporting process development, confirms that the Sustainable Development Report of Sakhalin Energy Investment Company Ltd. for 2013 received public endorsement.

Signed:

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Deputy Chairman of the RUIE Council E.N. Feoktistova

Seal: Russian Union of Industrialists and Entrepreneurs



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